# Cameco Corporation: Is a Rebound in the Cards?

## Description

**Cameco Corporation** (TSX:CCO)(NYSE:CCJ) is trading at levels not seen for more than a decade, and investors are wondering if this is a good time to make a contrarian bet on the stock.



Let's take a look at the beleaguered uranium producer to see if there is any light at the end of the tunnel.

### Tough times

Cameco's stock has been on a downward trend since 2007, but the things really got ugly after the tsunami hit Japan.

Why?

In early 2011 the Fukushima nuclear disaster forced Japan to shut down its entire fleet of nuclear reactors.

Uranium prices went into a free fall and producers followed suit. Before the tsunami, uranium traded for US$70 per pound and Cameco's stock was worth $40 per share. Today, uranium is stuck below US$30 per pound and you can pick Cameco up for about $12.

Japan is trying to get its nuclear reactors back online, but legal challenges and operational issues have hindered progress. At the moment, only three reactors are back in service out of the 43 operable facilities located around the country.

### Demand and supply

Very few producers are making money at the current spot price for uranium, and most of the miners that are keeping their heads above water are doing so as a result of long-term supply agreements negotiated at much higher prices.

With the rout lasting so long, producers have shelved expansion plans and reduced output. This has reduced primary supply to the point where it doesn't cover existing demand, but secondary stockpiles are filling the gap and keeping prices under pressure.

Countries such as India and China are expanding their nuclear fleets to meet their growing electricity needs. Around the globe, there are more than 60 new reactors under construction, and more are on the way.

This should boost annual uranium demand by 50% by 2030.

As stockpiles are drawn down, new primary supply will be needed to meet the added uranium demand, but it takes as long a 10 years to get a new project up and running. As a result, there is a chance the uranium market could see a supply squeeze in the coming years.

**CRA woes**

Cameco has a company-specific issue that investors must watch very carefully.

The miner is in a nasty battle with the Canada Revenue Agency (CRA) over taxes due on earnings generated by a foreign subsidiary. The case won't be decided until late 2017 at the earliest, but Cameco could be on the hook for more than $2 billion if the decision goes in favour of the CRA.



**Should you buy?**

Cameco is a low-cost producer with some of the planet's richest uranium reserves. At some point, the market will rebalance, and this stock should take off.

However, there is little reason to buy right now, and investors could see a better entry point in the near to medium term. I would stay on the sidelines until the bottom has been clearly established for this stock.

**CATEGORY**

1. Investing
2. Metals and Mining Stocks

**TICKERS GLOBAL**

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