



Is Cameco Corp. a Good Contrarian Bet?

Description

Contrarian investors are searching for troubled stocks that could offer a shot at some impressive gains in the coming years.

Let's take a look at **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) to see if it is attractive today.

Tough times

Cameco was a \$40 stock back in early 2011, just before the tsunami hit Japan.

The Fukushima nuclear disaster forced the Japanese Government to shut down its entire fleet of nuclear reactors, and other countries around the world took a step back to evaluate their nuclear energy programs.

As a result, uranium spot prices went into a multi-year free fall, dropping from US\$70 per pound to below US\$20 last year, which is more or less where it trades today.

And Cameco's stock?

Investors can now pick up a share for about \$12.30.

Better days on the way?

Fans of the company say the uranium market is destined for a huge rally, supported by rising demand from new reactors being built around the world. More than 50 new facilities are currently under construction and many more are planned.

In addition, Japan is working hard to get its reactors back in service, although the country currently only has five of the operable 48 reactors in commercial operation.

On top of that, producers have scaled back expansion plans amid the downturn, and there is a possibility of a supply squeeze in the coming years.

Secondary supplies are currently filling demand gaps, but the surplus resources should eventually run out and utilities will have to re-sign long-term agreements with producers. When that process begins, uranium prices should move higher.

Risks

Critics of Cameco point to the company's ongoing 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 on the hook for more than \$2 billion in penalties and taxes.

Should you buy?

The long-term outlook for the stock is probably positive, given the fact that Cameco is a low-cost producer and owns some of the richest uranium reserves on the planet.

In the near term, however, the uranium market isn't expected to improve much, and Cameco's CRA case won't see an initial decision until some time next year at the earliest.

As such, I don't see a reason to hit the buy button anytime soon. In fact, it might be best to wait for the CRA case to be sorted out before considering Cameco for your contrarian portfolio.

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