Cameco Corp.: Is an Extended Rally About to Begin?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is up 50% in the past six months, and investors are wondering if this is the beginning of a longer-term recovery.

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

Uranium market

Uranium prices have been in a severe slump for six years, and Cameco’s stock has been under pressure for a decade.

Most of the industry’s pain since 2011 is connected to the Fukushima nuclear disaster that occurred in Japan after the tsunami.

The country shut down its entire fleet of nuclear reactors in the wake of the accident, and progress remains slow on getting them back online. In fact, only three of the country’s 42 operable reactors were back in operation as of January this year.

Cameco and its peers are hoping 2017 will bring better results. Japan’s Nuclear Regulatory Authority (NRA) accepted restart applications for 26 plants in March.

In addition, a court recently lifted an injunction on two other reactors that were restarted last year.

So, it looks like things are slowly improving in Japan.

Around the world, more than 60 new reactors are under construction, and several more are planned as countries such as China and India work to ensure they have the power generation needed to keep up with development.

As a result, annual uranium demand is expected to rise by 50% through 2030.

This all sounds positive, and it is, but tough times are still on the horizon in the near term.

Uranium prices remain near multi-year lows, and secondary supplies continue to outweigh production cuts.

Risks

Tokyo Electric Power Company (TEPCO) told Cameco earlier this year that it's terminating a long-term supply contract for uranium. Cameco plans to fight the notice, and says the decision impacts 9.3 million pounds of uranium deliveries valued at close to $1.3 billion.

Cameco is evaluating the sale of its U.S. facilities and has planned shutdowns at its Canadian sites as it adjusts to ongoing challenges.

In addition to the market woes, Cameco is embroiled 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 more than $2 billion in taxes and penalties.

Should you buy?

The long-term outlook for the sector is positive, but headwinds remain, and I think there is little incentive to buy at the current level.

At the very least, I would wait for clarity on the CRA issue before adding Cameco to your portfolio.

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