Is Cameco Corp. a Buy After Cutting Production and Reducing its Dividend?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) has seen its share price rise more than 11% in the past month, as the stock looks to make a bit of a recovery in what has been a very challenging year. Low uranium prices have put a hamper on the company's financials, with the past four quarters now finishing in the red.

The company has had some very disappointing results recently with Q2 not showing any revenue growth and Q3 seeing a significant decline from 2016.

Commodity prices weighing down financial performance

Not dissimilar to the drop that oil prices have experienced in the past few years, the price of uranium has been nearly cut in half in just two years. From nearly US$40/lb in 2015, the price has dropped to barely over US$20/lb for much of this year.

This is one of the biggest dangers of investing in companies dependent on the price of a commodity. **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) has been having an incredible year in 2017, as steel-making coal prices have been up this year. The problem is, if coal swings in the opposite direction next year, then so too could the company's financials.

Cameco recently announced cuts to its production and dividends

In response to the poor uranium prices, Cameco announced in November that it would be suspending production at its McArthur River and Key Lake locations. The company stated the changes were due to "the continued state of oversupply in the uranium market and no expectation of change on the immediate horizon."

The suspension is expected to last 10 months and could help drive the price of uranium up. In November, the price of uranium had already reached US$23/lb, the highest since March of this year. Supply cuts have been a useful tool in the oil and gas industry and have helped boost oil prices this year. Cameco is hoping that its cuts will have a similar impact on the price of uranium.

Another change the company made was a drastic dividend cut. Previously, Cameco was paying shareholders $0.40 per year, and now that has been reduced to just $0.08, yielding less than 1%.

Although a company reducing its payout may seem like a negative to investors, it will free up cash at a time when the company is in a tough situation, and it is a responsible decision given the circumstances.

The 80% cut in its annual dividend will mean Cameco is able to add back over $126 million in cash to its operations every year. Should industry conditions improve, it's likely that Cameco will increase its payouts.

Why Cameco is a good buy

Cameco's stock may be down, but that also might make it a good value buy for investors. Despite its recent rise in price, the shares are down more than 14% year to date and are trading slightly below book value.

Investors may be missing out on the dividend, but over the long term, if the production cuts lead to a higher price of uranium, then that could push the share price up significantly.

Cameco's stock certainly presents some risk for investors, but the decisions the company has made recently will set it up for long-term success when uranium prices inevitably return after supply levels come down.

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