



## Cameco Corporation Has Explosive Growth Potential

### Description

There's no question that **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) has had an abysmal performance in the past few years. While the negative thesis on the stock is well known thanks to plummeting uranium prices, I believe the downside is small when compared to the upside.

#### Is the fight with the tax man such a big deal?

Most of the bad news is already baked into the stock, and as Warren Buffett once said, "Be fearful when others are greedy, and greedy when others are fearful".

Right now investor pessimism is incredibly high because uranium prices keep falling into the abyss, while the CRA is fighting Cameco over a \$2.2 billion bill. The trial will not end until March 2017, and that official ruling is not expected until much later in the year.

There's no question that there may be more volatility ahead, especially considering Cameco has had a net loss of -3.2% over the last 12 months with a horrendous -28.1% free cash flow margin and a -1.4% return on equity. While these numbers are definitely ugly, I believe it is just a temporary effect of the low price of uranium. Even if Cameco loses the battle with the CRA, the company is still an efficient operator. The company has a low debt-to-equity ratio of 0.33, which is much lower than the industry average.

I think there is huge long-term potential for Cameco, and right now investors are failing to account for the positive long-term catalysts because of the negative publicity regarding the CRA, which I believe is just a distraction considering the long-term potential of the company to grab a firm hold of the uranium market share.

If you're a long-term investor with a horizon over five years, then the following catalysts may make Cameco a great pick at current levels.

#### Interest in nuclear power is forecasted to pick up over the next decade

Uranium demand is expected to increase significantly over the next 10 years due to plans by countries

such as India and China to open over 113 new reactors by 2025. In 10 years from now, if this happens, uranium demand will be much higher than the amount that Cameco can produce. Cameco could then simply focus on its production capacity, as it hangs on to its deals with both China and India to be the main uranium supplier for the long term.

Cameco is by no means a short-term play, as you could still lose money if you don't have that five-year time horizon. Interest in nuclear power is slowly increasing among many countries worldwide; however, there is a big risk to this thesis.

If another major nuclear incident happens with the magnitude of the Fukushima disaster, we may see the same fear of nuclear power spread worldwide once again. The effect would be plummeting uranium prices that could stay lower for longer.

If you believe in nuclear power, look no further than Cameco, as it's trading at 0.8 P/B, which is less than half of its five-year historical average P/B of 1.7.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

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

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