Should You Be Buying Cameco Corp.?

Description

Investors of **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) would win the award for having the most patience, because it has been a tough few years for the company. And with a recent drop in price, new and current investors have to be asking whether it's time to be buying Cameco or it should it be avoided.

First, it helps to understand why Cameco dropped in price.

An analyst from Scotia Capital issued a report arguing downgrading Cameco from "sector perform" to "sector underperform." Originally, Scotia Capital believed the stock would hit $14.50 per share, but it now is arguing that it's only worth $10.

The analyst argued that uranium demand would remain far weaker over the next decade than originally planned. It's common for investors to react heavily to analyst ratings, so the stock gave up $1.50 per share in a matter of hours.

But is the analyst correct about demand being weak?

Perhaps in the United States, where there aren't many major nuclear projects in production. But if we look internationally, I see demand only getting greater over the next decade. Although there are many countries with projects underway, let's just look at India and China.

In 2015, the Department of Atomic Energy of India signed a partnership agreement with Cameco to purchase 7.1 million pounds of uranium through 2020. That makes Cameco a preferred supplier for India.

That's a key point because the United States is working with India to launch six Westinghouse Electric AP1000 nuclear reactors in Andhra Pradesh, India. When those start to come online, I expect India to buy even more uranium to power the reactors.

By 2024, India is projected to get 14.6 GW of capacity online; that'll grow to be 63 GW by 2032. By 2050, 25% of India's power will come from nuclear power.

And then in China, nuclear growth is even faster. By 2020, it will nearly double its nuclear capacity to 58 GW. And in 2030, China will be able to generate 150 GW of nuclear power.

That's just two countries, but they just so happen to be the most populated regions on the planet. So, if they're investing in nuclear power, it's because they know they're going to need it to provide power to their people.

Nevertheless, supply remains a problem. However, I believe this is a short-term problem. With uranium prices remaining depressed, new mines have not come online. When uranium prices do inevitably increase, it'll take years for new mines to launch, which could create a supply squeeze.

Here's the thing: despite uranium prices remaining depressed, Cameco has grown its free cash flow consistently. So long as that continues to happen, Cameco will be able to stomach these depressed prices.

And, just as importantly, it means that the company won't have to cut the dividend. Cameco has paid a $0.10 dividend since 2011, so even when uranium prices truly tanked, the company was able to hold off on a cut. With cash flow remaining strong, I just don't see a cut happening.

So, should you buy Cameco?

If you can stomach the long-term depressed state this stock has been in, I say yes. Just as importantly, if you have the patience to wait years for a revival, then I say yes. Otherwise, there are other opportunities available.

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