Has Cameco Corp. Finally Gone Over the Cliff?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is no stranger to bad news, but a slew of updates over the past few weeks have taken the company to new lows that have even the most faithful of investors questioning their investment.

Here's a look at what happened and if Cameco is still a promising investment option.

Weak uranium demand continues

Cameco's core problem continues to be depressed uranium prices. Back in 2011, uranium prices hovered above US$60 per pound, but following the Fukushima disaster that year, demand for uranium and, by extension, nuclear power has effectively all but halted. While Japan has since restarted some of its reactors, other nations, such as Germany, have abandoned nuclear power altogether, prolonging the current weakness.

Uranium prices have since bottomed out near US$20 per pound, but weak demand for uranium has created a supply glut that has forced Cameco to undergo deep cuts. Some of this price drop has been offset by locked-in, higher, long-term contract prices, but given how long the depressed prices have been around, that price buffer is becoming thinner.

During the most recent quarterly update, Cameco noted that the average spot price of uranium this year is 20% lower than at the same period last year. Because of that weakness, Cameco lowered production estimates for the year to 24 million pounds, which is down from 25.2 million pounds.

Experts view the global uranium supply glut to be as high as 15 million pounds; once cleared, that will pave the way for prices to begin to appreciate.

Weak results lead to job cuts and reduced dividend

In the most recent quarter, Cameco reported a net loss of $124 million, with an adjusted net loss of $50 million. Those results were impacted by lower average sale prices as well as reduced revenues from the disputed TEPCO contract, which appears set to go to arbitration sometime in 2019.

Perhaps the most significant cost-cutting measure to date was the announcement that Cameco would temporarily shutter both the McArthur River and Key Lake sites in Saskatchewan, leading to upwards of 840 job cuts.

Cameco's dividend was also slashed in the latest round of cost cutting, reduced to an annual schedule and slashed to $0.08 per common share, which is down from $0.40.

CRA trial is finally complete, but don't expect a ruling anytime soon

Another often-cited issue impacting Cameco is the ongoing dispute with CRA. The issue, which stems back several years, could see Cameco liable for a tax bill of$2 billion, which the company has already set funds aside for and has already been priced in to the current stock price.

A similar dispute with the U.S. IRS was resolved in the last quarter. Closing arguments on the CRA issue were made in the most recent quarter, and a decision on the matter could still be several months out.

Is Cameco a good investment?

Uranium prices are bound to recover, and when they do, Cameco will be in a position to be an excellent investment opportunity. Furthermore, the latest round of cuts will allow Cameco to continue to weather the current environment of depressed prices until such time that prices do recover.

This is the position that long-term investors have taken on Cameco for well over a year now, which has been acceptable thanks to Cameco's respectable dividend. Now that the dividend has been slashed and further cuts have been announced, however, investors looking more at the immediate term may be better suited by looking at other options in the market that can provide a better return, whether the ultimate goal is income or growth.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/09/13
Date Created
2017/11/15
Author
dafxentiou