



Cameco Corporation: Long-Term Gains, Short-Term Pains

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) is a company that is in a very peculiar situation at the moment. Trading at just over \$16 per share, the stock is down by nearly 60% in the past five years, since the nuclear disaster in Japan caused a world-wide drop in demand for nuclear power.

Oddly enough, that demand is starting to come back, but the price of the stock is still at the same levels it has been for several years.

Let's take a look at how Cameco is faring with lower-priced uranium and why you should include the company in your portfolio

Uranium prices remain low ... for now

Prior to the earthquake and tsunami in Japan back in 2011, uranium was priced near US\$70 per pound. Since then, the price has dropped to the current level just below US\$35 per pound.

When uranium prices came down, so too did Cameco's stock price. The decreased demand resulted in Cameco acquiring a glut of inventory as there were few customers for uranium fuel. This also had an impact on Cameco's bottom line, forcing the company to tighten expenses.

Should the spot price for uranium start to appreciate, Cameco will be in a position of considerable growth. Industry experts see this as being just around the corner as interest in nuclear power is returning.

Nuclear power is gaining in popularity again

Both China and India are in the midst of a massive infrastructure boom and a colossal shift in wealth. Both countries are looking to nuclear power to solve the energy needs of their rapidly growing economies, which in turn is good business for Cameco.

China has over 20 new reactors under construction and is targeting to double its nuclear capacity within the next five years. The country currently utilizes 2% of its power needs from nuclear sources

and has set a goal of reaching 20% by 2030.

India has six new reactors under construction with another 20 planned and an additional 18 being proposed. Only 3%, or 6,000 megawatts, of India's power needs are currently served by nuclear power. The construction projects currently in progress are part of a plan to boost this figure to 45,000 megawatts over the next 15 years.

Another 40 reactors are currently being built in 13 other countries.

Cameco's ongoing battle with CRA

Cameco has been trading salvos with Canada Revenue Agency (CRA) for some time now with respect to taxes from a foreign subsidiary. Currently, the company has been issued notices of reassessment for the tax years going back to 2003.

Depending on which way the assessment goes, the company could be on the hook for an additional tax liability of \$2.1 billion.

From a long-term-investment standpoint, the CRA dispute is both well known and discussed, meaning that the tax bill is already somewhat considered in the current stock price. Furthermore, any resolution over the dispute is unlikely to occur for at least another year, if not longer.

Cameco, in my opinion, remains one of the best long-term options on the market. It is not a question of if uranium will increase in price, but when. And with so many nuclear projects on the horizon across the globe, it is only a matter of time before the laws of supply and demand push the price up.

When uranium does finally go up in price, Cameco will follow, and investors will be more than pleased with the results.

CATEGORY

1. Energy Stocks
2. Investing

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