



Cameco Corp.: Will Patient Investors Be Rewarded?

Description

Cameco Corp. ([TSX:CCO](#))([NYSE:CCJ](#)) has been in a painful downtrend for nearly a decade.

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

Rough times

Aside from a short rally in late 2010, Cameco has pretty much been a disaster for investors since the start of the Great Recession.

At one point in early 2011, it looked like the market was getting back on track, but the Fukushima nuclear disaster in Japan quickly changed everything.

In the wake of the devastating tsunami, Japan shut down its entire fleet of nuclear reactors, sending uranium prices into a free fall.

How bad has it been?

Before the accident, uranium sold for about US\$70 per pound. Late last year, spot prices dipped below US\$20 per pound.

As for Cameco, its stock was worth about \$40 in early 2011. Last November, the price bottomed out just below \$10, and investors can currently pick it up for \$15.

The 50% rally in recent months has come on the back of supply reductions and some optimism that Trump will somehow save the nuclear energy market.

Upside?

Fans of the stock say the long-term outlook bodes well for Cameco and the uranium industry.

There is merit to that line of thinking, as investments in new projects have all but dried up, and annual uranium demand is expected to increase as much as 50% by 2030.

Optimists even suggest a supply squeeze could be on the way in the coming years.

Risks

That's certainly possible, but near-term risks warrant caution.

The uranium market remains under pressure, and Cameco continues to shut down production to balance supply with demand. The company is even considering a sale of its U.S. facilities.

In addition, Cameco is caught up in a nasty battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated through a foreign subsidiary. If Cameco loses the case, it could be on the hook for at least \$2 billion in taxes and penalties.

That wouldn't be good.

Should you buy?

Cameco is a low-cost producer and controls some of the richest uranium resources on the planet. Eventually, the market will recover, and the company should benefit when that happens.

In the meantime, however, there isn't much incentive to chase the recent bounce. I would at least wait for the CRA situation to be resolved before buying the stock.

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