



Has the Turnaround of Cameco Corporation Taken Hold?

Description

Looking back over the past five years, shares of **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) took a very long time to reach an attractive valuation. Since 2011 total revenues have consistently taken small steps in the right direction; they've been increasing. The jump in 2015 was a much more respectable 14%.

The challenge the share price has faced is in the net profit area. There has been a decline in both total profit and in the net profit margin every year since 2011. The situation has consistently gotten worse.

Going hand in hand with the decline in financial metrics has been the clear decline in the price of uranium. As the world's biggest producer in uranium, the decline in the price of the underlying commodity has not been kind to the share price.

The upside to the major decline of any commodity is the reduction in its production. Taking oil as an example, the reduction in production has been gradual over the past year, while the recovery has been anything but V-shaped. It's looking like the bottom may finally be behind us; the stock has bounced off its lows in the \$10 price range and is now up about \$11.50. A major breakout may be just around the corner.

Looking at the past three years, the dividend payout is still no more than 35% of the cash flow from operations. Its payout ratio is expected to be approximately 50% of earnings for 2016, offering huge potential for investors in the years to come should profitability increase. The dividend has been a stable 10 cents per quarter since year 2011.

The last metric to look at for a resource company such as Cameco is its book value. Obviously, only what is owned can be sold.

In the past, the shares have traded in excess of the book value per share, essentially valuing the company in excess of its book value. Excluding 2016, the lowest multiple in recent times was 110%, which came at the end of 2015. At its current price, the total company is valued at 83% of its book value.

Enter the taxman.

Currently fighting with the Canada Revenue Agency, there is a dispute over a potential \$2.2 billion in additional taxes the government wants to collect. Assuming the worst-case scenario and the loss of \$2.2 billion of book value, the current stock price would reflect multiple of 1.4 times book value (or 140% of book value). Cameco looks to be trading at what is still a rock-bottom price as the worst-case scenario is rarely the most likely scenario.

Investors usually ask themselves before buying, "What am I getting vs. what am I paying?" In this case, they can easily move forward and ask, "When will be the right time to buy?"

Only time will tell.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:CCO (Cameco Corporation)

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