Cameco Corp.: When Should You Buy?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is stuck in a multi-year slump, and investors are wondering when the stock will stage a significant recovery.

Let’s take a look at the current situation to see if this is the right time to add Cameco to your portfolio.

Q1 update

Cameco reported Q1 2017 revenue of $393 million compared to $408 million in the same period last year. This resulted in an adjusted net loss of $29 million, or $0.07 per share, compared to an adjusted net loss of $7 million, or $0.02 per share in Q1 2016.

During the quarter the company received notice from a large customer, TEPCO, that it was terminating its contract to purchase uranium from Cameco. The result is a potential loss of 9.3 million pounds of uranium deliveries through 2028 worth about $1.3 billion.

Cameco is challenging the move and hopes to have it overturned by the courts.

In addition, the decision by the U.S. division of Westinghouse Electric to file for bankruptcy protection puts several nuclear reactor projects in limbo.

On the positive side, Japan’s Osaka High Court overturned lower court decisions to shut down two of the country’s reactors. As a result, the Takahama 3 and 4 reactors are expected to be back online by the end of 2017.

Japan shut down its entire fleet of nuclear reactors after the Fukushima disaster in 2011, and efforts to get them back in service have been slowed by legal challenges and operational delays.

Uranium prices improved in Q1 2017 compared to the previous quarter. The average spot price rose from US$20.25 to US$23.88 per pound, and the average long-term price rose from US$30 to US$33 per pound.

Before the tsunami hit Japan, uranium spot prices were about US$70 per pound.

Outlook

Cameco remains cautious on its outlook for 2017 and is considering options, including the sale of its U.S. assets, as it works to lower costs and adjust production to meet demand.

The company says long-term demand should be strong as 57 new reactors are currently under construction and more are planned in the coming years.

This should provide utilities with the needed incentive to shift purchases from the spot market back to long-term contracts. At the moment, ample secondary supplies in the market are offsetting primary supply cuts, and energy companies are simply filing supply gaps with spot market purchases.

There is a risk that the market could shift to a shortage position in the coming years. If concerns start to hit the market over future supplies, uranium prices could surge.

CRA issue

Cameco is in a battle with the Canada Revenue Agency (CRA) over taxes owed on earnings derived from a foreign subsidiary. If Cameco loses the case, it could be on the hook for more than $2 billion in total taxes and penalties.

The trial related to the first round of reassessments began last year, and final arguments are scheduled for September 2017. Cameco expects to get a decision from the court some time in 2018 or 2019.

Should you buy?

The long-term outlook for the uranium industry is positive, and Cameco’s cost-cutting efforts mean the company should benefit when better times arrive.

At this point, however, there is little reason to run out and buy the stock.

I would at least wait for the first decision on the CRA case before adding Cameco to your portfolio.

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