



Cameco Corp.: A Solid Bet for 2017?

Description

Contrarian investors are searching for unloved stocks that could be on the cusp of a rebound in 2017. Let's take a look at **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) to see if it deserves to be in your portfolio.

Tough times

Cameco has surged 40% in the past two months, but that is little consolation for long-term holders of the stock.

Six years ago, Cameco traded for \$40 per share, and if you go all the way back to 2007, the stock was close to \$60.

What happened?

Most of the pain in recent years is connected to a meltdown in uranium prices in the wake of the Fukushima nuclear disaster in Japan.

Before the tsunami, uranium traded for US\$70 per pound. After the accident, Japan shut down its entire fleet of nuclear reactors, and countries around the world put their development plans on hold as they took a step back to re-evaluate how they wanted to meet their growing electricity needs.

Japan is trying to restart its facilities, but public opposition and operational problems have stalled the process, and only three of the 42 operable reactors are back online.

In July, the Institute of Energy Economics, Japan (IEEJ) said it expects to see seven reactors back in operation by March 2017 and an additional 12 by March 2018.

That would be good news for Cameco and the uranium market, but not all pundits are as optimistic as the IEEJ.

Uranium prices remain under pressure. The spot price bottomed out below US\$18 per pound in November and is now trading for about US\$20.

The slight recovery in recent weeks is partly responsible for Cameco's surge. Donald Trump has also helped with statements suggesting he might ramp up the country's nuclear arsenal when he takes office.

Secondary supplies continue to keep the market under pressure, despite efforts by producers to cut output. As the stockpiles are used up, there is a chance the market could find itself in a shortage position in coming years, as new production might not come online fast enough to meet the 50% increase in annual demand that is expected by 2030.

Japan will eventually get its fleet back in operation, and there are at least 60 new reactors being built around the world with more on the way.

Tax trouble

Cameco is caught up in a nasty 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 taxes and penalties of more than \$2 billion. A decision isn't expected before late 2017 at the earliest.

Should you buy?

If you have some patience and are willing to ride out additional near-term volatility, it might be worthwhile to look at starting a small position on a pullback, but I wouldn't rush to buy the shares today.

Given the oversupplied market situation and the CRA concerns, 2017 probably won't be the year Cameco really takes off.

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