



Why Cameco Corp. Is Bound to Recover

Description

Cameco Corp. ([TSX:CCO](#))([NYSE:CCJ](#)) has had more than its fair share of troubles over the past few years. The beleaguered uranium miner has struggled because of weak uranium prices. Several years ago, uranium sold for approximately US\$70 per pound, whereas the price per pound of uranium currently sits near US\$20.

Fortunately, there are growing signs that a recovery may finally be underway

What caused uranium prices to tank?

Back in 2011, Japan, like many other advanced nations, had a fleet of nuclear power plants that were reliant on the uranium that Cameco mines. Nuclear power was widely regarded as an inexpensive way to generate huge amounts of power to meet the growing electricity needs of countries around the world. Japan had 43 such reactors.

Unfortunately, Japan was hit with a massive earthquake that year, and the subsequent tsunami that was generated from that earthquake damaged one of the reactors at Fukushima. While Japan managed to eventually shut down the reactor, the tsunami effectively killed off demand for nuclear power around the globe. Japan shuttered all its reactors, and countless projects around the world were either scrapped or put on hold.

This effectively left miners like Cameco stuck mining a product that was getting cheaper by the day and that nobody was buying. Prices dropped and supply levels shot up, leading up to the current situation.

Since then, Cameco has looked for efficiencies, focused on better-performing, lower-cost facilities, and striven to cut costs by any means possible.

Why a recovery is likely now more than ever before

While it may have taken a single tsunami to halt demand for nuclear power, a series of events are unfolding that will collectively restore demand for nuclear power and thus send both uranium prices and Cameco's share price back up.

We are starting to finally see a renewed demand for nuclear power around the world, particularly in the rapidly growing economies of India and China. Both countries have ambitious plans to expand their power needs over the next decade, and nuclear power is set to play a significant part of those plans.

In total, there are over 60 new reactors currently under construction around the world, all of which will require nuclear fuel from miners such as Cameco. As these new reactors come online, they will no doubt use up the excess supply on the market and steadily drive the price of uranium higher.

Sentiment with respect to nuclear power is also starting to change. We are even beginning to witness a reconciliation with nuclear power in Japan. So far, three of the country's reactors have been restarted with seven slated to be restarted this year and a further five next year.

Even the incoming administration under President-elect Trump could potentially drive prices higher. Trump has already stated his desire to increase the size of the country's nuclear arsenal.

Is Cameco a good investment?

In my opinion, investors that have an appetite for risk may want to take a position on Cameco. The demand for uranium is bound to increase over the next few years as a number of nuclear facilities under construction begin to come online around the world.

While Cameco attracts a certain risk over the short term, the long-term potential for the company is huge.

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