Why Cameco Corporation Is Set to Grow

Description

There are a lot of similarities between the uranium market today and the gold market last year. Last year gold prices bottomed out to sub-US$1,100 per ounce–a significant drop from the nearly US$1,900 per ounce that the precious metal fetched on the market back in 2011. This year gold has surged by over 20%, much to the relief of gold producers and investors.

Turning our attention over to the uranium market, there are similar forces at work. Coincidentally also back in 2011, uranium was trading at over US$75 per pound. There was strong demand and a growing supply of uranium to feed the myriad of new nuclear reactors that were planned or under construction around the world.

When an earthquake and subsequent tsunami hit Japan in that same year, the uranium market instantly changed. The Fukushima disaster almost instantly lowered demand for uranium and left uranium suppliers with a glut of inventory. Uranium prices have steadily dropped over the course of the past few years, settling to sub-US$30 per pound.

One such uranium supplier is **Cameco Corporation** (TSX:CCO)(NYSE:CCJ), the world's largest uranium provider. Cameco was hit particularly hard as demand for uranium dropped; this is evident in the company's stock price, which has retreated by over 70% since 2011. So why is Cameco a good investment and set to grow?

Demand for uranium is picking up

Countries around the world are re-approaching the idea of using nuclear power for their energy needs. Regions of the world that are in the midst of a population and infrastructure boom are turning more and more to nuclear power to bridge energy needs.

There are more than a dozen countries currently in the process of building new reactors. Most of this growth is focused on the booming countries of China, India, and the U.A.E. Looking beyond the reactors that are currently under construction, there are nearly 200 reactors that are either awaitingfinal approvals or ready to begin construction. And there are more than 300 new reactors worldwidethat are currently being proposed.

To uranium suppliers like Cameco, this is great news. With demand picking up, the existing oversupply of uranium will be cleared, which, in turn, should start to drive the cost of uranium back up.

By some estimates, demand for uranium should spike by nearly 50% over the next decade.

Cameco is set up to grow

Cameco has a massive amount of uranium reserves. The company has roughly 400 million proven reserves of uranium and up to another 700 million pounds that could be tapped at some time in the future, should demand increase as many expect it to.

Another parallel with gold suppliers that Cameco shares is in the realm of cost cutting. Prolonged weakness in uranium prices forced Cameco to focus on cost cutting across the board, which has also bled into exploration and development costs. But those implemented efficiencies and cuts will boost margins and earnings once the market improves.

This year, Cameco has a 30% reduction in capital spending planned with more likely being considered. Spending on exploration has already been slashed by 50% of what it was just four years ago, and budgets are significantly lower in some cases year over year.

Is Cameco a good investment?

There’s no doubt that once uranium prices start to pick up, Cameco will start to appreciate as well. The stock, which currently trades at just over $12, is nearly 50% lower than what it was five years ago.

Investors who can tolerate a certain level of risk in the short term will no doubt see Cameco’s long-term potential and invest. A reward for those investors will also be Cameco’s quarterly dividend, which provides a handsome yield of 3.30% at $0.10 per share.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Author
dafxentiou