



Is Cameco Corp. an Attractive Contrarian Bet Today?

Description

Cameco Corp. ([TSX:CCO](#))([NYSE:CCJ](#)) remains under pressure amid weak prices in the uranium market.

Let's take look at the current situation to see if Cameco deserves to be a contrarian pick today.

Tough times

Cameco took a big hit during the Great Recession and was just starting to recover when the tsunami hit Japan and caused the Fukushima nuclear disaster.

A look at the stock chart pretty much tells the story.

Cameco rallied from \$16 per share in 2009 to above \$40 by early 2011. At that time, uranium traded for close to US\$70 per pound, and things looked pretty good for the industry.

In the wake of the Fukushima accident, Japan shut down its entire fleet of nuclear reactors, and uranium prices went into a tailspin.

Today, uranium spot prices are trending close to US\$20 per pound, and investors can pick up a share of Cameco for close to \$12.

Japan is trying to get its reactors back in service, but legal battles and operational challenges are slowing down the process. At the time of writing, five of Japan's 42 operable reactors are back in commercial operation.

New demand

Uranium bulls point to more than 50 new reactors being constructed around the world as a sign of better days to come for the market. As these reactors go into service, demand is certainly expected to grow. In fact, one report says annual uranium requirements could increase 50% by 2030.

Uranium producers have delayed or cancelled new developments due to the long downturn, so there is

a chance the market could see a supply squeeze at some point if demand jumps faster than new production can come online.

For the time being, secondary supplies continue to offset primary production cuts, and that situation isn't expected to change in the near term.

CRA dispute

Cameco is caught up in a battle with the CRA over taxes owed on earnings generated through a foreign subsidiary. The case involves a number of tax years, and the first segment is currently before the court.

A decision isn't expected until sometime next year at the earliest, so investors will have to wait a while to get the results.

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

Should you buy?

Cameco is a low-cost producer and owns some of the richest uranium resources on the planet. Eventually, the market will turn around, and when that happens, this stock should do very well.

At this point, however, there probably isn't a rush to hit the buy button.

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