



## Cameco Corporation: Should You Buy the Bounce?

### Description

**Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) jumped 10% on better than expected Q3 2016 earnings.

Let's take a look at the beaten-up uranium producer to see if it is finally time to buy the stock.

### Earnings

Cameco continues to make good progress on its efforts to reduce expenses by closing older facilities and shifting production to its low-cost Cigar Lake mine.

The company generated Q3 adjusted net earnings of \$118 million, or \$0.30 per share, compared to \$0.20 per share in Q3 2015. Revenue rose 3% and gross profit jumped 10%.

Cash costs of production dropped 7% in the quarter compared to last year due to the ramp up of low-cost production at Cigar Lake.

The earnings numbers look good on the surface, but the positive results partly came as a result of gains booked on funds received to let two customers out of their long-term supply agreements.

In fact, these contract settlement gains totaled \$59 million in the quarter, so the Q3 performance isn't as rosy once the one-time gains are stripped out.

### Liquidity

Cameco finished Q3 with cash and cash equivalents of \$199 million and total debt of \$1.52 billion.

The company has \$2.7 billion in credit facilities and finished the quarter with \$1.4 billion outstanding in letters of credit. Cameco had no short-term debt outstanding on its \$1.25 billion revolving credit facility at the end of the quarter and remains within its lending covenants.

The balance sheet looks fine, for the moment.

## Market conditions

The uranium market remains weak as low demand and excess supply continue to put pressure on both term and spot prices. Both hit 10-year lows in the third quarter.

On the bright side, four new reactors went into service in the quarter, including two in China, one in India, and another in Russia. This puts the total at nine for the year.

Over the long run, there are 57 new reactors currently under construction. As those facilities come online and Japan continues to restart its nuclear fleet, annual uranium demand is expected to rise.

At the moment, primary supply isn't sufficient to meet the 50% growth expected by 2030, so there is potential for the market imbalance to swing the other way in the coming years.

If that happens, Cameco is positioned well to benefit.

## CRA issue

The big unknown for investors remains Cameco's battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated by a foreign subsidiary. If Cameco loses the case it could be hit with additional taxes and penalties of more than \$2 billion, which would be a material blow.

The case is currently before the court and a decision isn't expected until late 2017 at the earliest.

## Should you buy?

At some point the uranium market will recover and Cameco's stock price should move higher, but pundits who have been positive on the stock have been wrong all the way down. It was apparently attractive at \$20, \$15, and recently again at \$10 per share.

Eventually the bulls will be right, so contrarian investors should keep this stock on their radars, but I wouldn't jump in right now.

There is a good chance the recent pop in the share price will be short-lived, and the CRA issue is large enough that any negative reports on the case could put added pressure on the stock, despite the fact that it already looks oversold.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

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