Cameco Corporation vs. Encana Corp.: Which Is a Better Bet Today?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) and **Encana Corp.** (TSX:ECA)(NYSE:ECA) are two of Canada’s walking wounded in the commodities space.

Let’s take a look at both companies to see if one might be worthy of a contrarian buy right now.

Cameco

Cameco traded for $60 per share in 2007. Today it is below $12. That’s a nasty slide, and long-term investors are wondering if this stock will ever recover.

What’s going on?

From 2009 to early 2011 Cameco actually doubled in price as uranium had recovered to US$70 per pound amid strong demand and a positive outlook for nuclear development. Most market observers thought the upward trend would continue, but something happened that completely changed the game.

When the tsunami hit Japan, uranium went into a free fall as the Fukushima disaster forced the country to shut down its entire nuclear fleet. Japan is now trying to get the reactors back online, but only three are actually in operation, and progress is expected to be slow on the restart of the remaining 40 operable facilities.

Reduced demand and a healthy stockpile of secondary supplies are keeping the uranium market under pressure. Uranium traded as low as US$25 per pound in recent months and remains below the US$30 mark.

Cameco has done a good job of controlling costs through the downturn, but there is a limit to how much the company can trim expenses. At some point, prices will have to recover, or the company is going to have to slash its dividend.

Investors also have to watch Cameco’s tax battle with the Canada Revenue Agency. The issue relates to taxes owed on earnings generated from a foreign subsidiary. If Cameco loses the case it could be hit with more than $2 billion in additional taxes and related penalties.

The long-range outlook for uranium demand is positive, but tough times are expected to continue in the near term.

Encana

Encana was once Canada's most valuable company by market capitalization. Those days are long gone, and investors who have held the stock for a number of years are not happy campers.

What happened?

In the wake of the financial crisis Encana decided to spin off its oil and refining operations into a new company called **Cenovus Energy**. The idea at the time was to focus on natural gas, which management believed would be the stronger sector going forward.

Unfortunately, oil surged in the next few years and natural gas tanked.

The board decided to switch up the leadership team and the new gang reversed course, selling off gas assets in a weak market and buying huge oil properties at what has turned out to be the top of the market.

Oil's plunge from $US100 per barrel to below US$30 earlier this year almost buried Encana. The stock fell from $25 to $4 in about 18 months, and investors pretty much threw in the towel.

A rebound in oil has brought the stock back to life, and investors who had the courage to buy at the bottom have tripled their money.

Debt remains a concern at US$5.7 billion, and the company's Q2 2016 earnings report shows it is still burning through cash. So, more work has to be done if this company is going to survive in a weak-oil environment.

Which should you buy?

I would avoid both stocks. Cameco's woes are expected to continue for some time, and the stock is still hitting lower lows.

Encana's outlook is somewhat better if oil prices have actually bottomed out, but I think oil could take another run at US$30 per barrel before a longer-term recovery begins. If that happens, Encana could give back most of this year's gains.

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