



Why I'm Becoming More Cautious About Cameco Corp. and its Dividend Yield

Description

On Tuesday last week, shares of **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) fell 7% to their lowest level in nearly a year after **Bank of Nova Scotia's** investment banking division, Scotia Capital, downgraded shares in the company to "sector underperform" from "sector perform" and lowered their price target on the company from \$14.50 to \$10 on the TSX.

The revised price target is nearly 15% below where Cameco shares closed for the end of the week.

The news likely came as a bit of a shock to investors who will recall that back in June, just over three months ago, **Royal Bank of Canada** had rubber stamped the company with an "outperform" rating and \$16 price target.

Now, Scotia is forecasting that it expects the uranium market to remain in structural surplus until early into the next decade, which has caused the firm to cut its outlook for uranium prices by an average of 27% over the next four years.

The latest news out of Scotia echoes sentiments previously shared by **Credit Suisse**, which, back in July, suggested that its own outlook for oncoming nuclear plants had caused the firm to take a more pessimistic view than that held by the market, resulting in lower forecasts for uranium prices, south of the \$40 mark, versus previous expectations for prices above \$60.

Such are the dangers of investing in companies tied to commodity prices, which are mostly subject to factors out of their control.

Shares in Cameco currently trade for less than book value, which, on the surface, suggests they offer solid value for long-term investors, but the reality is that much of the firm's value is predicated on the ramp up of oncoming nuclear plants from emerging markets, cited in the Credit Suisse report, and a long-forecasted supply deficit.

Yet for the time being, in the absence of higher uranium prices, there is now a serious threat that the board of directors may be forced to cut or even suspend the company's dividend.

In 2016, Cameco had an earnings deficit of -\$0.16 per share but paid out \$0.40 in dividends.

While the company has managed so far to stave off a dividend cut since the Japanese Fukushima disaster in 2011, it hasn't been able to increase the payout over that period either.

For years, Cameco has been aided by the fact that uranium contracts are based off long-term prices, which have remained above prices in the spot market, but if the recent report from Scotia proves accurate, even the long-term contract price may not be enough to keep the company profitable, or at least profitable enough to maintain the \$0.40 payout while conserving the value of its balance sheet.

Conclusion

Cameco shares today pay a dividend of 3.33%, which is the highest the company's yield has been since a brief period during 2016 when shares traded below \$10.

However, given the recent news and negative sentiment around the stock, Foolish investors may be better off looking elsewhere.

For example **Agrium Inc.** (TSX:AGU)(NYSE:AGU) is another resource name offering a similar yield at 3.31%, but it offers a superior payout ratio at 81% and is expected to merge with **Potash Corporation of Saskatchewan Inc.** (TSX:POT)(NYSE:POT) in the second half of the year.

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