



## Cameco Corp. Surges: Time to Buy?

### Description

**Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) has rallied 50% since early November.

Let's take a look at the beaten-up uranium producer to see if this is the right time to buy the stock.

### Uranium market

Uranium prices have been under pressure for nearly six years, but recent support suggests the bottom might be in sight.

What's up?

Back in early 2011, uranium traded for about US\$70 per pound. Producers were upbeat about the industry's prospects after a tough run in the Great Recession, but everything changed when the tsunami hit Japan.

The Fukushima nuclear disaster forced Japan to shut down its entire fleet of nuclear reactors and sent many countries around the world back to the drawing board on their energy-growth plans.

Uranium went into a six-year tailspin, with spot prices dipping as low as US\$18 per share in recent months. Long-term contract prices also fell, hitting multi-year lows close to US\$30 per pound.

Producers have cut output to the point where primary supply doesn't actually meet demand, but secondary stockpiles have filled demand gaps and kept the spot price under pressure.

Comments from the producers suggest the situation is expected to remain challenging in 2017, but a slight uptick in the market in recent weeks has investors betting a rally could be on the way.

### Better days ahead?

More than 60 new reactors are currently under construction, and Japan is slowly working through the process of restarting its fleet. The Trump win is also boosting investor sentiment.

Annual uranium demand is expected to rise as much as 50% by 2030, so there is a chance the market could find itself in a shortage position along the way if new output doesn't come online fast enough to replace dwindling secondary sources.

The uranium market can move quickly in a short period of time, and that is why contrarian investors are starting to take new positions in Cameco.

### **What could trigger a rally?**

Most energy companies buy their uranium on long-term agreements, and many have avoided signing new deals in recent years, relying instead on spot-market supplies to fill additional short-term needs.

At some point, secondary supplies will fall to the point where utilities will have to start coming back to the negotiating table. Once that process begins, the market should see prices recover.

### **CRA issue**

Cameco is 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 more than \$2 billion in additional taxes and penalties.

The case is presently before the court, and a decision isn't expected before late 2017.

### **Should you buy?**

Contrarian investors might want to start nibbling if they feel the uranium market has bottomed, but I would keep the position small until the CRA situation is resolved.

Investors could also see a better entry point in the coming months once all the Trump hype settles down.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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