Why You Should Consider Cameco Corp. for the Long Term

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) has seen its stock struggle so far this year, dropping over 11% year to date (YTD). Cameco is one of the largest producers of uranium in the world and is largely influenced by its price. Unfortunately, the price of uranium has been hovering around the $20/lb mark compared to 10 years ago when it was easily trading over $100/lb. Where that price goes from here will largely affect Cameco's sales and profitability.

There are supply conditions that suggest the price of uranium might begin to move upward. Nuclear power generation is the primary use of mined uranium, and Japan has been restarting its reactors at a slower pace than expected since its accident in 2011. Once more nuclear reactors come online, that will push demand for uranium. In addition, there are over 60 reactors currently being built worldwide with approximately another 150 in the planning phases.

As there is more of a push to reduce C02 emissions, nuclear energy (which is free of those emissions), might fall into favour and lead to more demand as well. On the supply side, Kazatomprom, which produces all of Kazakhstan's uranium, announced early this year it is cutting 10% of its production. This is significant because Kazakhstan supplies approximately 40% of the world's uranium. The combined supply and demand factors present could push prices of uranium up; the question is, How long will it take for that to happen?

Some analysts believe that uranium prices won't get back above $30/lb for at least a few years; it could be five years until prices hit $50/lb again. With prices currently trading close to $20/lb, there certainly isn't much more room for prices to go lower.

Another problem for Cameco is its dispute with Tokyo Electric Power Company Holdings Inc. (TEPCO) over the cancellation of a contract which TEPCO says is due to the Fukushima accident in 2011. The revenue in jeopardy is $1.3 billion, and Cameco is contesting the legality of the cancellation as it has rejected TEPCO's claims. The outcome of this will have a dramatic effect on the company's stock price in one way or another.

Cameco's revenues were down 11% the past fiscal year, and net earnings were down 195%. Any future growth the company has is going to be largely dependent on forces related to uranium prices, which are, unfortunately, out of the company's control. But because prices are expected to improve over time, Cameco presents a good opportunity for the long term. However, there is the danger the stock could still drop further before the situation improves.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) is in a similar situation in that it too is largely impacted by commodity prices — specifically, the price of oil. Enbridge's share price has dropped 15% since the fall in oil prices began, which seems tame compared to other stocks in the oil and gas industry.

However, Enbridge has managed to maintain profitability and remain somewhat steady in spite of struggling crude oil prices. The company also continues to pay a strong dividend of 4.76% compared to Cameco's 3.23%.

In the short term, Enbridge appears to be the better bet, but in the long term, Cameco has more upside.

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