Cameco Corp Earnings Preview: 3 Key Questions Investors Should Seek Answers to

Description

This year has been nothing short of a roller coaster ride for investors in **Cameco Corp** (TSX:CCO)(NYSE:CCJ). After starting on a solid note, the uranium stock has plunged almost 11% in just the past three months. Uranium prices remain subdued, and the recent bankruptcy of Toshiba Corp.'s nuclear subsidiary Westinghouse has sent uranium investors scurrying for cover.

This uncertainty in the uranium markets is what makes Cameco's upcoming first-quarter earnings release on April 28 so important. Here are three key things investors should watch for.

Can Cameco realize higher prices?

Consensus analysts' estimates peg Cameco's Q1 revenue to come in roughly 5% lower year over year but earnings per share to be flattish. That's encouraging given how low uranium prices are right now.

Investors should know that roughly 40% of Cameco's portfolio comprises fixed-price contracts. The remaining is based on spot prices. It is this long-term contracting strategy that has come to Cameco's rescue during the downturn. Infact, even mining giant **Rio Tinto**'s (NYSE:RIO) Namibia-based subsidiary Rossing Uranium just reported big profits for FY 2016 versus losses in 2015 thanks to previous contracts and higher production.

It's also encouraging that uranium prices have come off their December lows and are hovering in mid-20s in U.S. dollar, or low-30s in CAD terms.

What matters is Cameco's realized selling price. It last projected full-year prices to average $49 per pound thanks to commitments under prior contracts. If uranium prices continue to recover, Cameco could end up with stronger profits.

Can Cameco boost margins?

Because uranium prices aren't in Cameco's hands, it's crucial that the company can keep a lid over costs to maintain margins. Last year, suspension of operations at some of its mines like Rabbit Lake added to Cameco's costs.

The uranium markets are still in a delicate state, though prices appear to be stabilizing. The industry is hoping for a better supply and demand balance ever since major uranium producing country Kazakhstan announced its intentions to cut production by almost 10% earlier this year.

In Cameco's upcoming earnings report, investors should watch for any production curtailment plans. Last time, Cameco projected full-year cost of sales to average $36-$38 per pound, which means a gross profit of only about $12 per pound at the midpoint cost. That translates into substantially lower gross profits versus 2016 based on Cameco's estimated sales volumes.

So either volumes have to pick up or costs have to come down to boost Cameco's profits. If either moves in reverse gear during the first quarter, investors should be cautious.

Can Cameco maintain dividends?

This, of course, remains the key concern for investors right now. While Cameco didn't cut its dividends even after the Fukushima disaster, uranium prices haven't been as low before as now. The uranium maker's dividends are already overshooting its free cash flows, so lower profits this year could force the company to cut its dividends. So keep an eye on Cameco's cash flow trends in its upcoming earnings report.

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