Is Cameco Corp. a Buy After its Latest Dip?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) has seen its share price lose 17% of its value so far this year, and last week the stock took another dip below $11 a share after analysts at **Bank of Nova Scotia** downgraded the stock amid concerns of a weaker outlook for the price of uranium.

Uranium prices have been stable this year

The price of uranium is a little over $20 right now, and in the past year it has been at lows not seen in more than a decade. There are concerns of oversupply, and demand for uranium has been low since the Fukushima nuclear disaster took place in 2011. However, earlier this year, some analysts were expecting a return to $30 in a few years and $50 in five. The problem with predicting any commodity price is that expectations can change in a short period of time.

Unfortunately, much like struggling oil and gas stocks, the success of Cameco's stock price will be linked to a commodity price. It is for that very reason that Cameco has some risk, but it has a lot of potential upside as well. Given how much the price of uranium has dropped in just two years (44%), it is hard to imagine much more of a decline happening.

Potential for upside

Not only could Cameco see a rise in price if uranium prices increase, but also if the company has a favourable result from its dispute with Tokyo Electric Power Company Holdings Inc., which cancelled a contract. Cameco says the cancellation is without basis. Although the dispute is still ongoing, a lot of investors have likely assumed the $1.3 billion contract is gone, and a positive result could see the stock make a big jump in price.

Strong financials keep the company safe

If uranium prices continue to drop, then Cameco is still not hopeless. The company currently pays a dividend of 3.4%, and if times get tough, the payout could be reduced or even eliminated. However, a strong balance sheet gives Cameco some flexibility with what it decides to do. Its debt-to-equity ratio is a manageable 0.29, and its current ratio of 5.8 suggests there are no short-term liquidity risks.

Cameco has also grown its free cash flow in each of the past three years, and in the past four quarters, it has accumulated $605 million. By having lots of free cash and strong liquidity on its books, the company puts itself in a good position to handle difficult times ahead.

Should you buy Cameco today?

Despite the doom and gloom for uranium prices, Cameco does not strike me as a company with significant risk. Although uranium prices are low, there are many factors that could impact demand and that could change the outlook significantly. The stock currently trades at 90% of its book value and could be a great buy for value investors that are willing to take on some risk in return for a lot of potential upside. If the company keeps its dividend intact (and with strong free cash flow, it may very well do so), then you could earn a very decent yield, while you wait for demand to drive uranium prices back up.

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