



## Cameco Corporation: Is the Bottom in Sight?

### Description

**Cameco Corporation** ([TSX:CCO](#)) ([NYSE:CCJ](#)) continues to hit new lows.

Let's take a look at the current market situation to see if there could be some light at the end of the tunnel for Cameco and its investors.

### Multi-year slump

The broader commodity sector has been in the doldrums for a number of years, but the uranium space in particular has really had a rough go.

What happened?

Back in early 2011, things were rolling along quite nicely. Uranium prices comfortably sat at a profitable US\$70 per pound, and Cameco's investors were cheering the stock's move above \$40 per share.

Then the tsunami hit Japan and everything changed.

The Fukushima nuclear accident in 2011 sent uranium into a tailspin that continues today. In fact, the commodity hit a recent low of US\$25 per pound.

And Cameco's shares?

At the time of writing, Cameco's stock can be purchased for \$12.25—a price not seen in roughly 12 years.

### Near-term outlook

Japan is trying to get its fleet back into service, but legal battles and operational issues continue to hinder the process. Only two of the country's 43 operable reactors are back online. One more could be up and running by the end of the year, but the overall pace of the restarts is expected to be slow.

To make matters worse, premature reactor-retirement announcements in the United States and the

U.K.'s decision to leave the European Union have put additional pressure on the market.

Uranium production has come down in recent years, but not enough to offset healthy secondary supplies that continue to flood the market. As a result, there is no shortage of uranium available for energy companies to meet short-term needs, and that situation isn't expected to change much in the near term.

### **Long-term outlook**

More than 60 new reactors are currently under construction around the world as countries such as India and China scramble to meet growing electricity demand. More facilities are scheduled, and that is expected to drive demand up by 50% through 2030.

Producers have curtailed output and shelved plans for new mine developments to the point where the market could find itself in a shortage position in the next decade.

Cameco is a low-cost producer with some of the highest-grade resources on the planet. When the tide finally shifts, Cameco should be positioned well to benefit.

### **Other issues**

Cameco is locked in a nasty battle with the Canada Revenue Agency. The dispute is connected to Cameco's transfer pricing methodology for certain intercompany uranium sale and purchase agreements.

If Cameco loses the fight it could be on the hook for at least \$2.2 billion in additional taxes and related penalties. A decision isn't due until late 2017 at the earliest.

### **Should you buy?**

At some point the uranium market will recover, but there is no indication that it has already hit bottom. If you have a contrarian style and want to own this stock, I would wait for a better entry point.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

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### **Date**

2025/07/27

### **Date Created**

2016/08/02

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