



Cameco Corporation: How Low Could it Go?

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) is testing new multi-year lows, and investors are wondering when the pain will end.

Let's take a look at the market situation to see if there might be some good news on the horizon.

Uranium woes

Cameco's stock currently trades for about \$12 per share. That's a long way down from the \$40 investors had to pay to own a piece of the company in early 2011.

What happened?

The stock had rallied off the lows of the Great Recession, and most pundits thought better times would continue. In fact, by January 2011 uranium traded for US\$70 per pound, a level that provided decent margins for Cameco and its global peers.

Then the tsunami hit Japan and everything changed.

As the disaster at the Fukushima nuclear site unfolded, Japan shut down its entire fleet of nuclear reactors, and the world at large decided to revisit its nuclear energy development program.

Uranium went into a free fall and really hasn't recovered since. In fact, the spot price recently hit a low of US\$25 per pound.

At that level, very few producers can make any money, but significant secondary supplies are filling primary production gaps, and that is keeping the market under pressure.

Japan restarts

Japan has 43 operable reactors that could be put back in use, but legal challenges, public resistance, and operational issues are all hindering the process. To date, only three reactors are back in service, and there is little hope of a quick ramp up at the other sites in the near term.

Other setbacks

Cameco says the Brexit vote and an earlier-than-expected retirement of U.S. reactors is also putting pressure on the uranium market.

Another thing to consider is Cameco's tax woes. The company is caught in a nasty battle with the Canada Revenue Agency (CRA) over taxes owed on revenue generated by a foreign subsidiary. If Cameco loses the case, it could be on the hook for more than \$2 billion in additional taxes and penalties.

Long-term outlook

Down the road, there could be an opportunity for contrarian investors. More than 60 new reactors are currently under construction around the globe, and additional sites are planned. This is expected to boost annual uranium demand by 50% in the next 14 years.

With producers shelving expansion projects due to weak prices, there is a chance the market could see a supply squeeze as secondary sources get used up.

If that happens, Cameco could see its fortunes change in a big way.

Is the bottom in sight?

At the moment, there doesn't seem to be much hope for a quick turnaround in the uranium market, so investors shouldn't expect much price relief in the near term.

Regarding the CRA dispute, a decision isn't expected for quite some time, but any indication that the company will be forced to pay the full amount would likely sink the stock.

As such, I would look elsewhere for investment opportunities.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Date

2025/07/27
Date Created
2016/08/19
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