Contrarian Investors: Is Cameco Corporation a Top Pick for 2017?

Description

Cameco Corporation (TSX:CCO)(NYSE:CCJ) has been on a downward slide for several years.

Let's take a look at the current situation to see if 2017 could mark the turnaround for this stock.

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Uranium price

Uranium currently trades for less than US$20 per pound on the spot market and for about $35 on long-term contracts. That's a long way from the US$70 per pound producers were getting in early 2011.

What caused the crash?

The 2011 Fukushima nuclear disaster hit the uranium market hard as Japan shut down its entire fleet of reactors, and countries around the world took a step back on their development plans to determine if nuclear should still be a part of their electricity-generation portfolios.

Fast forward nearly six years, and the market is still struggling.

Global uranium supplies remain abundant despite production cuts by producers. Primary output actually doesn't meet current annual demand, but healthy stockpiles continue to flood the spot market and keep prices under pressure.

At some point, the secondary supplies will be used up and the market will come back into balance. There is even a risk of a shortage in the coming years as producers might not be able to ramp up output fast enough to meet demand growth.

For the near term, however, there is little to suggest any price relief is on the way.

Demand situation

Japan is still in the very early stages of getting its fleet back online. Only two of the country's 42 operable reactors are currently producing electricity, and further progress is expected to be slow.

On the positive side, Cameco says 60 new reactors are currently under construction, and countries like China and India are expected to ramp up their reliance on nuclear power in the coming years.

As a result, annual uranium demand is forecast to rise as much as 50% by 2030, but investors shouldn't expect big changes in the next 12 months.

Risks

Cameco is caught in a nasty battle with the Canada Revenue Agency (CRA) over taxes owed on income generated through a foreign subsidiary. If Cameco loses the case, it could be on the hook for more than $2 billion in additional payments and penalties.

That would be a material hit.

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

Should you buy on the hopes of a 2017 rebound?

Cameco's stock is up more than 25% this month, and this has contrarians kicking the tires again.

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There is an argument to be made the stock was severely oversold, but spot prices and long-term contract prices are still falling, so the bottom hasn't been reached yet in the uranium market.

If you have a buy-and-hold strategy and are willing to ride out some more weakness, this stock might be worth considering as a contrarian pick.

At this point, however, I don't think 2017 is going to bring much relief, and the CRA issue will remain an overhang on the company for most of next year.

Given the solid gains in the past few weeks, I would wait for a pullback before buying Cameco.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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