Cameco Corp. Just Tanked: Why?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) dropped 13% January 18, and investors want to know if more downside is on the way.

Let's take a look at the reason for the plunge and try to decide if it presents a buying opportunity.

Overbought

Cameco has been on a downward trend for nearly a decade, and the past six years have been especially difficult due to the fallout from the Fukushima nuclear disaster.

In early 2011, Cameco was $40 per share, and uranium traded for US$70 per pound. The tsunami in Japan wiped out any positive momentum the industry had managed to build after the Great Recession, and investors have been trying to catch this falling knife ever since.

A bounce was inevitable, and that is what happened over the past two-and-a-half months, when Cameco surged from $10 per share to more than $17, driven by a quick rebound in uranium prices and a broader move into commodities caused by the Trump election win in the United States.

Cameco and its peers generate most of their revenue on long-term contracts, so the short-term surge in the spot price from US$18 per pound to US$24 per pound on news of a production cut by a major global producer has little impact on their results.

Long-term prices are still at unprofitable levels for many of the miners.

Nonetheless, pundits started to get excited as the spot price moved higher and gamblers piled into the sector. Unfortunately for those who recently bought the stock, Cameco just delivered a nasty reality check.

What happened?

Cameco announced January 17 that analyst expectations for the company's adjusted net earnings are way too optimistic, and that it expects to report a loss for 2016 when it releases the Q4 results.

Cameco is reducing the fair value of its assets due to the continued weakness in the uranium market, and said it plans to slash its workforce by 10% across three of its mines, cutting 120 jobs in the next four months.

Should you buy the dip?

The long-term outlook for the sector remains positive as growing demand and falling supplies should eventually bring the market back into balance, but that could be years away.

Prices remain weak and Cameco has repeatedly said it doesn’t see much relief coming in 2017. That’s why it is reducing staff and cutting production at its facilities.

Another item to watch is Cameco’s ongoing battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated through a foreign subsidiary. If Cameco loses the case, it could be on the hook for additional taxes and penalties of more than $2 billion.

That would not be good.

The case is currently before the court, and a decision isn’t expected until late 2017 at the earliest.

At the time of writing, Cameco is down to $15 per share. That’s still 50% above the November low, meaning there is additional room for significant downside in the near term.

I would avoid the stock today.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/07/27
Date Created
2017/01/19
Author
aswalker