



Is Cameco Corp. a Contrarian Buy Right Now?

Description

Contrarian investors are searching for troubled stocks that could be on the cusp of a [recovery](#).

Let's take a look at **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) to see if it deserves to be in your portfolio.

Uranium woes

Uranium sold for US\$70 per pound in early 2011, and Cameco traded hands at \$40 per share.

Then the tsunami hit the coast of Japan and everything changed.

The Fukushima disaster forced Japan to shut down its entire fleet of nuclear reactors, and countries around the world took a step back to evaluate their nuclear energy programs.

As a result, uranium went into a tailspin, and the stock prices of the producers followed.

At the time of writing, the uranium spot price is about US\$23 per pound Cameco trades for \$11.50 per share.

Outlook

Cameco announced a drastic cut to its dividend in November, citing continued weakness in the uranium market. Producers have slashed production and shelved development projects, but secondary supplies are offsetting the primary supply reductions.

The annual [dividend](#) payment was cut from \$0.32 to \$0.08 per share.

Management expects the difficult situation to continue through the near term, and has taken extra measures to ride out the slump. Cameco is suspending operations at its McArthur River mine and Key Lake milling operations.

This comes after the company suspended operations at its Rabbit Lake site and reduced production at the U.S. mines last year.

CRA dispute

Cameco is caught up in a battle with the Canada Revenue Agency (CRA) over taxes owed on earnings generated through a foreign subsidiary. If Cameco loses the case, the company could be on the hook for penalties and taxes of more than \$2 billion.

Should you buy?

The long-term outlook for the uranium industry should be positive. More than 50 new reactors are under construction around the world and one report suggests annual uranium demand could rise 50% through 2030.

With the extensive production cuts and mothballed development plans, there is a chance the market could find itself in a shortage position at some point in the coming years.

For the moment, however, there is little reason to buy the stock. I would at least wait for a decision on the CRA case before starting a new position.

Other opportunities are out there for contrarian investors who are looking for stocks that could take off in the near term.

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