Should Investors Warm Up to Cameco Corporation?

Description

It has been a long and slow process for investors of **Cameco Corporation** (TSX:CCO)(NYSE:CCJ). It hovers near all-time lows, which might make some investors decide to move on. However, I think that would be a bad decision. Selling at a low is almost never the smart move and, more importantly, I believe Cameco has a bright future.

By and large, Cameco is one of the cheapest and most efficient uranium miners in the world, accounting for nearly 18% of the world's total production. During this extended period of weak demand, it's only the cheapest and most efficient that can survive.

The company's cost for production was $21 per pound in 2015. Even with uranium prices currently at $34 a pound, because of how cheap Cameco can get uranium, it's still able to generate a margin.

According to analysts at *MorningStar*, part of the reason why Cameco has been unable to generate outsized gains from its mining is because of long-term contracts it signed before 2003, which is when uranium prices started to heat up. For context, uranium prices were around $12.50 per pound before 2003, so you can imagine that it can be difficult for the company to generate returns when its contracts were signed prior to that.

Here's the thing … those contracts are coming off the books. That means that the company will be able to sign new, friendlier contracts that will increase the margins the company earns.

But it gets better still.

In 2015, 10 reactors came online. Over the next decade there are over 250 reactors either restarting or being constructed in China, South Korea, India, Russia, and Japan. That's significant and could have a serious impact on Cameco's business.

Consider that China wants to generate 30% of its electricity from nuclear power by 2030. As one of the six-largest nuclear countries in the world, it currently only gets 2% from nuclear power, so you can see how much growth there is. And India, which generates 6,000 megawatts of electricity from its 21 reactors, wants to see nuclear power grow to 45,000 megawatts by 2035. And that's just China and

India.

The company believes that demand for uranium will increase from 160 million pounds to 220 million pounds. The good news for Cameco is that new mines won't be able to get up and running quickly enough to deal with these changes, primarily because it takes years for a new mine to launch. That will make demand outpace supply, which will finally provide a positive price movement for Cameco.

At the end of the day, it all hinges on the price of uranium. If Japan continues to restart its reactors and China and India continue to push out new ones, the price will go up. If new mines are unable to get started in other parts of the world, the price will go up. However, if the opposite occurs and new reactors take too long or new mines are easy to launch, the price could continue to suffer.

My bet is on the price going up over the next few years, thus generating significant returns for the company.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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