Cameco Corporation: Should You Own This Stock?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) is catching a bit of a tailwind, and investors are wondering if the long-awaited recovery has finally begun.

Let's take a look at Canada's largest uranium miner to see if it deserves to be in your portfolio.

Market woes

The uranium market has been in a five-year slump, and long-term investors are desperate to see some improvement.

The fallout began when Japan shut down its entire nuclear energy fleet in the wake of the Fukushima disaster. That led to a plunge in uranium prices from US$70 per pound to below US$30 per pound in 2014. The market has rebounded slightly but remains stuck around $35.

Many investors were hoping the restart of some of Japan's reactors would light a spark under the uranium market and boost Cameco's beleaguered shares, but that hasn't happened.

Japan's nuclear status

The country began the process of restarting its nuclear fleet last year, but ongoing protests and technical difficulties are limiting the progress, and a March 10 court injunction has forced the suspension of operations of the Takahama 3 and Takahama 4 power plants. Both reactors had recently restarted operations, and Takahama 3 was actually running at full capacity again.

Japan has 43 operable nuclear reactors, of which only three are in use.

The resource-poor country will continue to restart reactors as they clear new safety standards, but the process is going to be a slow one, and investors should expect more delays.

Global expansion

The rest of the world is once again embracing nuclear power. There are more than 65 new reactors under construction, and Cameco has stated it expects as many as 80 net new reactors to be in operation by 2024.

This bodes well for uranium demand, and there is a risk the market could find itself in a shortage position in the coming years.

Why?

The uranium market is currently oversupplied as secondary sources continue to put pressure on prices, but that supply pool is slowly drying up, and primary production might not be able to keep up with future demand.

Producers are waiting for indications of a turnaround to increase investments in new projects, but it takes seven to 10 years to open a new uranium mine, and that means the market could get tight.

Cameco says current uranium demand is about 155 million pounds per year. That is expected to hit 230 million pounds by 2024.

Financial strength

Cameco is well positioned to benefit from a rebound. The company has done a good job of controlling costs through the downturn and remains profitable. Adjusted Q4 2015 earnings came in at $151 million, or $0.38 per share.

Despite the tough times, investors are still receiving a quarterly dividend of $0.10 per share, which offers a yield of 2.3%.

Risks

Cameco is embroiled in a nasty battle with the Canada Revenue Agency (CRA) over taxes owing on earnings generated by a foreign subsidiary. If Cameco loses the case, the hit could be as high as $2.1 billion.

Should you buy Cameco?

The latest bounce in the stock is a welcome sign for disgruntled investors, but there is little evidence that a uranium recovery is in the cards in the near term, and the CRA issue is going to be a big overhang on the stock until it gets resolved, which isn't expected to happen before the end of 2017.

The long-term fundamentals look good, so contrarian investors might want to start nibbling on further weakness in the stock, but there probably isn't a rush to back up the truck at this point.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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