



When Will Cameco Corp. Be a Good Investment?

Description

No one is the perfect investor. Even the great investors of our time have made bad picks. One of the primary reasons for that is timing. Being a good market timer is incredibly difficult and, in my eyes, is likely impossible to excel at repeatedly.

Cameco Corp. ([TSX:CCO](#))([NYSE:CCJ](#)) is the perfect example of a stock that has so many good things ahead of it, and yet my timing was off. I joined Fool in September 2014 and wrote that Cameco was a great “long-term” stock. The thesis made sense, but the timing was all wrong. Since I first wrote about Cameco, the stock is down by 45%.

Quite a few things have hurt the company.

First is the lingering Canada Revenue Agency (CRA) court battle. The CRA is arguing that Cameco used a corporate structure that illegally allowed it to avoid paying income tax. In total, the CRA is looking to win \$2 billion in taxes. Cameco thinks this case is without merit, so final arguments are due in September with a final decision due in 2018 or 2019.

Although I don't see the stock dropping too much if the CRA wins, that \$2 billion is holding Cameco down. If the courts decide in Cameco's favour, it'll be a big win for the company, and the stock will rise. But unfortunately, we need a decision before Cameco can appreciate.

Another thing hurting Cameco is Japan. After the Fukushima disaster, Japan shut down all of its reactors. While the country is slowly turning them back on, it was anticipated that this would happen faster. These reactors remaining off has put pressure on demand, allowing uranium prices to drop.

On the topic of dropping uranium prices, there has been a problem with oversupply. First, other parts of the world have been mining massive amounts of uranium. And although Kazakhstan, the biggest supplier of uranium, is cutting back, there's still a lot of supply coming from secondary sources. For example, as nuclear weapons are decommissioned, that uranium can be used by nuclear power plants. Until that secondary supply dries up, prices will remain depressed.

As you can see, there are quite a few variables holding Cameco down, and we don't have a good

sense of the timing of these problems going away.

But when these problems do start to correct, the trends point to Cameco experiencing significant growth. There are 57 reactors currently in various stages of construction, and the expectation is that uranium demand will increase by 50% by 2030.

China and India are going to be the two most important countries for uranium demand. China currently generates 32.4 GW of electricity from 37 plants. It has another 20 plants under construction that'll provide 20.5 GW. And by 2020, China wants to have even more reactors that will provide a total of 58 GW of power. Currently, the country generates 2% of its power from nuclear; by 2020, it wants that to be 6%. And by 2030, it'll have up to 150 GW of power.

In India, the expectation is that it'll have 14.6 GW online by 2024 and 63 GW by 2032. By 2050, a quarter of its power will come from nuclear power. What makes India so special is that it has a partnership with Cameco. Being a preferred supplier to a country can be a massive positive once demand picks up.

So, when is a good time to buy Cameco? I'd argue that it's when the CRA case is over and/or when some of the 57 reactors start coming online and new supply is needed. When that happens, Cameco will benefit immensely.

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