



Cameco Corporation: Time to Buy?

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) is mired in a nasty five-year slump, and investors are wondering if this stock is finally finding a bottom.

Let's take a look at the current situation to see if the uranium miner deserves to be a contrarian pick for your portfolio.

Fukushima impact

In early 2011 uranium traded for US\$70 per pound, and Cameco's investors enjoyed a rising stock price. Then the tsunami hit Japan and everything changed.

The Fukushima disaster was the worst nuclear accident since Chernobyl and immediately sent the uranium market into a five-year tailspin.

Japan shut down its entire fleet of nuclear reactors. To this day, only two are back online. Analysts expect the country to restart as many as 40 of the operable facilities, but the process is dragging on longer than expected due to legal holdups and operational challenges.

Today uranium trades for less than US\$30 per pound, and Cameco can be bought for a mere \$15.50 per share. Before the Fukushima disaster Cameco traded at \$40 per share.

Cameco's response

Cameco has done a good job of navigating the rout. The company cut expenses, reduced operating costs, and recently closed the firm's longest-running mine, Rabbit Lake, which had been in operation since 1975.

Cameco is also reducing output at its McArthur River location, the world's largest uranium mine. Production will continue to ramp up at the low-cost Cigar Lake facility.

Despite the difficult times, Cameco continues to deliver decent results and has maintained its dividend.

The distribution currently offers a yield of 2.6%.

Market outlook

The uranium market remains oversupplied, but the long-term outlook suggests the situation should reverse course.

Primary supply is actually too low to meet existing demand, but secondary supplies are filling the gap. These stockpiles are being used up and the point will arrive when the market could face an acute shortage.

Cameco expects annual uranium demand to rise from the current level of 160 million pounds to 220 million pounds over the course of the next decade. Most mining companies have shelved plans to open new sites, and it can take up to a decade to get a new facility up and running.

Is it time to buy?

There is no rush to buy the stock today, but contrarian types with a buy-and-hold strategy should keep Cameco on the radar. At some point the market will recover, and this stock has huge upside potential when that happens.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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