



Cameco Corp.: Does Nuclear Energy Have a Future?

Description

The United States has 20% of its electrical power coming from nuclear power. By 2050, it is projected that the figure will drop to 11% of all electrical power. Statistics like this might concern investors in companies such as **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) that are reliant on nuclear power to grow; if nuclear power grows, more uranium will be needed, and Cameco's profit will go up.

Does nuclear energy have a future, or should investors avoid the space and move on to other opportunities?

If we were just looking at the United States, I'd agree that the future doesn't look bright. However, when we look at the two largest countries in the world by population, nuclear energy has an immensely bright future.

India, the second-largest country, is working aggressively to boost its nuclear capabilities. By 2024, it wants to have 14.6 GW of capacity online; that'll grow to be 63 GW by 2032. But the real impact for India will be in 2050, when a quarter of all its power will come from nuclear sources — the same year that 11% will come from the United States.

We can already see India trying to get things done. The United States and India are focusing on getting six Westinghouse Electric AP1000 nuclear reactors launched in Andhra Pradesh, India. Further, in April 2015, Cameco and the Department of Atomic Energy of India signed a partnership whereby India would buy 7.1 million pounds of uranium through 2020. When those AP1000 reactors come online, I expect the order to expand.

And in China, the demand is even greater. China currently generates 32.4 GW of electricity from nuclear sources. By 2020, it wants to have 58 GW of capacity. By 2030, when India is bringing on 63 GW of capacity, China will be looking to generate up to 150 GW of power.

All of this creates demand.

In the near future, some analysts expect that supply will dry up. Prices have been depressed for so long that new mines haven't launched due to profitability concerns. Once that demand hits, it'll take

years for new mines to come online. The price for uranium will rise, and that will be a win for Cameco.

Unfortunately, Cameco is dealing with more than just the price of uranium.

The Canada Revenue Agency is suing Cameco, arguing that the uranium supplier owes \$2 billion in taxes. Cameco argues that this case is without merit, and that it used perfectly acceptable corporate structures to minimize its tax bill. The courts will make their decision in 2018 or 2019. If Cameco wins, this will be a major positive catalyst for Cameco. If Cameco loses, having to fork over \$2 billion will hurt. But the markets have beaten Cameco down so significantly that losing the case is likely priced into the stock.

Although I am a bigger fan of solar and wind energy, for many major industrial countries, nuclear power is a viable way of providing clean energy. I expect the next few years to be positive on the spot price of uranium. This should create good opportunities for Cameco to sign lucrative long-term contracts.

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