Cameco Corporation: Should This Stock Be on Your Buy List?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) continues to linger near multi-year lows, but investors with a contrarian strategy are wondering if the time is right to start adding the stock to their portfolios.

Let's take a look at Canada's top uranium company to see if better days are on the horizon.

Tough times

Five years ago the Fukushima disaster in Japan totally changed the uranium market.

Leading up to the tsunami, the uranium spot price traded near US$70 per pound and Cameco fetched $40 per share. In the wake of the nuclear accident, Japan shut down its entire fleet of reactors and other countries put the brakes on new development. The result has been a long and painful slump for producers. Uranium is now below US$26 per pound, and Cameco's stock is available for just $16.25 per share.

Market situation

Producers have shelved expansion plans and reduced output to the point where primary production is not meeting current demand. However, the uranium market remains oversupplied because secondary sources are filling the gap. These stockpiles are being reduced, but the draw down isn't occurring fast enough to put a floor under the uranium spot price, and that situation could continue for some time.

Catalysts for a rally

Japan has been slow to restart its nuclear fleet as legal challenges and operational issues delay the process. The country could restart more than 40 of its current operable facilities, but the timing is still a big question mark. At the moment, only two reactors are back online.

Around the globe, the nuclear industry is ramping up again. Cameco says as many as 113 newreactors should be in service by 2025 and that will offset the 55 reactors scheduled for shutdown. Morethan 60 new facilities are already under construction.

Uranium demand currently sits at 160 million pounds per year. As the new reactors go into service, demand could rise to 220 million pounds over the course of the next decade.

So, the fundamentals over the long term look positive. Investors just have to decide when they think Japan will put a significant part of its nuclear facilities back in operation.

Cameco's situation

Cameco is taking the required steps to ensure it remains competitive in the market. The company recently announced the closing of its Rabbit Lake mine, which has higher production costs than the Cigar Lake site. Investors responded well to the news and pushed the stock higher.

Management has done a good job of controlling costs through the downturn, and a landmark deal with India last year should help in the coming years. For the moment though, the tough market conditions and an ugly fight with the Canada Revenue Agency (CRA) will continue to put pressure on the stock.

What's the CRA risk?

Cameco is fighting a battle with the CRA over taxes owed in connection to revenue generated by a foreign subsidiary. If Cameco loses the case, it could be on the hook for up to $2 billion. A decision isn't expected before late 2017.

Should you buy?

Cameco is a low-cost producer and controls some of the richest deposits on the planet, so the company is well positioned to benefit when better days arrive. Most of the market pain and the CRA risk is already priced in, so there shouldn't be much downside from this point. At some point, better days will return.

There is no rush to buy, but contrarian types should keep a close eye on the stock. The uranium market can shift gears quickly on positive news.

CATEGORY

1. Investing

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Author
aswalker