



Cameco Corp.: Time to Buy or Book Profits?

Description

Cameco Corp. ([TSX:CCO](#))([NYSE:CCJ](#)) has rallied 50% off the November low, and investors are wondering if this is the start of a larger recovery or a good opportunity to cash out.

Let's take a look at the current situation to see if Canada's top uranium producer should be in your portfolio.

Market woes

Uranium prices took a big hit in the wake of the Fukushima nuclear disaster in 2011, and the fallout from the tsunami continues to hurt the industry.

What's the story?

Before the disaster, uranium traded for US\$70 per pound and Cameco's stock was worth \$40 per share. The long slide took uranium spot prices to 13-year lows below US\$20 per pound late last year. Cameco slipped below \$10 per share.

Investors who had the courage to buy at that point are looking at some nice gains, as the market has since picked up a bit of a tailwind on the Trump win and news of output cuts.

Further upside, however, might not be in the cards in the near term.

Tough times continue

Cameco has already announced significant production cuts and plant shutdowns, and more could be on the way.

In a February 28 statement, CEO Tim Gitzel said the recent cancellation of a supply contract by Tokyo Electric Power Company Holdings Inc. (TEPCO) could force Cameco to consider "changes to its inventory position, production profile, and purchasing activity."

Cameco plans to fight the TEPCO decision in court, but it's going to feel some pain in the interim, as

9.3 million pounds of uranium will no longer be delivered to TEPCO on the contract that is supposed to run through 2028.

Cameco says this represents a revenue hit of about \$1.3 billion.

CRA issues

Cameco is also caught up in a nasty tax battle with the Canada Revenue Agency (CRA) over taxes owed on revenue earned through a foreign subsidiary. If Cameco loses the case, it could be on the hook for more than \$2 billion in taxes and penalties.

The case is currently before the court, and a decision isn't expected until late this year or sometime in 2018.

Should you buy, hold, or sell?

Fans of the stock say current uranium prices are unsustainable and the long-term demand outlook is positive for the industry. That might be true, but difficult times are expected to continue in the near term, and the CRA issue remains a big question mark.

As such, I would avoid Cameco today. If you'd bought at the lows, it might be wise to book some profits.

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