Cameco Corporation: At Decade Lows, This Stock Has Massive Potential

Description

When I see a stock at 10-year lows, I'm at least a little bit interested. Cheap contrarian stocks are my Kryptonite.

Cameco Corporation (TSX:CCO)(NYSE:CCJ) is right up my alley. At less than $15 per share, the company is trading at levels not seen since Paul Martin was prime minister. It's still profitable and has free cash flow. The company's balance sheet is solid. And, perhaps most importantly, it's a dominant uranium producer. Its mines in Canada, the United States, and Kazakhstan account for about 20% of the world's production, and it has plenty of reserves.

Those are all good features, but they're not the only things the company has going for it. Here are three more reasons why I think the company looks to be very attractive at today's levels.

Nuclear revival

Nuclear energy works pretty well 99.99% of the time.

We've even got to the point where waste isn't that big of a deal. Nuclear reactors are more efficient than ever, which means that waste has been significantly cut down.

The big problem is, of course, meltdowns. The most recent one in Japan immediately after the devastating Fukushima disaster prompted the country to do the unthinkable and take its entire nuclear grid offline. Five years later, Japan has only dipped a toe back into nuclear, restarting just three reactors. That means some 40 reactors are collecting dust and 25 are currently in the application line to restart.

The good news is that most of these reactors should be back up and running by 2020. Japan's government has a stated goal of getting 22% of its power from nuclear sources by 2030. All that needs to happen is for these facilities to pass greater safety regulations designed to prevent another Fukushima-type disaster.

Japan needs nuclear power to come back. The country has been dependent on expensive natural gas imports. It has also relied heavily on coal-fired power to meet its needs, a solution which is seeming less and less likely over the long term.

Nuclear growth

After Fukushima, many nations scrapped their nuclear power expansion plans. China didn't.

As of March, the world's second-largest economy had 33 nuclear reactors operational with 22 currently under construction. That seems like a lot, but the percentage of Chinese electricity produced by nuclear sources is only approximately 2%. The plan is to increase that to 6% by 2020.

China is just getting started in the world of nuclear power. By 2020, the nation will have approximately 60 GW of capacity from nuclear sources. Long-term plans are for capacity to be between 120 and 150 GW by 2030 and 1,400 GW by 2100. That's a lot of growth.

One of the main reasons why China is fixated on nuclear growth is because the country has plenty of uranium. A 2015 report claimed it had more than two million pounds of the commodity as reserves. Even if that report is as faulty as some of the other economic data coming from the country, it's still right next door to Russia and Kazakhstan–two countries with massive reserves.

Cameco is well positioned to play future Chinese growth with its Inkai mine in Kazakhstan, which had 3.4 million pounds of production in 2015 alone.

Weakening dollar

The price of uranium is down handily over the last five years, falling more than 50%.

Plenty of things happened to cause this meltdown. Fukushima had a huge impact. The decline in just about every commodity didn't help either.

One factor that's constantly overlooked has been the strength in the U.S. dollar. Uranium, like a lot of other commodities, is priced in greenbacks. As the dollar strengthened against other currencies, it brought down the price of many commodities.

At some point, this trend will reverse. In the mid 2000s, headlines everywhere claimed the euro was the world's new reserve currency. In hindsight, these predictions look silly, but they've taught us an important lesson about currencies. Sometimes they're weak and sometimes they're strong.

Cameco shares trade at 10-year lows, even though the company is well capitalized, the nuclear market is poised to recover, and the U.S. dollar will eventually weaken. These are good things for patient shareholders, who could see massive returns the next time we have a commodity boom.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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