Cameco Corp. Stock Jumps 11% in 5 Days: Is This the Bottom?

Description

It's been an incredibly interesting week for **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) investors. The uranium giant logged gains of a whopping 11% as of this writing, making it one of the most successful weeks this year for the stock. Interestingly, just days ago, Cameco shares had tanked double-digit percentages on a single trading day after reporting a dismal set of third-quarter numbers.

The wild swings in the stock can confuse any investor. Is this a dead-cat bounce, or is the uranium miner finally turning itself around?

The week before: When Cameco crashed

After crashing on Oct. 26, Cameco shares quickly showed signs of life, as investors found a silver lining in its Q3 earnings report.

Cameco reported 27% lower revenue and a loss of $124 million compared to a profit of $142 million in the year-ago quarter. Lower uranium prices and the loss from Japan-based TEPCO's abrupt termination of a contract earlier this year were largely to blame for Cameco's huge losses.

On a positive note, Cameco is striving to maintain its cash flows and expects to end fiscal 2017 with higher cash from operations than last year's $312 million, despite lower earnings. Cash flows reflect a truer picture of the operational standing of a company than net income.

I see Cameco using a two-pronged approach to boost cash flows: it could curtail costs and manage inventory. The company's latest announcement pretty much confirms this.

The week now: When Cameco is flying high

On Nov. 8, Cameco stunned the markets with two huge announcements: A temporary suspension of operations at key mines, McArthur River and Key Lake in Saskatchewan, and a massive 80% dividend cut.

Why did the stock react positively then? For a change, Mr. Market appears to be emphasizing the long-term prospects rather than the near-term impact.

The thing is, uranium prices have tumbled more than 70% since the Fukushima disaster in 2011, and there are no signs of a recovery yet, as the construction of nuclear reactors worldwide remain in limbo. As the world's largest uranium producer, Cameco has one desperate option at hand: to scale down production in a bid to rebalance demand and supply and stop uranium prices from falling further.

Cameco's president and CEO Tim Gitzel didn't mince words when he confirmed the same:

> "With the continued state of oversupply in the uranium market and no expectation of change on the immediate horizon, it does not make economic sense for us to continue producing at McArthur River and Key Lake when we are holding a large inventory, or paying dividends out of proportion with our earnings."

Simply put, Cameco is doing what any commodity company would do in its place — it's cutting production and cash burn as it awaits a market recovery.

Should you buy Cameco now?

Yes, but only if you're an aggressive investor. Cameco is a well-managed company that's a victim of macro challenges. A production cut is a step in the right direction, as it could not only help ease inventory build-up and free up some cash for the company, and it could help uranium prices find a bottom as supply goes down.

That said, several countries are shutting the doors on nuclear power, which could make it an uphill task for Cameco to find takers for its uranium.

The biggest concern? Most of Cameco's long-term contracts expire in 2021. Renewals, if any, could be at significantly lower prices, which means there's little visibility in Cameco's future for now.

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