Buy Cameco Corporation and 1 Other Stock for Exposure to Uranium

Description

Uranium might be the bane of my existence. Ever since I joined Fool, I have written about how **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) is a stock worthy of consideration because uranium prices would rebound. And I still feel this way, but after a couple of years, it can feel disheartening to know that we're still looking at depressed uranium prices.

That being said, I believe conditions are starting to turn around and that there might come a point in the next couple of years where there simply isn't enough uranium available on the market. If that happens, the price could finally increase substantially.

One reason I believe this is because it can take upwards of a decade to launch a new uranium mine. That means if the price stays low for too long, older mines need to shut down. But if enough mines are shut down and demand kicks in, there'll be a squeeze where supply can't meet that demand. That's where Cameco and another company, **Uranium Participation Corporation** (TSX:U), can dominate.

Here's how UPC works.

It issues new shares to raise money. It then buys uranium on the cheap and stores it safely in its warehouses. If the price of uranium increases, UPC can sell it. Sounds simple, right? It really is. And it is one of the most efficient ways investors can track uranium.

While Cameco is great, you're investing in a mine that then sells uranium. By purchasing UPC, you're actually buying a company that should trade near its NAV. But realistically, I believe both stocks are worth considering.

But back to supply…

I'd said that if the price of uranium stays low, mines will have to shut down. Then if demand increases, that'll result in a shortage, thus increasing the price. But how do we get that demand?

It starts with Japan, which has 43 operable reactors that just need to be restarted. Presently, it's only running two. While a third should launch next month, Japan needs to get the rest operational.

According to one analyst, the delay in restarting reactors is strictly psychological. If Japan can do it after Fukushima, the rest of the world will be more interested.

Then there’s the rest of the world. There are more than 60 reactors currently under production. Cameco believes that annual demand will grow by 50% by 2030 because of all of these new reactors. That much increase in demand will have to result in a price appreciation, rewarding investors of both stocks.

The real focus, though, is on China and India. In 2015 China was the fourth-largest nuclear-power-producing country in the world. By the way, it only generated 2% of its electricity from nuclear power in that same year. China wants to increase that to 30%.

And India is similar. It currently generates 6,000 megawatts of electricity from 21 reactors. By 2035 it wants to generate 45,000 megawatts. All of this will require more uranium, which will push the price up.

There’s no denying that uranium has been one of the most frustrating investments over the past few years. But I believe that in the coming years, uranium will go up, and Cameco and UPC shareholders will be rewarded handsomely.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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