Cameco Corp. Soared 13% Yesterday: Is it Time to Buy or Sell?

Description

While the uranium market remains depressed and mired in uncertainty, one thing is certain at least: **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) is extremely well positioned to benefit from the eventual recovery from current cyclical lows.

And with the price of uranium having fallen 70% from 2011 levels, there is no denying that the industry is in pretty bad shape.

But, from operating costs to cash flow generation, the company continues to do what it has control over right — not just right, but exceptionally well.

In fact, in the nine months ended September 30, 2017, cash operating costs per pound of uranium produced declined 22% to $19.50, and total cash costs per pound declined 15% to $29.29.

That's no small feat considering that production declined 15% during this same period.

And management has announced that cost reductions are expected to provide savings of $8-10 million annually. Capital expenditures have also been cut, with 2017 capex having been reduced to $160 million from $170 million.

Currently, management is forecasting to spend between $200 and $250 million in capex in 2018.

But while uranium prices have drifted lower over the many years, yesterday's announcement that Kazakhstan's state-owned uranium producer, KazAtomProm, will cut production by 20% over the next three years, providing a much-needed boost to the uranium market fundamentals as well as sentiment.

This is equivalent to approximately 7.5% of global uranium supply, so it represents a significant curtailment.

This makes Cameco's high-quality, low-cost uranium assets all the more valuable, as this will drive up uranium prices as a much-needed reduction to market supply takes hold.

And as Cameco continues to shut down its higher-cost production in favour of its lower-cost production, we will see the stock receive tailwinds from different levers that are being pulled — both in the industry as a whole and at the company-specific level.

In closing, at the end of the day, the fact remains that owning the low-cost quality producers in any commodity market that is in its cyclical lows is usually a very good and profitable strategy.

I like Cameco for this fact, and for the fact that the company is free cash flow positive to the tune of $188 million in the first nine months of 2017, and the stock also has a healthy dividend yield of 2.94%. As the company's free cash flow profile grows along with the uranium price, we will possibly see the dividend growing.

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Date
2025/09/13
Date Created
2017/12/05
Author
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