Contrarian Investors: Is Cameco Corp. or Barrick Gold Corp. a Buy Today?

Description

Contrarian investors are always searching for unloved stocks that might offer strong upside potential.

Let’s take a look at **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) and **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) to see if one is an attractive pick right now.

Cameco

Cameco was a $40 stock in early 2011. Today, investors can pick up the shares for about $11 each.

What happened?

The Fukushima nuclear disaster in Japan forced the country to shut down its entire fleet of nuclear reactors. As a result, uranium spot prices fell from US$70 per pound to the current level of about US$20.

Japan is working hard to get its reactors back in service, but operational issues and legal challenges have hindered the process. As of August 31, only five of the 48 operable reactors had resumed commercial activity.

Other countries are moving ahead with their nuclear energy programs, and uranium bulls see a potential shortage in the cards, as more than 50 new reactors are under construction. One report suggests annual uranium demand could rise as much as 50% by 2030.

In the near term, however, uranium prices are expected to remain under pressure as secondary supplies offset production cuts.

A weak uranium market isn’t the only thing investors have to consider with Cameco. The company is also caught up in a nasty battle with the Canada Revenue Agency (CRA) over taxes owed on income generate through foreign subsidiary.

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

Barrick

Barrick is working its way through a turnaround process that began in 2015. At that time, the company faced falling gold prices and a massive debt load of US$13 billion.

Management has done a good job of cleaning up the balance sheet and reducing operating costs. Debt is now below US$6.5 billion, and Barrick expects to reduce the obligations to US$5 billion by the end of next year.

Production guidance for 2017 is 5.3-5.5 million ounces of gold at all-in sustaining costs (AISC) of US$740-770 per ounce. That makes Barrick the largest producer with one of the lowest cost structures in the industry.

Is one more attractive?

Cameco is also a low-cost producer and owns some of the richest uranium deposits on the planet, but the outlook for the uranium market remains bleak in the near term, and the company won't see an initial decision on the CRA case for six to 18 months.

As such, I don't see a reason to rush out and buy the stock.

Barrick is making good progress on its turnaround efforts and the low cost structure combined with the large production base means the company could see a substantial boost to free cash flow if gold prices move higher.

At this point, however, it is anyone's guess where gold is headed in the near to medium term.

Rising interest rates in the U.S. will be a strong headwind, and investors are becoming more resilient to geopolitical shocks, so the fear trade is less reliable. As a result, you really have to be a gold bull to own any of the miners.

If you fall in that camp, Barrick might be worth considering for a contrarian portfolio.

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Date
2025/08/23
Date Created
2017/11/10
Author
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