



## Don't Try to Catch This Falling Knife

### Description

The world's second-largest uranium producer **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) continues to suffer, posting a first-quarter 2017 net loss which dragged its stock lower; it's almost 13% down for the year to date. This has attracted the usual bargain hunters who believe that Cameco is now an appealing, undervalued investment but this couldn't be further from the truth.

### Now what?

Cameco's woes can be directly attributed to the prolonged slump in uranium which has lasted for longer than a decade; prices fell to a 13-year low late last year. The embattled uranium miner posted a first-quarter adjusted net loss of \$29 million, which was 3.5 times greater than the net loss reported for the same quarter in 2016 and that predicted by analysts.

A key reason for the massive net loss was the decision by Tokyo Electric Power Company, the operator of Japan's disabled Fukushima nuclear plant, to terminate its contract with Cameco for the supply of 9.3 million pounds of uranium through to 2028. The contract was worth \$1.3 billion in revenue.

Nonetheless, Cameco has pitched its hopes on a surge in demand for uranium as the 57 reactors currently under construction across the globe come online. While there won't be an immediate ramp-up in demand, according to industry consultants, it will lead to cumulative uncovered requirements for uranium to total around 800 million pounds of the fissile material over the next nine years.

This may be a positive for company that has been battling significant headwinds for some time, but it does not necessarily guarantee a return to profitability.

You see, nuclear power has been falling into disfavour for some time, and this only gained momentum in the wake of the Fukushima disaster in 2011. While nuclear plants do not emit pollutants, there are the serious issues associated with the leakage of radiation and the disposal of fissile waste.

Radiation can have a catastrophic impact on the environment, animals, and humans. High-level nuclear waste such as a spent fuel assembly, according to the United States Nuclear Regulatory Commission, produces 20 times the fatal dose of radiation for humans for 10 years after being

removed from a reactor.

This makes the correct handling and storage of this waste essential, costly, and highly onerous.

The Fukushima disaster highlighted just how vulnerable nuclear plants can be to environmental catastrophes, although, fortunately, there was no leakage of fissile material or polluted water in that case.

However, these aren't the only reasons for the growing unpopularity of nuclear power.

The cost of safer forms of renewable energy continues to fall.

According to some analysts, wind power is now cheaper than nuclear power, while solar and geothermal electricity generation can have lower costs. These forms of power generation don't produce highly toxic waste or the potential to create catastrophic environmental damage in the event of failure.

For these reasons, it is difficult to see a huge upswing in demand for uranium over coming years, especially with renewables technology advancing at a rapid rate. This means that Cameco may find itself in the position where it is producing a product that is suffering from a terminal decline in demand. Worse yet, uranium prices remain under pressure because of high global inventories and a growing supply which is expected to expand by over 40% to reach 80,383 tonnes by 2020.

### **So what?**

The loss of the Tokyo Electric Power Company contract is a major blow for Cameco, costing it around \$1.3 billion in revenue in what is already a difficult operating environment. When considered with the growing unpopularity of nuclear power, the inexorable advance of renewable energy, and growing uranium supplies, it is difficult to see any significant bounce in the price of uranium occurring.

This makes difficult to see Cameco ever returning the halcyon days when uranium traded at US\$67 per pound, meaning that it is highly unlikely that its financial performance will improve drastically, making it an unappealing investment.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

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