



## Cameco Corporation Plans for Future Growth

### Description

While the whole market speculates over the price of oil and gold, there is another commodity that is down just as much, if not more than most others: uranium.

Five years ago, the price of uranium was approximately US\$76 per pound. This week, the price of uranium stands at just US\$26 per pound.

Uranium producers such as **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) have been hit exceptionally hard by the drop in demand for uranium since the earthquake and subsequent tsunami that hit Japan in 2011. In the aftermath of that disaster, Japan shuttered over 50 reactors, and countless other countries put a halt to plans to build nuclear power plants.

Cameco has done a great job of cutting costs and reducing production to keep in line with demand, making the hard decisions necessary while waiting for demand to finally pick up.

Cameco recently reported first-quarter results; while missing estimates on some fronts, optimism for the uranium market and the company making a strong turnaround continue. Here's a look at those results and what they mean for investors.

### Q1 results

During the first quarter, Cameco posted a total revenue of \$408 million, down from the \$566 million reported in the same quarter last year. Gross profit for the company was also lower, coming in at \$118 million in comparison to the \$129 million from the same quarter last year.

In terms of net earnings, Cameco reported \$78 million, bettering a loss of \$9 million in the same quarter last year. Earnings per common share amounted to \$0.20, which is up from a loss of \$0.02 last year.

Adjusted net earnings, however, came at a loss of \$7 million, or a loss of \$0.02 per share; in the same quarter last year, the company posted adjusted earnings of \$69 million, or \$0.18 per share. Much of this loss is attributed to lower gross profit from both the uranium and NUKEM segments of the

company, higher administrative costs, and higher foreign exchange losses.

### **Cameco is forced to make cuts**

As a result of the continued weakness for uranium evident in the quarterly results, the company was forced to implement restructuring changes to some groups in an effort to lower costs and help the sustainability of the company over the long term.

Cameco announced that the NUKEM intermediary segment of the company will be downsized with approximately 15 jobs to be impacted in the company's Germany office by year's end.

Given that the market remains weak and there is already sufficient supply, Cameco suspended operations at the Rabbit Lake facility and ceased its U.S. operations, effectively deferring well-field development. The company also announced a new downwardly revised production target for the McArthur River/Key Lake facility for 2016.

Once these cuts are factored in, Cameco still expects to produce 25.7 million pounds of uranium for the year, a decrease of 4.3 million pounds over the previous target. Capital expenditures for the company will also be reduced by \$45-275 million for the year.

### **Long-term implications for Cameco and investors**

The prolonged weakness of the uranium market and Cameco's position as the largest uranium producer in the world necessitated these cuts to staffing and production levels.

The longer-term prospects for the company and nuclear power, on the other hand, appear much brighter. There are still 64 reactors under construction around the world, with dozens more in various stages of development and planning. Cameco estimates that there will be over 110 reactors built worldwide within the next decade, particularly in the markets of China and India, which are experiencing a rapid growth around urban centres that demand more power.

In my opinion, Cameco is a great investment over the long term. The conditions are right for the company to experience massive growth over the next few years as the cost of uranium starts to rise and new reactors come online that will need the uranium that Cameco mines and sells.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

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