Contrarian Investors: Should Cameco Corporation Be on Your Radar?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) continues to trade near its multi-year lows, and contrarian types are wondering if the stock deserves more respect.

Let's take a look at the current situation to see if Cameco deserves to be in your portfolio.

Tough market

In early 2011, uranium traded for US$70 per pound and Cameco was worth $40 per share. That was just before the Fukushima disaster.

When the tsunami hit Japan, the uranium market went into a tailspin, sending uranium spot prices on a nasty multi-year slide. Today, uranium trades for $28 per pound, near its lowest point in the past five years. Cameco's stock is trading below $16 per share.

The Japanese government shut down its entire fleet of nuclear reactors after the disaster, and only two are currently back online as legal battles and operational issues delay the process.

Eventually, Japan is expected to put most of its 43 operable reactors back in service, but that will take time, and investors shouldn't count on a big Japan-based surge in uranium demand anytime soon.

New nuclear developments

Other countries are moving full-steam ahead with their nuclear energy programs. More than 60 new reactors are currently under construction, and Cameco expects to see 113 new reactors built by 2025, although the company now believes as many as 55 existing reactors will be closed down over the same time frame.

The net result is an expected boost in annual uranium demand from the current level of 160 million pounds to 220 million pounds.

Supply situation

Uranium consumption already outstrips primary supplies from existing mines, but secondary supplies, or uranium that is sitting in stockpiles around the world, are filling the gap.

The secondary market is a finite source and stockpiles are being drawn down. As a result, Cameco expects 10% of total supply required over the next 10 years will have to come from new mines that are not yet in production.

Uranium mining is a tricky business, and it takes anywhere from seven to 10 years to get a mine up and running. With the current price environment, producers are delaying or cancelling new projects in an effort to reduce costs. If new production doesn't ramp up when prices improve, the uranium market could see a supply squeeze.

Is it time to buy Cameco?

Cameco has done of good job of reducing expenses through the downturn and is one of the planet's low-cost producers. When the market finally recovers, Cameco should do very well.

At the moment, though, there is little incentive to buy the stock.

Cameco's battle with the CRA over taxes owed on income generated through a foreign subsidiary is a big overhang on the share price, and the company could be on the hook for at least $2 billion if it loses the case. A decision isn't expected before the end of 2017.

Contrarian investors should keep an eye on Cameco, but there might be a better entry point at a later date.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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