Cameco Corp. Stock: A Silver Lining in Dividend and Output Cuts?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) stock has gained ~11% since the company announced what many income investors hate to see. On November 9, the world's largest uranium producer said it was cutting its dividend payout by 80% and suspending operations from its top production facilities amid a continued slump in demand.

Cameco had previously never missed a dividend payment since 1991. A dividend cut from a company is a worst nightmare for income investors, who were hoping that company would be able to avoid this outcome. An 80% cut in Cameco's dividend payout means investors will now get a $0.08-a-share payout, which is down from its $0.40 yearly payment.

I wrote on November 1 that it will be very tough for Cameco to maintain its generous dividend payout policy at a time when there is no meaningful recovery in sight for uranium.

Trading around US$20 per pound, uranium's 12-year slump seems to be extending and is proving many bullish forecasters wrong. In this weak operating environment, Cameco is struggling to preserve cash and is cutting its costs wherever possible.

Dividend and production cuts come after very disappointing third-quarter earnings. Revenues in the quarter tumbled 27% to $486 million from a year ago, pushing the company into a huge loss of $124 million from a $142 million profit a year ago.

Silver lining?

Amid this barrage of bad news, however, there is a silver lining. Cameco's supply cuts are forecast to remove a large part of excess uranium supply from the world's market, giving contrarian investors a good reason to cheer up.

"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," Tim Gitzel, Cameco's chief executive, said in a statement.

According to an estimate by TD Securities, Cameco's mine closures are likely to reduce 2018 uranium mine supply by approximately 15 million pounds.

Cameco's decision also had a positive impact on the uranium sector as a whole, with **Denison Mines Corp**. (TSX:DML) climbing more than 32% in five trading sessions.

Should you buy Cameco now?

There is no doubt that Cameco has removed a big drag on its stocks price by cutting its dividends and helping the industry overcome the supply glut. These measures will help the company preserve cash and cut its production costs.

A long-term and sustained recovery also depends on the actions of other producers. If you are interested in buying Cameco, you are probably better off to wait and see how other producers react. If other suppliers do not contain their production, then we are unlikely to see a long-term recovery in uranium prices.

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Date
2025/08/25
Date Created
2017/11/16
Author

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