



Contrarian Investors: Is it Time to Consider Cameco Corporation?

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) is trading at lows not seen in more than a decade.

Let's take a look at the current situation to see if the stock's slide has gone too far.

Tough times for uranium

Just over five years ago the uranium space was enjoying good momentum. Spot prices were roughly US\$70 per pound, producers were generating strong margins, and Cameco traded above \$40 per share.

Then the tsunami hit the coast of Japan, and the resulting Fukushima nuclear disaster completely altered the game.

How bad has it been?

At the moment, uranium is selling for US\$25 per pound and investors can pick up Cameco's stock for less than \$14.

The rout has lasted longer than expected, and uranium prices remain at levels most market watchers didn't think could be sustainable for such an extended time frame.

The industry has reduced production and shelved expansion projects to the point where primary supply actually falls short of meeting existing demand, but secondary supplies around the globe are filling the gap.

Optimists say the tide will eventually turn, but headwinds remain.

Japan restarts

Japan has 43 operable reactors in line for possible restarts, but only two are currently generating electricity. Regulatory hurdles, operational challenges, and public protests have all hindered the process of restarting the fleet.

A third reactor is expected to re-enter service in August, but progress is expected to be very slow on other facilities.

A positive view

The rest of the world is forging ahead with nuclear development. More than 60 new reactors are currently under construction and net annual uranium demand is forecast to grow nearly 50% by 2030.

As secondary supplies get used up, the industry could run into a shortage situation in the coming years.

Should you buy Cameco?

Cameco is a low-cost producer and controls some of the richest uranium reserves on the planet. Eventually, the market will recover, and this stock should do very well when that happens.

However, there is little evidence that a bottom is in sight for uranium in the near term.

Cameco is also embroiled in a nasty battle with the CRA over taxes payable on income generated by a foreign subsidiary. A decision isn't expected until at least next year, but the potential impact on the company could be to the tune of \$2.1 billion.

Cameco squeezed out Q1 2016 net earnings of \$78 million or \$0.20 per share. Second-quarter results are due next week, and investors shouldn't expect much good news given the further deterioration of uranium prices.

The bottom line?

I wouldn't back up the truck just yet.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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