



Cameco Corp.: Will This Company Ever Rebound?

Description

There are so many reasons to like **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)). It is a low-cost uranium producer, and that shares are incredibly low, providing an opportunity to acquire a relatively inexpensive company that is highly efficient. And yet, for years now, this company has remained low, presenting investors with a very frustrating situation.

And the first quarter doesn't seem to have changed much for Cameco.

Tokyo Electric Power Company Holdings Inc. (TEPCO), one of the company's largest customers, announced it was cancelling a supply contract it had with Cameco. It's reason? A *force majeure*, which is fancy business talk for an "act of God." TEPCO is arguing that the Fukushima earthquake has made it impossible to do business due to strict regulatory requirements. Cameco argues that regulation is not an act of God, so it's suing TEPCO. The contract is for 9.3 million pounds of uranium between now and 2028 and is worth \$1.3 billion.

When Cameco reported Q1 2017 results, investors were let down. Revenue was \$393 million, down from \$408 million in Q1 2016. To make matters worse, its adjusted net loss was \$29 million compared to an adjusted net loss of \$7 million in Q1 2016.

There remain other problems for Cameco. The major issue is with the Canada Revenue Agency (CRA). According to the CRA, Cameco used a nebulous corporate structure to limit its income tax. The CRA is arguing that Cameco actually owes upwards of \$2 billion in taxes. The final arguments are due sometime in September, and the courts will make a decision sometime in 2018 or even 2019.

Here's the problem ... this decision is weighing the company down quite significantly. Investors are expecting the worst-case scenario, so that is keeping the price of the stock depressed. If the courts rule in Cameco's favour, this could have a significant impact on the company. However, with a decision not due until 2018 at the earliest, Cameco is likely to remain weak.

However, the outlook for uranium is appealing. There are 57 new reactors currently under construction. Takahama 3 and 4 reactors should come online after Japan's Osaka High Court overruled a lower court decision to shut the reactors down. And supply continues to slowly dry up. Secondary supplies

are being used up, and some of the largest miners in the world are cutting back on production.

A lot depends on China and India, though, because these two countries are investing heavily in nuclear power. China, for example, gets only 2% of its power from nuclear power, but wants to grow that to 30% by 2030. With 2% generation, it's one of the six largest nuclear energy countries in the world. And India, which has an agreement with Cameco to buy uranium, is looking to boost nuclear power growth from 6,000 MW to 45,000 MW by 2035.

Ultimately, Cameco still has another couple of years before its turnaround is complete. Once the CRA decision is behind it and Japan has turned on more reactors, and once some of the 57 new reactors come online, I expect energy companies to start moving for long-term contracts. That should finally get Cameco to turn around.

It will take patience, but this company has what it takes to grow.

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