Cameco Corp.: Is This Company Ready for Your Investment?

Description

If I spent time analyzing my stock picks, quite a few would be in the positive. However, one that would've remained a negative on my overall record is **Cameco Corp.** (TSX:CCO)(NYSE:CCJ), one of the world's lowest-cost producers of uranium.

That's not because the analysis on the company is wrong; it's just that the macroeconomic forces working against it are far stronger than anticipated.

Over the past five years, the long-term uranium price has gone from US$60 per pound to US$33, dropping nearly 50%. And if we go back to the beginning of 2008, the price per pound was nearly US$100. This put the company in a fantastic position to generate significant margins, allowing it to expand. Unfortunately, with uranium in a slump for as long as it has been, the company has been operating far leaner.

Then Tokyo Electric Power Company Holdings Inc. (TEPCO), one of Cameco's largest customers, announced it was cancelling a supply contract it had with Cameco. It argued that a *force majeure*, a business term for an "act of God" is making it cancel.

Essentially, the strict regulatory requirements put in place by Japan after the 2011 Fukushima earthquake has made doing business impossible. Cameco argues that TEPCO should have to pay anyway because regulatory problems are not acts of God.

To make matters even worse, Cameco has been dealing with a long standing court battle with the Canada Revenue Agency (CRA), which argues that Cameco used a convoluted corporate structure to get out of paying income tax. Should Cameco lose, it could be forced to pay upwards of $2 billion to the CRA.

Here's the thing: Cameco already has both of these problems factored into the price of its stock. Investors recognize that uranium prices are weak and have battered shares because of that. Further, investors are expecting the worst in this court case. Therefore, if the price of uranium starts to increase, and the courts rule in Cameco's favour, the price of shares could increase.

A final decision is due later this year.

While I can't predict what the courts will decide, I can offer my analysis on the macroeconomic factors Cameco is dealing with.

China and India are both investing heavily in nuclear power. Presently, 2% of China's power comes from nuclear power, making it one of the six largest nuclear energy countries. By 2030, it wants 30% of its power to come from nuclear power. That's a lot of growth.

And in India, nuclear power growth is expected to grow from 6,000 MW to 45,000 MW by 2035. And since Cameco already has an agreement with the country as a preferred supplier, it could mean lucrative contracts.

Another big factor is Kazakhstan, which is the single largest country that produces uranium. It announced that it would reduce its 2017 production by 10%, which is a 3% drop in worldwide uranium production.

And finally, Cameco has been considering the sale of its U.S. mines to focus on the most cost-efficient mines; however, without knowing where President Trump stands on uranium, Cameco has been waiting on selling them. If there is a border tax put in place between Canada and the United States, Cameco will still have domestic sources to sell to the United States.

So, should you buy Cameco? When I first started writing for Fool, I was bullish on Cameco, and I remain bullish.

Cameco pays a quarterly $0.10 dividend, which is small, but it's still something for investors.

Five years ago, when long-term uranium prices were around US$60 a pound, Cameco traded at over $21. That's a 44% improvement to where the price is today. That's certainly possible if uranium increases and the CRA problems are resolved.

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