Cameco Corp. Upgraded: Is the Stock Ready to Explode?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is finally beginning to see some upward momentum after many years of underperformance. BMO Capital Markets recently upgraded the stock to outperform as the macro outlook for uranium prices is improving, and it appears the downside from current levels is limited.

There's no question that the stock has been in a house of pain for a ridiculously long time. It's one of the few stocks that would crush you if you'd held the stock for the long term. Is Cameco capable of becoming great again? The stock is dirt cheap, and there looks to be a fair margin of safety right now.

Edward Sterck, an analyst, raised his target price to $18 from the original $17. His reasons were that there's likely to be an improving uranium market which will be a positive catalyst that will propel the stock higher. Sterck also believes that the supply contract dispute with Tokyo Electric Power Company Holdings Inc. (TEPCO) will be solved via arbitration and cash flows will improve in the future.

Uranium prices are close to historic lows. Uranium went out of favour across the globe after the Fukushima disaster. But it appears that countries are starting to consider using nuclear power again.

China and India are two huge markets that have a gigantic demand for energy. Both countries have expressed interest in using nuclear power going forward, and this could cause uranium demand to skyrocket over the next few years. There are 60 power plants under construction across 15 different countries, so there's no doubt there will be an increased need for uranium, and Cameco will be a big beneficiary of this trend.

It probably doesn't make much sense for Japan to continue to use nuclear reactors since the country is in an earthquake zone, and this is a big reason why Japan is canceling its contract with Cameco. The Japanese government put forth regulations that will make it very difficult to operate nuclear power plants going forward. Cameco could lose $1.3 billion in revenue if the contract is canceled, but I don't believe investors should be worried, as there are many other countries that will need a huge supply of uranium over the next five years.

Cameco is ridiculously cheap with a price-to-book multiple of 1.1 and a price-to-sales multiple of 2.4, both of which are lower than the company's five-year historical average multiples of 1.5 and 3.1 respectively. There's not much downside from current levels, and things are looking brighter over the next few years, so investors can feel comfortable owning shares.

But if another nuclear disaster happens, we could see history repeat itself and the entire world will go into a panic, driving uranium prices and Cameco stock back to the floor.

If you're bullish on nuclear energy and have a long-term time horizon, then buy Cameco and collect the 2.5% dividend yield while you wait for shares to rebound.

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