Hop Aboard the Cameco Corp. Roller Coaster

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is one of those stocks that makes you feel like you're on a roller coaster, going up and down and turning your stomach. And in some respects, it is.

From January 9 to the 13th, the stock increased from $14.20 to $17.43. By the 18th, it was back down to $14.39. Fast forward to the 24th, and the stock rose to over $17 again before falling to $13.68 in early February.

What is going on with Cameco? There are a few major situations that Cameco is dealing with, both positive and negative, that have investors fighting each other on the correct valuation for the company.

Kazakhstan, which produces a disproportionate amount of uranium, announced it would cut back its uranium production in 2017 by 10%. This single decision would result in a 3% drop in the amount of uranium released globally, and that could have a significant impact on the price.

Further, Cameco is also cutting its own production by seven million tonnes, looking to put a halt on more expensive uranium sources. It is better to produce less uranium at a higher margin.

So, between Kazakhstan and Cameco both cutting supply, that'll force each additional pound to increase in price if demand picks up.

Another reason that the stock has been on a roller coaster is because there are a series of contracts that are coming to an end.

Analysts predict that Cameco will be able to get higher prices than the spot price simply due to the length of the contracts. With nuclear companies needing years of supply, the contracts can be quite long, providing reliable revenue for the company. Reliability in this business is not something to take lightly.

Tokyo Electric Power Company Holdings Inc. (TEPCO), one of Cameco's largest customers, announced that it was canceling a supply contract it had with Cameco. Its reason? Force majeure, which, in business terms, means an "act of God."

The burdensome regulations put on Japanese nuclear reactors after the 2011 Fukushima earthquake has made it impossible for the company to operate its business, thus making the claim that an act of God has prevented it from succeeding. However, Cameco doesn't believe that regulatory problems are acts of God and will obviously fight to get the contract reinstated.

So, do I think you should buy Cameco? This stock is a roller coaster; it's not a stock that will help you sleep well at night.

However, there is incredible demand coming for uranium from China, India, and many other parts of the world. As we move into the next decade, I expect the price of uranium to go much higher. So, while there remains uncertainty about Cameco today, I think the future is incredibly bright.

This company is a low-cost producer; therefore, it should be able to stomach continued ebbs and flows of the price of uranium. Buy at your own risk, but I believe that risk is mostly an upset stomach — not any long-term risk of lost capital.

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Author
jaycodon