



Cameco Corporation at a 13-Year Low: Time to Buy?

Description

Eight.

That's how many stories have appeared about **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) on the Motley Fool Canada website in October. There's certainly no shortage of opinions when it comes to the uranium producer.

While I doubt I can bring anything new to the discussion about the pros and cons of owning its stock that Fool.ca contributors [Jacob Donnelly](#) or [Andrew Walker](#) haven't already done, I do feel I understand enough of the ups and downs of the markets from a historical perspective to render an opinion as to what this means for the future of Cameco stock.

That said, take what I say with a grain of salt. It's simply one man's observation of a seemingly obvious value play.

Cameco currently trades at 0.8 times book value, less than half its five-year average. In June 2007, it hit an all-time high of \$59.90. At that time, Cameco stock traded for 5.1 times book value or more than six times today's multiple.

What's the difference? Uranium prices.

In June 2007, the uranium spot price was US\$136, while the long-term price was US\$95. Today, those prices are US\$23 and US\$37.50, respectively. If you look at spot prices alone, it's easy to understand the big difference between its stock price then and now.

However, it's the long-term price that matters most because it reflects the true uranium price that's exchanged between buyers and sellers at any given time. From that perspective, a difference of six times relative book value hardly seems fair.

Now, if we go back to April 2004, we get a long-term uranium price of US\$17.50. In its Q1 2004 report, Cameco had a book value per share of \$33.53. Meanwhile, it hit a low of \$9.91 on April 21, 2004, which represents a price-to-book ratio of 0.30, or 63% less than today's multiple.

Cameco Corporation valuation

Date	Long-Term Uranium Price	Price-to-Book
October 2016	US\$37.50	0.80
June 2007	US\$95.00	5.10
April 2004	US\$17.50	0.30

Sources: Morningstar, Cameco website

Bottom line

The big question surrounding Cameco is whether or not its stock price has bottomed.

Considering it hasn't traded at these levels in 13 years, I think it's safe to conclude that unless nuclear energy is completely eradicated from use on this planet, the upside potential for prices, much like oil, is greater than the downside. Unfortunately, it's impossible to know when those prices will move higher.

However, with its stock down 36% year-to-date on top of an 8% decline in 2015 and 12% decline in 2014, it seems that now would be a good time to make a small bet on Cameco.

Then I would sit and watch its stock price. If uranium prices hold tight but Cameco trends downward, you'll want to consider adding to that position.

Call it a contrarian play, value play, or even a crazy play, but history tells us that when skepticism is running high and investors are fearful, it's the best time to make an investment.

Just don't bet the entire farm.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

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