



## Cameco Corporation: How Low Could This Stock Go?

### Description

**Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) has been on the slide for nearly a decade.

Let's take a look at the current situation to see if there is any hope for a recovery in this stock.

### Tough times

Cameco traded for nearly \$60 per share back in June 2007. Today investors can pick up the stock for less than \$12.

Canada's largest uranium producer actually looked like it was on the road to recovery in early 2011. The shares had doubled off the lows of the financial crisis to \$40, and uranium traded at a healthy US\$70 per pound.

Then the tsunami hit Japan and wiped out the rally.

The Fukushima nuclear disaster sent the uranium market into a tailspin that continues today as Japan struggles to get its nuclear fleet back in service.

Only three of Japan's 43 operable nuclear energy sites are currently producing electricity as public opposition and operational challenges continue to hinder the start-up process. Progress is slow, and there is little indication the situation will improve in the near term.

### Supply situation

Cameco shut down its long-running Rabbit Lake facility earlier this year and is concentrating output at its lower-cost Cigar Lake site. Other producers have also reduced output and shelved expansion programs as the current spot price below US\$30 makes few, if any, operations profitable.

Primary supply has come down so much that new production is actually lower than current demand, but secondary supplies are filling the gap and keeping the market under pressure.

This has some contrarians betting that Cameco is poised for a big rebound.

### **Demand side**

Japan is struggling to get its reactors back into operation, but many other countries are forging ahead with new facilities. In fact, there are more than 60 new reactors under construction, and further growth is on the way.

As a result, annual uranium demand is expected to jump 50% by 2030, so there is a risk the market could find itself in a supply squeeze if new production doesn't come online fast enough to cover the dwindling stockpiles.

### **CRA problems**

Cameco has a company-specific issue that is important to consider before buying the stock.

The Canada Revenue Agency (CRA) is of the opinion that Cameco owes additional taxes on revenue generated through a foreign subsidiary. The charges cover a number of years and could result in a hit of more than \$2 billion if Cameco loses the case.

A decision is not expected until late 2017 at the earliest.

### **Is a bottom in sight?**

Cameco's long-term outlook is actually quite attractive. The company is a low-cost producer and is sitting on some of the richest uranium deposits on the planet.

However, the uranium market remains under pressure, and the CRA issue is weighing heavily on the minds of investors. Until prices begin to recover and the tax battle is resolved, this stock could easily continue to drift lower.

As such, I would look for other contrarian plays right now.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

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