Cameco Corporation: Should You Add This Stock to Your Contrarian Portfolio?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) is lingering near multi-year lows, while many of Canada's commodity stocks are enjoying a recovery.

Let's take a look at Cameco and the uranium market to see if a turnaround might be on the horizon.

Dark days

Back in early 2011, uranium traded for US$70 per pound and Cameco was worth $40 per share. The market was in recovery mode, and pundits felt confident the strong trend would continue.

As we all know, that wasn't in the cards.

The Fukushima disaster in Japan quickly turned the tide on the uranium market, and things are still difficult more than five years later.

How bad is it?

At the moment, uranium trades for less than US$30 per pound, and you can pick up a share of Cameco for about $12.

Japan restarts

Japan desperately needs to get its nuclear fleet up and running again, but public opposition and operational challenges have hindered the restart program. Only three reactors are back in service out of the 43 operable facilities, and there is little evidence that a surge in new restarts is on the way.

Other issues

The Brexit vote and a fast-tracked decommissioning of reactors in the United States have put added pressure on an already weak market in recent months.

Cameco is also facing challenges at home.

The company is locked in a nasty battle with the Canada Revenue Agency (CRA) over taxes owing on income generated through a foreign subsidiary. The issue stretches back several years, and if Cameco loses the case, it could be looking at a hit of more than $2 billion to cover the taxes and related penalties.

Positive developments

There are more than 60 new reactors being built around the globe, and countries such as India and China are expected to ramp up development in the coming years.

As a result, annual uranium demand is expected to rise 50% by 2030.

The current price point is unprofitable for most producers, and mining companies have shelved expansion plans over the past few years.

Secondary supplies continue to fill supply gaps and are expected to keep prices low in the near to medium term. Eventually, these stockpiles will run out, and existing primary supply is not expected to be sufficient to meet long-term demand.

If new production doesn’t come online fast enough, the uranium market could flip to a shortage position at some point in the coming years.

Should you buy?

Contrarian investors are always looking for an opportunity to pick up an unloved stock just before it is about to recover.

Eventually, Cameco will see better days, but I would stay on the sidelines until a bottom in the market is confirmed and the company has resolved the CRA issue.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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aswalker