Will Cameco Corporation Ever Turn Around?

Description

Ever since I joined Fool, I have been a big fan of **Cameco Corporation** (TSX:CCO)(NYSE:CCJ). But one thing that I have always had to remind myself–and investors–is that this is a long-term play. Unlike other industries that can see sudden growth, nuclear energy takes a very long time because the reactors are slow to build and there are incredible safety requirements.

But the market conditions are expected to turn around at some point for a few different reasons. And when that does occur, Cameco could very well be one of the most successful stocks in the nuclear space.

Here's why…

Before the disaster in Fukushima back in early 2011, the price of uranium was trading at US$70. After the disaster, all of Japan's reactors were shut down and numerous other countries were hesitant about nuclear energy. However, Japan is starting to turn on its reactors, and as it does, this sends a message to the rest of the world that nuclear energy is okay.

What makes me particularly bullish on nuclear energy is China and India. Right now, China gets about 2% of its electricity from nuclear energy, which makes it one of the six-largest nuclear countries in the world. By 2030 though, it wants 30% to come from nuclear power.

And then there's India, which had its Department of Atomic Energy sign a deal back in 2015 to purchase 7.1 million pounds of uranium from Cameco through 2020. While this alone is significant, I am a bigger fan of the new "approved supplier" label that Cameco gets. Right now, India generates 6,000 megawatts of electricity from 21 reactors. By 2035, it wants to generate upwards of 45,000 megawatts. Being an approved supplier should give Cameco first dibs on contracts.

But all of that takes time, which hurts Cameco in the short term, but in the long term, it could actually be a significant boon for the company.

Despite being a tremendously low-cost producer with operations in Canada, the United States, and Kazakhstan, Cameco has had to start shutting down some of its mines. Its Rabbit Lake operation, which has been open since 1975, is the world's second-largest uranium mill and was just shut down. Further, its McArthur River operation has seen a reduction in output.

On the other hand, it continues to expand production at its Cigar Lake mine. The reason for that is because it is one of the company's lowest-cost operations, which will help it keep margins up.

It's through these shutdowns that I recognize an opportunity. It takes about 10 years to get a new uranium mine up and running. Let's assume India gets to 15,000 megawatts by 2025 and China grows its electricity production by nuclear energy to 10% in the same time. Will there be enough mines to actually support that?

Cameco believes that over the next 10 years, demand will rise from 160 million pounds to 220 million pounds; yet mines are shutting down. At some point, uranium will experience a reversal where the demand is greater than the supply. Then the sky's the limit.

Here's the thing … Cameco Corporation is a very long-term buy. The only reason I haven't purchased shares is because I don't want my money tied up while the markets try to figure out what price uranium should be. However, it is a low-cost producer, it pays a small, consistent 2.67% yield, and I very much believe that the future is bright. The only question is when the turnaround will begin.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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