



Should You Buy Cameco Corporation Today?

Description

Contrarian investors are always searching for unloved stocks that offer a shot at some solid long-term gains.

Let's take a look at **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) to see if it deserves to be in your portfolio.

Tough times

Cameco has endured a rough run in the past five years, and the stock is actually trading at lows not seen in a decade.

What's the story?

Back in early 2011 the uranium business was on a roll. Countries were expanding their nuclear energy programs, and uranium traded for a healthy US\$70 per pound.

Then the tsunami hit Japan and everything changed.

After the Fukushima disaster, Japan shut down its entire fleet of nuclear reactors and countries around the world put new developments on hold. As a result, the price of uranium went into a five-year free fall and currently trades below US\$30 per pound.

Supply outlook

At the current price, many producers are not profitable and output has been curtailed to the point where primary production no longer meets demand. Secondary supplies are filling the gap, but that resource pool is slowly drying up.

It takes several years to get a uranium mine up and running, so there is a chance output won't meet demand at some point in the future.

Demand growth

Japan is slowly putting its nuclear facilities back into service. Two reactors are already online, and analysts estimate 40 sites could potentially go back into operation.

Meanwhile, new developments are ramping up in other countries.

China and India have big plans to expand their nuclear energy programs, and more than 60 new reactors are currently under construction around the globe.

This should boost annual uranium demand from the current level of 160 million pound to 220 million pounds through the next decade.

Risks for investors

Cameco is currently fighting a battle with the Canada Revenue Agency (CRA) over taxes owed on income generated by a foreign subsidiary. A decision isn't expected before the second half of 2017, but Cameco could be on the hook for more than \$2 billion if it loses the case.

Should you buy?

Cameco is a low-cost producer with some of the richest deposits on the planet, and while the uranium market remains under pressure, the long-term outlook for the industry is positive.

There isn't a rush to buy the stock, but contrarian investors should keep Cameco on their radar. Good news on the CRA case or a surge in Japanese restarts could send the stock significantly higher in a very short time.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:CCO (Cameco Corporation)

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