Cameco Corp.: Is the Recovery Underway?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is a stock I have wanted to see succeed for quite some time, but it has been a very painful journey for those who've been accumulating shares over the past couple of years. However, all signs are pointing to Cameco finally experiencing its recovery. To understand if it is truly rebounding, it'll help to know what started all the pain.

Back in 2011, a tsunami hit Fukushima, Japan, which caused leakage at the Fukushima I Nuclear Power Plant. Naturally, this caused countries around the world to hit pause on their nuclear development to determine if the risks were worth the reward. This pushed uranium prices from US$70 per pound to under US$20, beating producers such as Cameco into the ground.

One of the problems is that while prices were dropping, producers weren't slowing down their production, effectively increasing the available supply despite demand not keeping up with the trend. Therefore, when demand started to increase again, the supply on the secondary market was still quite significant, thus keeping prices depressed despite increases in demand.

Fortunately, many small mines have had to shut down–Cameco is a low-cost producer, so it's fine–which means that supply should start to fall into equilibrium with demand.

Cameco announced its third-quarter results in the beginning of November, and the stock has been increasing quite nicely. Since the results were released on November 2, the stock has jumped $4.16 a share, or 40.27%. This is thanks to the company posting revenues of US$670 million–up from US$650 million year over year.

Cameco beat analyst expectations by US$15 million, which always makes the markets happy. More importantly, because of the long-term contracts Cameco signs, the price per pound of uranium it sells only dropped 1% in the quarter.

The thing is, I expect demand to continue to get stronger.

Both China and India are investing heavily in their nuclear power-generation capabilities, which is only going to send demand skyrocketing. India intends to increase its nuclear power from 6,000 MW to

45,000 MW by 2035. Further, India and Cameco have a deal for uranium, which should make Cameco quite a bit of money in the coming years. As for China, it currently only generates 2% of its power from nuclear energy; however, it plans to grow that to account for 30% of its total power by 2030.

In total, there are 61 nuclear reactors in construction. There are another 170 reactors in various stages of planning or near construction. Each time a reactor comes online, it needs to buy multiple years' worth of uranium (to hedge against price fluctuations), so it's easy to see how much demand there will be.

But we're still left with that pesky supply problem. As I said above, many small mines have had to shut down, which will bring us to equilibrium. But because of how long it takes to launch a new uranium mine, I expect there to be a uranium squeeze at some point as these new reactors come online. This should send the price much higher, thus rewarding Cameco.

All in all, this recovery might not last for the long term, and there might be ebbs and flows to it. Nevertheless, uranium has the ability to provide considerable amounts of electricity at scale–something many other sources are incapable of doing. I expect to see the demand pick up quite aggressively as this decade comes to a close and the next begins.

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