



## Cameco Corp.: Should Contrarian Investors Buy it Today?

### Description

A long slide in the stock price coupled with volatile moves in recent months has some contrarian investors wondering if **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) is a safe pick.

Let's take a look at Canada's top uranium producer to see if it deserves to be in your portfolio.

### Rough market

The Fukushima nuclear disaster in 2011 toppled uranium prices and sent the industry into a downturn that continues today.

How bad has it been?

In the days before the tsunami hit Japan, uranium fetched about \$70 per pound, and Cameco traded for close to \$40 per share.

By late 2016, uranium slipped below US\$20 per pound in the spot market, and bargain seekers had a chance to scoop up Cameco for less than \$10.

Production cuts and a Trump rally have provided a bit of a lift in recent months. Uranium bounced back above the US\$20 mark, and Cameco current trades at \$14.50 per share, but the dark days are far from over in the sector.

Cameco recently took a hit when Tokyo Electric Power Company Holdings Inc. (TEPCO) announced that it intends to walk away from a major supply contract.

Management says Cameco plans to fight the decision, but it could result in a loss of \$1.3 billion in revenue for cancelled shipments of 9.3 million pounds of uranium through 2028.

Cameco already has plans to reduce production at its facilities this year as it adjusts to the weak market. The TEPCO move is expected to force the company to take an even harder look at its operations, including the potential sale of its U.S. mines.

### **CRA battle**

Cameco is also caught up in a lengthy battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated through a foreign subsidiary.

If Cameco loses the case, which is currently before the court, it could be on the hook for additional taxes and penalties of more than \$2 billion.

That would be a material hit.

A decision in the case isn't expected until late 2017 at the earliest.

### **Should you buy?**

The long-term outlook for the uranium industry is quite good as countries around the globe push ahead with new plants. Annual uranium demand is expected to increase 50% by 2030.

Tough times over the past six years have resulted in a lack of investment in new production, so a shortage situation could arise in the coming years.

For the moment, however, the ongoing market challenges coupled with the CRA issue are major overhangs on the stock.

If you had the guts to get in at \$10, I would consider taking some profits and wait for another pullback to start a new contrarian position.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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