



Cameco Corporation: Should You Own This Stock?

Description

Cameco Corporation ([TSX:CCO](#))([NYSE:CCJ](#)) has picked up a bit of a tailwind lately, and contrarian investors are wondering if the uranium giant is finally an attractive buy.

Let's take a look at the current situation to see if Cameco deserves to be in your portfolio.

Uranium market

In early 2011 uranium traded for about US\$70 per pound and Cameco was worth \$40 per share.

Then the tsunami hit Japan and changed everything.

The Fukushima nuclear disaster forced Japan to shut down its entire fleet of reactors. This sent uranium prices into a downward trend that still continues today.

At the time of writing, uranium trades for US\$18.25 per pound in the spot market and is only fetching US\$33 on long-term contracts.

That's a nasty slide and is the big reason Cameco can be picked up for a mere \$12.50 per share right now.

Japan restarts

Japan desperately needs to get its reactors back online, but public opposition and technical problems have plagued the process. Only two of the country's 42 usable reactors are currently producing electricity, and pundits don't see the situation improving materially in the near term.

Global demand

The outlook is a bit more promising on a global scale. Cameco says 60 new reactors are currently under development as countries such as China and India ramp up their nuclear fleets in an effort to meet growing electricity demand. One report predicts annual uranium demand could rise 50% by 2030 as a result.

This should bode well for Cameco over the long term, but tough conditions are expected to continue through 2017. Cameco just announced plans to shut down its McArthur River mine for six weeks next summer.

Risks

Cameco is caught up in an ugly legal battle with the Canada Revenue Agency (CRA) regarding taxes owed on earnings generated by a foreign subsidiary.

If Cameco loses the case it could be on the hook for more than \$2 billion.

That would be a material hit and could result in a dividend reduction as well as a nasty haircut for the stock price.

Should you buy?

The big-picture outlook for the uranium industry is positive, but uranium prices continue to fall, both on the spot market and on long-term contracts, and there is no indication a turnaround is imminent.

Add the CRA problems to the mix, and you get a situation where there really isn't a reason to jump in and buy Cameco's stock right now.

Contrarian investors should keep the name on their radars, but I would be careful chasing the recent rally. A better entry point could present itself in the coming months.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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2. TSX:CCO (Cameco Corporation)

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Date

2025/07/27

Date Created

2016/12/02

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