



Cameco Corp. Is up 62%: Is There More Room for Growth?

Description

Over the past three months, **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) has had a bit of a resurgence, increasing in price from a little over \$10 a share to over \$17 a share — a 62% increase. When the price moves with such gusto in a limited amount of time, investors are left wondering whether it's a short-term reversal or if it is a new trend and there is more to come.

I can't help but feel like this is only the beginning for Cameco. Although it is possible the stock could experience more ebbs and flows, the reality is that the market is primed for Cameco to start generating increased revenue from uranium. There are a few reasons for my bullishness.

Reduced supply

On January 10, Kazakhstan announced that it would produce 10% less uranium in 2017 than it had originally planned. Based on 2015 figures, this drop is equal to about 3% of total uranium product around the globe, so it's a significant drop.

Another source that has seen its supply drop is nuclear weapons that have been decommissioned. After the Cold War, there were so many nuclear weapons just sitting there, so the fuel in these weapons has been reconverted to fuel for reactors.

And finally, Cameco itself is cutting back on its production by seven million tonnes per year. All of these reductions in supply naturally push the price of uranium up.

New contracts

Cameco doesn't operate based on the spot price of uranium. Rather, it operates based on long-term contractual agreements. This helps it hedge against low prices, but it also removes the possibility for the company to earn more when the price of uranium increases.

Many of its customers are nearing the end of their supply agreements, so the expectation is that Cameco will be able to charge greater prices per tonne, thus allowing its earnings to be higher. We've already seen that with the company increasing revenues in the third quarter year over year from

US\$650 million to US\$670 million, beating analyst expectations by US\$15 million.

China & India

The final reason I'm bullish on Cameco is because China and India are investing heavily in nuclear power along with many other countries. For example, by 2035, India wishes to increase its nuclear power from today's 6,000 MW to 45,000 MW. India and Cameco already have a deal for uranium, making Cameco a preferred supplier, which should help the company over the coming years.

In China, the goal is to become the largest nuclear energy country in the world. It is one of the top six countries in nuclear energy, but it only gets 2% of its power from nuclear energy. By 2030, it wants that to be 30%.

All told, there are 61 nuclear reactors in construction with another 170 in various stages of planning. With contracts spanning multiple years, new reactors buy multiple years' worth of uranium, providing an opportunity for quite a bit of demand.

Cameco is not out of trouble yet. It is still competing with many other providers, and there is still quite a bit of supply. However, I have been bullish on Cameco for a couple years now and believe that the company is beginning to experience tailwinds, which should only get stronger as the years go on.

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