Is Cameco Corporation Finally Moving Towards a Recovery?

Description

Among investors, it's rather well known that **Cameco Corporation** (TSX:CCO)(NYSE:CCJ), the beleaguered uranium producer, has ongoing tax disputes in both the U.S. and Canada.

One dispute with the IRS was finally resolved last month as Cameco agreed to pay a sum of $122,000 for the tax period between 2009 and 2012, far below the original $122 million that the IRS had initially claimed Cameco would need to pay.

Though, Cameco still has an ongoing dispute with CRA, which could result in a hefty bill of up to $2.4 billion in taxes.

The root of the issue with the CRA stems from Cameco's transfer pricing policy, using a marketing subsidiary in Switzerland. In short, Cameco was selling uranium to that subsidiary, who in turn re-sold it to additional buyers, resulting in significantly less tax being paid.

A decision on that case is expected later this year.

Why are uranium prices still low?

Uranium prices took a nose-dive back in 2011 following the Fukushima disaster and haven't recovered since that time. The restart process in Japan has been slow and, to-date, only a handful of reactors have been restarted. While demand for uranium is slowly returning, the problem Cameco now faces is that there is a significant oversupply in the market.

How is Cameco coping with weak pricing?

To counter that oversupply, Cameco has slashed production and even shuttered some facilities temporarily. As that glut is cleared, uranium prices are expected to rise, and those facilities can be re-opened. In 2016 Cameco cut production by 5%, and a similar if not larger cut can be expected this year.

In terms of existing customers, Cameco benefits from long-term contract pricing. This has allowed

Cameco to sell uranium to customers at a significantly higher level than the current depressed market price. While that buys Cameco some time for the uranium market to recover, it’s not a permanent solution.

Fortunately, there are over 50 reactors under construction around the world, and just as many reactors in the planning phase nearing construction. The growing markets of India and China are engaged in aggressive infrastructure development and are planning to use nuclear power to feed the growing power needs that come with that development.

Cameco’s second quarter loss

Cameco reported results for the second quarter recently, with the company taking a small loss for the quarter. Cameco reported a net loss attributable to equity holders of just $1.56 million, breaking even on a per-share basis. That loss pales in comparison to the $137.4 million, or $0.35 per share loss reported in the same quarter last year, but is the third consecutive loss for the company.

The loss was largely attributed to Cameco losing a contract with Tokyo Electric Power, the operator of the Fukushima reactor.

Looking forward to the rest of the year, Cameco plans to reduce spending in the McArthur River mine, with full year expenditures expected to drop by $15 million to $175 million.

Despite the loss, Cameco realized an increase in uranium sales of 32.6% in the quarter, as well as an overall revenue gain of 1%, coming in at $469.7 million.

In my opinion, Cameco remains a great investment opportunity over the longer-term, despite the current weak uranium market.

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