Cameco Corporation or Crescent Point Energy Corp.: Which Is a Better Contrarian Stock Today?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) have fallen on hard times as a result of meltdowns in the commodities markets.

Let's take a look at the two companies to see if one might be an attractive contrarian pick right now.

Cameco

The uranium market has been in a downtrend for more than five years.

What's going on?

The Fukushima nuclear disaster in early 2011 sent uranium prices into a free fall, and the stocks of producers have followed suit. Before the tsunami, uranium traded for US$70 per pound, and Cameco fetched $40 per share. Today the uranium spot price is close to US$25 per pound, and you can pick up a share of Cameco for about $10.

Very few global producers, if any, can turn a profit at the current uranium price, and most are relying on higher prices paid under long-term agreements to help them stay solvent.

At some point, the existing contracts will run out, and if uranium doesn't improve by then, things could get even worse.

Despite production cuts and shelved expansion projects, the market remains oversupplied as existing stockpiles fill demand gaps. Once the secondary sources get used up, the market could find itself in a shortage situation, but that is not expected in the near term.

Are brighter days ahead?

Japan only has three of its 43 operable reactors in operation, and the restart process is expected to remain slow, but the country should eventually get most of its fleet back online. Around the world, more than 60 new reactors are under construction. As these facilities are completed and new ones are built, annual uranium demand is expected to rise 50% by 2030.

This paints a positive long-term picture for the sector, but in Cameco's case, a battle with the Canada Revenue Agency (CRA) over taxes owed on revenue generated by a foreign subsidiary is keeping investors on the sidelines. If Cameco loses the fight, it could be on the hook for additional taxes and penalties of more than $2 billion.

A decision isn't expected until late next year at the earliest.

Crescent Point

Crescent Point was once the dividend darling of the energy patch, but the prolonged slump in oil prices forced the company to slash the monthly payout from $0.23 per share to just three cents.

Now that income seekers have moved on, Crescent Point is getting interest from value investors.

Why?

The company has weathered the oil storm reasonably well and is positioning itself for some strong gains when oil recovers.

Management is making tuck-in acquisitions while the market remains distressed and has sufficient liquidity and a strong enough balance sheet to ride out further weakness.

Most companies in the patch are in a downward spiral, cutting capex and watching production fall as a result. Crescent Point is not in that situation. In fact, the company actually increased output this year despite a reduction in expenditures.

Investors continue to feel good about the company’s prospects and just gobbled up a $650 million share issue.

Crescent Point is using the funds to boost its capital expenditures through the end of this year and into 2017. As a result, production is expected to rise at least 5% in the next 12 months.

Which stock should you buy?

Both stocks look cheap and should see better days in the long term.

However, I would avoid Cameco right now due to the ongoing weakness in the uranium market and the company’s troubles with the CRA. There could be more downside on the way.

As for Crescent Point, the stock should be a top pick for contrarian investors who believe oil is headed higher. I’m not convinced the market has bottomed yet, so investors might want to keep the initial position small and look to add on dips.

CATEGORY

1. Energy Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. NYSE:VRN (Veren)
3. TSX:CCO (Cameco Corporation)
4. TSX:VRN (Veren Inc.)

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Author
aswalker