Is Cameco Corp. Still a Long-Term Opportunity?

Description

There are few companies on the market that are weighed down as much as **Cameco Corp.** (TSX:CCO)(NYSE:CCJ). Cameco is one of the better options on the market and should be a core holding in nearly every portfolio. As the largest uranium miner in the world, Cameco has an advantage over other miners, but several factors continue to weigh it down as an investment opportunity.

Here's a look at some of those factors.

Prolonged market weakness

Weak uranium prices have plagued Cameco and other uranium miners for over six years. In the aftermath of the 2011 Japanese earthquake and tsunami, the damage to the Fukushima reactor had an immediate effect on uranium demand, driving the price down from nearly US$70 per pound to US$20 per pound.

With lowered demand, Cameco was left with a glut of inventory that has proven difficult to clear. The company has lowered production and cut costs over the past few years to offset some of the slowdown, but a full recovery will not be possible until uranium prices start to improve. Cameco's stock price has plunged as a result of this, falling from nearly $40 per share to the current level of just about $13.

Cameco has countered this by shuttering high-cost facilities and implementing cost-cutting procedures. Cameco has even considered selling some assets to help improve the overall health of the company, which has continued to miss on earnings estimates for four of the past five quarters.

Another recent factor weighing down the uranium industry is the Chapter 11 filing of the Westinghouse Electric Company. Westinghouse is owned by **Toshiba Corp.**, and the parent company has already stated that over US$6 billion has been lost from the nuclear power division this year, and that figure could hit as high as US$10 billion.

Cameco's CRA dispute

If prolonged market weakness and earnings misses were not enough, Cameco also has a long-standing dispute with the CRA over earnings from a foreign subsidiary. The matter is still before the courts, and a decision is likely to come within the next year.

Fortunately for Cameco, the longstanding dispute is well known among investors, and pundits often note that the CRA dispute is already priced in to the current stock price. If the court's decision is not in Cameco's favour, Cameco could be liable for upwards of $2 billion in taxes and penalties to the CRA.

Is there an upside to investing in Cameco?

There is a reason to believe that conditions in the uranium market are finally beginning to improve. Uranium prices edged slightly higher this year, breaking the US$23 per pound level, and long-term prices have edged past US$33 per pound.

Demand for nuclear power is also beginning to improve. India and China in particular have aggressive infrastructure projects in play that are reliant on new nuclear reactors being built to absorb their growing energy needs.

In Japan, tighter regulations following the 2011 disaster led to significant delays and the possibility at one point of permanent reactor closures across the country.

Fortunately, sentiments around nuclear power are beginning to change. A recent decision by an Osaka court ruled out some of those closures, and, as a result, a handful of reactors are set to restart within the next few weeks, which could spark additional restarts across the country.

Globally, there are 60 reactors under construction and nearly twice that number in various stages of planning and approval. As those reactors come online, they will require the uranium that Cameco mines, which should finally lead to the reduction of the current supply glut and push uranium prices further up.

Despite all of the issues holding Cameco back at the moment, the long-term prospects for the uranium market remain positive. Investors that want to either add to their holdings or buy Cameco for the first time can take advantage of the still low price of the stock provided that short-term fluctuations do not sway those investors.

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