Japan Cancels Uranium Contract With Cameco Corp.

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is one of the largest uranium miners in the world and has long been regarded as a great long-term investment, particularly because of the growing use of nuclear power as an alternative energy source in emerging markets.

While that could make for lucrative returns for Cameco, uranium prices are on a multi-year retreat, and things could get worse for Cameco over the short term before turning around.

Why are uranium prices down?

Back in 2011, uranium was trading at near US$70 per pound. As the result of an earthquake, a tsunami damaged the Fukushima reactor in Japan. That accident led to Japan shutting down all nuclear reactors in the country and effectively ceased demand for new reactors around the globe.

Uranium prices have been on a steady decline since that time with prices hitting the sub-US$10 level late last year before rebounding slightly.

Japan has since tightened its grip on nuclear reactors with pro and anti-nuclear power governments both weighing in over recent years.

Cameco was effectively caught in the middle with a glut of uranium that is steadily becoming worth less and less. Faced with declining revenues, the company has been stuck in a spiral of cost reductions, efficiency initiatives, and prioritizing production to lower-cost facilities for the past several years as it waits for the market to recover.

Cameco received yet another blow from Japan recently. Tokyo Electric Power Company Holdings Inc. (TEPCO) announced last month that it was cancelling a uranium supply contract with Cameco, citing “force majeure,” an act of God.

TEPCO claims that regulations enacted by the government have made operating nuclear plants nearly impossible. A similar claim was raised back in 2014 that was successfully defended, and Cameco thinks this claim will follow suit.

However, if the contract is canceled, it could result in Cameco losing out on $1.3 billion in revenue over the next few years and add further pressure on already weakened uranium prices.

Is there still global demand for nuclear power?

Without a doubt. If anything, prospects for nuclear power over the long term are very positive.

Both China and India are undergoing massive infrastructure booms at the moment, which require an almost insatiable amount of additional power.

Both countries realize that nuclear power represents one of the cheapest, cleanest, and quickest ways to expand the power grid and have opted to greatly increase their reliance on nuclear power over the next decade.

Globally, demand is also starting to pick up again; over 60 reactors are under construction worldwide with countless more in various stages of approval and planning.

There are 30 countries around the world today that count on nuclear power, and those existing reactors still need to purchase uranium from miners such as Cameco. Additionally, existing reactors are always going to be upgraded or replaced with newer higher-capacity reactors as demand for electricity grows.

Is Cameco a good investment?

Over the long term, the potential for Cameco remains huge. That being said, the stock is currently weighed down by a lot of bad news, ranging from the company's ongoing battle with the CRA over taxes owed from several years ago to this most recent dispute with TEPCO, which caused the stock to drop 11%.

Investors that have an appetite for risk will be pleased with an investment in Cameco over the long term, but those looking at a more immediate return or would prefer a less risky choice should steer clear of Cameco, in my opinion.

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