Should Cameco Corporation or Penn West Petroleum Ltd. Be in Your Portfolio Today?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) and **Penn West Petroleum Ltd.** (TSX:PWT)(NYSE:PWE) are attracting contrarian interest.

Let's take a look at the two beleaguered stocks to see if one deserves to be in your portfolio.

Cameco

Cameco continues to battle low uranium prices more than five years after the Fukushima disaster.

Before the tsunami hit Japan, uranium traded for US$70 per pound, and Cameco's investors owned a stock that was worth $40 per share. Today uranium is lingering below US$30 per pound, and you can buy Cameco for less than $12.

Why is the recovery taking so long?

In the wake of Fukushima, Japan shut down its entire fleet of nuclear reactors. The country is trying to get the facilities back in service, but public opposition and operational challenges have hindered the process. In fact, only three of the country's 43 operable reactors are currently producing electricity.

Progress is expected to be slow, and it could be years before the entire fleet is back in operation.

In order to navigate the storm, uranium miners have cut production and shelved expansion plans to the point where primary supply doesn't meet current demand. This would normally send prices higher, but secondary stockpiles have filled the demand gap, and that is keeping the market under pressure.

Global nuclear expansion continues at a healthy clip, and annual uranium demand is expected to increase by 50% by 2030.

At some point, the market could see a supply squeeze if stockpiles disappear faster than new production can come online. For the moment, however, there is little price relief in sight for Cameco and its peers.

Cameco is also caught up in an ugly battle with the Canada Revenue Agency (CRA) over taxes owed on income generated by a foreign subsidiary. If Cameco loses the case, it could be on the hook for more than $2 billion.

Penn West

Penn West has been falling for the better part of a decade. That's right, the stock traded for more than $40 per share 10 years ago, and the trend has pretty much been downhill ever since.

A series of managerial missteps can be blamed for the early troubles, and the oil rout is responsible for rest of the pain.

Over the past year the company has been dumping assets in an effort to bring down its debt. Management has done a pretty good job, but things got pretty tense a few months ago, and the stock bottomed out below $1 per share as investors threw in the towel on the expectation of a bankruptcy filing.

With the clock ticking, Baytex negotiated a deal to sell its Saskatchewan assets for $975 million, and avoided insolvency.

Today, a much smaller company is focused on growth. Penn West recently announced a $40 million increase to its capital budget and plans to spend $150 million next year–all financed through funds from operations.

This should boost output by 10%, and Penn West hopes to increase production by that amount each year going forward. The stock currently trades for $2.20 per share.

Which should you buy?

If you believe oil has bottomed, Penn West is probably the better pick. The company's balance sheet is under control, and the stock will benefit from rising oil prices.

Cameco is an attractive contrarian bet over the long term, but more pain could be on the way before this stock bottoms out. I would stay on the sidelines until the CRA issue gets resolved, which won't be until late 2017 at the earliest.

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