



When Will the Uranium Market Recover?

Description

Uranium producers such as **Cameco Corporation** ([TSX:CCO](#))([NYSE:CCJ](#)) have had a difficult past few years. When a devastating earthquake hit Japan back in 2011 and triggered a tsunami that damaged Japan's Fukushima reactor, the world collectively put nuclear power on hold.

Prior to the disaster, uranium prices were trading for over US\$70 per pound. Currently, uranium trades at less than US\$20 per pound.

Fukushima aftermath

After the Fukushima disaster, demand for nuclear power effectively disappeared overnight. Countries that have, or aspired to have, nuclear power shelved plans for new and updated facilities. Japan shut down all reactors in the country, marking the beginning of the decline in prices. Prior to the disaster, Japan had the third-largest fleet of reactors in the world.

Japan has since restarted some of those reactors, and a more pro-nuclear-power government took office in 2012 that looks to continue restarting some of the other idled reactors. The most recent energy plan for Japan calls for the country to draw on nuclear power for up to 20% of its energy needs by 2030, but that's still over a decade away.

The impact of the 2011 events on both Cameco and the nuclear power market have been profound. Demand all but evaporated for nuclear power in the months following the tsunami, and Cameco was left mining a product at a considerable cost that nobody wanted. This effectively dropped the price of uranium and Cameco's stock.

The shift in demand also forced Cameco to reduce uranium production levels and burn through cash to keep operations going. Faced with low prices and a glut of supply, Cameco could do little else while waiting for the market to recover.

Nuclear resurgence?

Fortunately for Cameco, the uranium market stands to make a strong recovery over the next decade.

While Japan takes a more conservative approach to ramping up the use of nuclear power, other nations, notably China and India, have aggressive growth policies that require multiple reactors to be constructed over the next few years to meet demand.

In total, there are 16 countries building 60 reactors around the globe. China, Russia, and India combined constitute more than half of the 60, and there are over 100 other plants being proposed.

Beyond new construction, over 30 countries that currently have nuclear facilities have plans to upgrade or replace existing facilities with newer, higher-capacity versions.

In other words, despite a slow restart from Japan, there is a growing demand for nuclear power that is set to continue growing over the next few years.

Where does Cameco fit into this?

As the largest miner of uranium, Cameco is directly linked to the growth of the nuclear power industry. That growth should more than account for the supply glut of uranium on the market and provide an avenue for prices to eventually start to increase.

Unfortunately, this is a process that could take some time, meaning that Cameco needs to be conservative with operations, focusing on only the most productive mines and striving to keep costs down. Last year Cameco set a production target for 2016 of 30 million pounds of uranium. Last month the company updated that forecast, revising it downward to 25.8 million pounds.

Cameco also announced recently that some mines will be shut for several weeks during the summer, notably the McArthur River mine. Employees there will be subject to a four-week mandatory paid holiday, followed thereafter with a two-week shutdown of the facility for maintenance. This latest round of cuts follows the Cigar Lake facility being closed and Cameco laying off a significant portion of its staff.

In my opinion, Cameco is a great long-term option for those investors that are comfortable with taking on risk; however, over the short term, there are better options in the market.

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1. Investing
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Date

2025/09/29

Date Created

2016/12/05

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