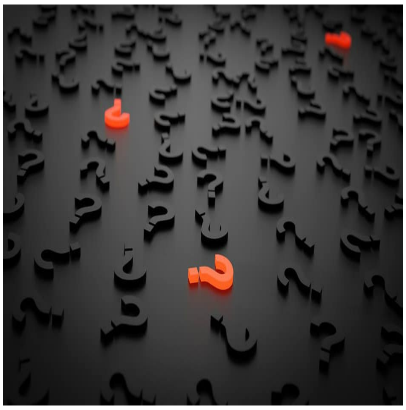

Cameco Corp.: Is the Stock Oversold?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is down 25% in 2017, and investors are wondering if the sell-off is overdone.

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Let's take a look at the current situation to see if Cameco deserves to be a contrarian pick today.

Earnings

Cameco reported a Q3 2017 net loss of $124 million and an adjusted net loss of $50 million.

Weak uranium prices and higher unit costs of production combined to put the company in the red for the quarter. In addition, Cameco's revenue fell due to the disputed cancellation of a large contract.

Cameco is hoping to get a positive arbitration decision that would force the customer, TEPCO, to honour its agreement. The case will be heard in the first quarter of 2019.

Uranium market

The market went into a tailspin following the Fukushima disaster in Japan in early 2011 and hasn't recovered.

Uranium prices remain under pressure, trading near multi-year lows of close to US$20 per pound. Secondary supplies continue to fill demand gaps and are offsetting production cuts by global miners.

Japan shut down its entire fleet of nuclear reactors in the wake of the accident, and while the country is working hard to get the facilities back online, only five of the operable 48 sites are currently in commercial operation.

Rising electricity demand is pushing other countries, including India and China, to ramp up theirnuclear energy programs. More than 50 new reactors are currently under construction, which shouldbode well for uranium demand over the net decade or two, but the near-term outlook remains negativefor the industry.

CRA battle

Cameco is caught up in a nasty battle with the Canada Revenue Agency (CRA) regarding taxes owed on income generated through a foreign subsidiary.

Final arguments for the first batch of disputed years wrapped up in September, and Cameco says a decision from the judge is expected in six to 18 months.

If Cameco loses the case, it could be on the hook for more than $2 billion in taxes and penalties.

Dividend

Cameco isn't often mentioned as a dividend play, but the company continues to pay a quarterly distribution of $0.10 per share. That's good for a yield of 3.8% at the current stock price.

Investors might be inclined to buy now and get paid to wait for better days, but a negative decision from the CRA could put the dividend at risk.

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Should you buy?

Cameco is a low-cost producer and owns some of the richest uranium resources on the planet. When the market finally recovers, this stock could soar.

However, there is little reason to bet on a near-term recovery, and the CRA case is a major overhang for the share price.

At this point, I would probably look for other contrarian opportunities.

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