Is Cameco Corporation Still a Good Investment?

Description

Nuclear energy is going to fuel growth in the economies of developing nations that are experiencing infrastructure booms and double-digit growth.

This was the consensus on why uranium prices and, by extension, **Cameco Corporation** (TSX:CCO)(NYSE:CCJ), the world's largest supplier of uranium, were set to skyrocket.

Uranium demand and the price tanked in the months following the Fukushima disaster in Japan back in 2011. The earthquake and subsequent tsunami served as a wake-up call of the dangers of using nuclear power for the countless nations that were looking into building nuclear energy plants.

Here's a look at what this means for Cameco and investors.

The resurgence in nuclear power is real

Since the disaster there has been a renewed interest in using nuclear power; over 60 reactors are currently under construction in 15 different countries around the world.

The majority of this growth is being fueled by the infrastructure boom that is underway in a number of Asian countries, particularly China, India, and the U.A.E. Both South Korea and Russia are also adding capacity through nuclear power, which is both a cost-effective and quick way to add significant capacity without necessarily using fossil fuel plants.

There are still over 160 planned reactors worldwide that are waiting for approval or for construction to begin. At least another 300 are in various stages of being proposed.

North America and Europe already have nuclear power plants and are realizing the benefits of updating those facilities to higher outputs as high as 20%.

What does this mean for Cameco?

All of those nuclear power facilities will need uranium, which Cameco will provide. The company has already made agreements with both India and China to provide uranium for their respective construction projects, and more deals are likely as new reactors come online.

One of the main issues that Cameco has faced in the past few years has been a huge surplus inventory of uranium with relatively few buyers as demand evaporated. That glut of inventory contributed to prices being stuck where they are and required Cameco to reduce production of uranium, at least until the inventory glut is cleared.

Just before the 2011 earthquake and tsunami in Japan, uranium prices were trading at over US$60 per pound. By comparison, uranium trades at less than US$30 today. This drop not only brought the uranium market to a halt, but it also had an impact on Cameco's production and stock price.

Cameco's stock price is down approximately 70% since that period; the stock currently trades at $12.51. Despite this epic drop in price, the company still maintains a quarterly dividend payout of $0.10 per share, which gives the stock a respectable 3.20% yield.

In the most recent quarter Cameco reported a loss of US$0.35 per share–a stark difference from the US$0.22 per share the company earned in the same quarter a year ago. Uncertainty concerning the question of when uranium prices will improve has been a key factor in the company's prolonged weakness.

In my opinion, Cameco remains a great option for those investors who are invested for the long term and can tolerate the risk that the stock currently represents.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

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