Is Cameco Corp.'s Dividend Safe After Spooky Earnings?

Description

Investors in **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) stock absorbed another spooky earning report from this largest uranium operator in the world.

While releasing its third-quarter earnings on Oct. 27, the company said its revenues plunged 27% to $486 million from a year ago. That slide in sales pushed the company into a huge loss of $124 million from a $142 million profit a year ago.

The biggest disappointment for investors is that there was no good news as far as the recovery of uranium demand is concerned.

Cameco had previously forecast 25.2 million pounds output for 2017. In the current report, the company slashed this number by 5% to 24 million pounds, signaling that there could be further adjustments in the future "if current market conditions continue."

Reacting to these negative developments, Cameco stock tumbled about 10%, trading at $10.31 at the time of writing — a level very close to the 52-week low. The company's shares have lost more than quarter of their value this year.

What's next?

In Cameco's press release, it did not paint a rosy picture for its business outlook.

"We can't control the timing of a market recovery, so we continue to focus on our tier-one strategy; on being as streamlined and efficient as possible," the company said in a statement.

Trading around US$20 per pound, uranium's 12-year slump seems to be extending and is proving many bullish forecasters wrong. Scotia Capital downgraded Cameco to sector "underperform" from "perform," predicting 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.

In this weak operating environment, Cameco is struggling to preserve cash and cut its costs wherever it is possible. Due to these cost-cutting efforts, Cameco was able to generate solid cash flows this year, which were expected to exceed the $312 million.

Is Cameco's dividend safe?

Despite a dismal earning performance, Cameco didn't cut its $0.10-a-share quarterly dividend. However, a prolonged weakness in uranium demand raises doubts in the minds of long-term investors about the continuity of these payouts.

Cameco stock offers an annual dividend yield of 3.89% at the of writing. If you look at the history of Cameco's payouts, it has been very impressive. The company hasn't missed a dividend payment since its IPO in 1991.

There is no doubt that the company has been successful in generating positive cash flows, which, to some extent, secures the future dividend payment. But I would not touch this stock for dividend income when there is no meaningful sign of a rebound in uranium prices and as the commodity remains in a long-term cyclical downturn.

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