Cameco Corp. Stock: Is a Dividend Cut Coming?

Description

Investors in **Cameco Corp**. (TSX:CCO)(NYSE:CCJ) these days are dealing with a tough reality: a rebound in uranium prices is nowhere in sight.

After becoming the world's worst commodity last year, 2017 doesn't look much better for uranium. Trading around US$20 per pound, this fuel's 12-year slump seems to be extending and is proving many bullish forecasters wrong.

Reflecting this gloomy outlook, the share price of Cameco, the largest uranium operator in the world, has tumbled 25% during the past six months.

Trading at $11.53 at the time of writing, the stock fell ~9% on Oct. 3 when Scotia Capital downgraded Cameco to sector "underperform" from "perform" due to a materially weaker outlook for uranium, adding that it would be prudent for the company to reduce its dividend.

Scotia expected the uranium market to remain in structural surplus until early in the next decade and cut its price estimates by an average of 27% for 2018-2022.

The biggest threat which is depressing Cameco shares is the uncertainty of its future dividend payouts.

There is no doubt that Cameco is well positioned to benefit from a long-term recovery in the uranium demand. It has world-class assets and diversified sources of supply. These assets include its tier-one operations at McArthur River/Key Lake and Cigar Lake, the highest-grade uranium deposit in the world.

But despite this solid foundation, demand-supply dynamics suggest that it is very tough to predict the timing of that recovery.

Is Cameco's dividend under threat?

Paying a $0.10-a-share quarterly dividend, Cameco stock offers an annual dividend yield of 3.4%. If you look at the history of Cameco's payouts, it has been very impressive.

The company has never missed its dividends since its IPO in 1991, riding through the supply glut of the past decade which sent uranium prices from US$126/lb to US$20/lb. During this period, Cameco has been able to raise its quarterly dividend by ~70%.

Going forward, however, it'll be really tough for the company to maintain this kind of payout when there is no visibility in the uranium market. The company's payout ratio last year touched alarmingly high rate of over 200%.

Its dividend yield at 3.4% is still the highest when you compare it with the year-end yields of the past five years.

Trading near the 52-week low, I don't think this is the right time for investors to make a bet on Cameco's stock. It's better to wait on the sidelines until we have some indications of demand recovery.

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