Is Cameco Corp. Setting Up for a Big Rally?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is stuck in a multi-year downturn, and contrarian investors are wondering if the tough times are finally coming to an end.

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

Fukushima fallout

Cameco and its peers took a big hit during the Financial Crisis, but the situation in the market improved significantly leading into 2011.

Uranium traded at a profitable US$70 per pound, and Cameco's stock was close to $40 per share.

Then the tsunami hit Japan and everything changed.

The Fukushima nuclear disaster forced Japan to shut down its entire fleet of reactors, and countries around the world put development plans on hold as they took a step back to evaluate nuclear power programs.

Uranium prices went into a tailspin, falling below US$20 per pound. Cameco and its peers followed uranium down, and investors can now pick up Canada's top uranium company for about $12.50 per share.

Brighter days ahead?

Countries such as India and China are now pushing ahead with their nuclear plants in order to meet growing electricity demand, and additional facilities are on the drawing board.

In total, more than 50 new reactors are currently under construction around the world.

As for Japan, the country is trying to get the fleet back in service, but legal delays and operational challenges have hindered the process. A recent report says five of the country's 48 operable reactors are back in commercial service.

Uranium bulls point to the strong pipeline of new construction, as well as Japan's eventual restarts, as reasons to buy the miners.

It's true that the sector could see a shortage in the coming years as annual uranium demand is expected to rise as much as 50% by 2030.

In addition, mining companies have delayed or scrapped expansion projects that would be needed to meet the additional market requirements. If new production doesn't come online fast enough, there could be a uranium price spike on the way.

In the near term, however, secondary supplies are expected to keep a lid on uranium spot prices, which still trade near the multi-near lows around US$20 per pound.

CRA situation

Cameco is in a battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated through a foreign subsidiary. If Cameco loses the case, it could be hit with taxes and penalties of more than $2 billion.

A decision on the first phase of the case isn't expected until some time in 2018 at the earliest.

Should you buy?

Cameco is a low-cost producer with great resources, so the stock deserves to be on your radar if you think the uranium market is headed higher in the coming years.

At this point, though, there probably isn't a rush to buy. I would at least wait for the CRA situation to be settled before adding Cameco to your portfolio.

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aswalker