Is Cameco Corporation a Buy After the Slide?

Description

One of the cardinal rules of investing is not to get emotional about a stock. And even if I don't own it, I can't help but feel disheartened by the constant negative pressure on **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) that sends it lower and lower. And at the end of July Cameco, again, saw its price slide significantly.

The slide made sense. It reported its second-quarter financial results, and they were weak. Its revenue was only $466 million compared to $565 million a year prior. And its net earnings were a serious loss of $137 million compared to positive net earnings of $88 million in the second quarter of 2015. The reality is that Cameco's earnings are seriously hurting and lost $0.35 per diluted share.

However, part of the reason why it saw such a significant loss is because of an impairment charge of $124.4 million due to production at its Rabbit Lake operation being suspended during the second quarter.

But while the company is experiencing short-term problems, I remain bullish on Cameco and believe that this slide makes it an even more attractive buying opportunity. If I had spare cash, I'd be buying.

The fundamental reason for this opinion is because of two reasons.

The first has to do with the number of reactors that are coming online. In Japan, the Ikata nuclear plant has resumed operations, and analysts expect the remaining 20 reactors awaiting approval will relaunch in the next two years.

There are currently 61 reactors under construction and another 170 reactors in different stages of planning. Ultimately, as more reactors come online the demand for uranium is going to increase. China and India in particular will provide a significant boost as they are both expected to increase their nuclear power generation by many multiples over the next decade.

According to analysts at *Morningstar*, the price of uranium should increase quite significantly from the current US$26 per pound to approximately US$65 per pound as these reactors go online.

The second reason why I'd buy if I had the spare cash is because of how long uranium prices have been weak. When a low-cost uranium miner like Cameco suffers with these sorts of prices, you know that less-efficient operations are really in pain. I expect more uranium miners to begin shutting down because there is no end to low prices in sight. Unfortunately, that hasn't happened yet.

Cameco CEO Tim Gitzel said, "primary supply has not responded to decreased demand, and coupled with an abundance of secondary material available today, the uranium market continues to be oversupplied."

And he's right. But at some point, as these low prices continue, I expect oversupply will finally end and mines will shut down.

This is good news because it will result in a serious drop in supply. The typical uranium mine takes many years to get operational; therefore, if enough mines shut down, that will reverse the trend in price and send it higher. And because it takes so long to launch a new mine, there could be a supply squeeze, in which demand far surpasses the available uranium, thus sending the price even higher.

Investing in Cameco is investing in the long term. If uranium prices go up by two or three times, you can expect that the price of Cameco will rise also. However, it will take time, there will continue to be suffering, and there remains the possibility that even Cameco could experience long-term negative implications because of these low prices.

Yet I can't help but feel that this is a great time to buy, and I might even try to find some cash to buy it.

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1. Investing
2. Metals and Mining Stocks

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