



## Contrarian Investors: Cameco Corp. vs. TransAlta Corporation

### Description

Contrarian investors are always searching for unloved stocks that could be on the cusp of a recovery.

Let's take a look at **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) and **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) to see if one is attractive right now.

#### Cameco

Cameco traded for \$60 per share 10 years ago. Today, investors can pick it up for about \$12.

The initial meltdown came during the Financial Crisis, but the nuclear disaster in Japan in 2011 extended the slump.

What happened?

After the tsunami hit Japan, the country shut down its entire fleet of nuclear reactors, sending uranium prices into a free fall.

How bad has it been?

Before the disaster, uranium traded for US\$70 per pound. Today, spot prices are less than US\$25.

Legal challenges and operational difficulties have hindered efforts to restart the plants, and less than five of Japan's 43 operable facilities are back online.

A company-specific issue is also responsible for some of the stock's woes.

Cameco is caught up in a nasty battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated through a foreign subsidiary. If Cameco loses the battle, it could be on the hook for more than \$2 billion in additional taxes and penalties.

The long-term outlook for the uranium sector is positive, but there is little incentive to rush out and buy Cameco today.

## **TransAlta**

TransAlta was hit by a perfect storm of high debt, low power prices, and opposition to coal-fired power production.

As a result, management had to slash the dividend to preserve cash flow, and the stock fell from \$20 in early 2012 to a low of \$4 in early 2016.

The stock is back up to \$7.75 per share, and more gains could be on the way.

Why?

Alberta signed deals with TransAlta and its peers last year to help them cover the costs of transitioning from coal to natural gas.

As a result, TransAlta will receive \$37 million per year through 2030 to make the switch.

In addition, Alberta is changing its power market to pay producers for capacity as well as the electricity they produce. This should provide the necessary incentives to boost investments in renewable energy facilities to replace the coal plants that will be shut down.

TransAlta has committed to remain a major player in the Alberta market.

Debt has come down in the past few years, and the company is generating adequate cash flow to cover the current dividend.

## **Value play?**

TransAlta owns 64% of **TransAlta Renewables Inc.** ([TSX:RNW](#)). That's worth about \$2.3 billion at the time of writing.

TransAlta's market capitalization is currently just \$2.22 billion, so investors who buy today are essentially getting TransAlta for free.

## **Is one a better bet?**

I would go with TransAlta as a contrarian bet. Power prices are expected to remain weak for some time, but uncertainty over the company's future in Alberta has been cleared up, and management is doing a good job of reducing debt.

## **CATEGORY**

1. Energy Stocks
2. Investing
3. Metals and Mining Stocks

## **TICKERS GLOBAL**

1. NYSE:CCJ (Cameco Corporation)
2. NYSE:TAC (TransAlta Corporation)
3. TSX:CCO (Cameco Corporation)
4. TSX:RNW (TransAlta Renewables)
5. TSX:TA (TransAlta Corporation)

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