Cameco Corp.: When Should You Buy?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) continue to struggle with low uranium prices, but some investors are wondering if they should start a contrarian position while the stock is under pressure.

Let's take a look at the current situation to see if Cameco should be in your portfolio.

Tough times

Cameco reported a Q2 2017 adjusted net loss of $44 million. The core business remains strong, but the loss of a major contract, a change in corporate tax rates in Saskatchewan, and lower average realized prices for uranium outweighed higher uranium delivery volumes.

Uranium average spot prices are down 13% year to date compared to 2016. If you go back a few years, the plunge is even worse.

Japan nuclear accident

Uranium traded for about US$70 per pound in early 2011. That was just before the tsunami hit the coast of Japan and caused the Fukushima nuclear disaster.

In the wake of the accident, Japan shut down its entire fleet of reactors and has struggled to get them back in service. In fact, fewer than five of the country's operable reactors are back in commercial operation.

Uranium went into a tailspin after Japan shut down its facilities and currently trades for close to US$20 per pound.

Brighter future?

Cameco has done a good job of reducing costs through the downturn, including a 15% reduction in average unit cost of sales in the uranium segment in the first half of 2017.

The difficult market conditions are expected to persist in the near term, but the big-picture outlook might offer investors some hope.

Japan is slowly bringing its fleet back online, and other countries are forging ahead with new developments. In fact, more than 50 new reactors are under construction, and one estimate suggests annual uranium demand could grow more than 50% by 2030.

At the moment, secondary supplies are offsetting production cuts, but there is a chance the market could find itself in a shortage position in the coming years.

Tax issues

Cameco just reported a settlement with the IRS in the United States regarding audits for 2009-2012. Cameco will pay US$122,000 to settle the case. The deal is much better than the US$122 million that was originally proposed.

In Canada, Cameco is still battling with the Canada Revenue Agency (CRA) over taxes owed on earnings from a foreign subsidiary. The deal is before the court and a decision is not expected for some time.

If Cameco loses the case, it could be on the hook for more than $2 billion in taxes and penalties.

Should you buy?

Cameco is an industry leader with low costs, and the company owns some of the richest uranium resources on the planet.

When the market recovers, this stock should do very well.

At this point, however, there is no reason to rush out and buy the shares. I would at least wait for some clarity on the CRA situation before adding Cameco to your portfolio.

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