Cameco Corp.: Will This Stock Ever Turn Around?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is one of my most frustrating stocks to write about. Ever since I joined Fool, I've been writing about how uranium was going to recover. One thing I've learned in covering Cameco is that it's one of the best stocks on the market for teaching patience. If you can stomach the consistent drops, dividend cuts, and constant doom and bloom, Cameco may indeed be the right play.

But really, we have to ask: is this stock *ever* going to turn around?

It all boils down to the price of uranium. Consider that when the price of uranium was over US$70 per pound back in early 2011, Cameco traded at $40 per share. But with uranium trading at US$23 per pound, Cameco is obviously suffering.

The problem is a basic one of supply and demand in that there's currently too much supply on the market versus what's in demand. Not only is there a great deal of production (primarily in Australia and Kazakhstan), but there are quite a few secondary sources of uranium.

Consider the weapons that contain uranium and plutonium, which, when recycled, provide even more supply. According to some reports, 30 diluted tonnes of weapons-grade material per year between 1999 and 2013 resulted in the displacement of 9,720 tonnes of uranium per year of mine production.

Now that can *really* hurt miners.

So, if supply is the problem, the only way to fix it is to increase demand. Unfortunately, that's going to depend mostly on China and India, which are still quite a few years away from really needing demand.

India is looking to boost its nuclear capabilities to 14.6 GW by 2024 and 63 GW by 2032. By 2050, India wants 25% of all its power to come from nuclear sources. In April 2015, Cameco and the Department of Atomic Energy of India agreed to a 7.1 million pounds of uranium deal through 2020. I fully expect Cameco to become a preferred supplier to India, giving the company consistent business.

China has a similar story. It currently generates 32.4 GW of its power from nuclear sources and aims to boost that to 58 GW by 2020. In 2030, when India is bringing on 63 GW of capacity, China hopes to have up to 150 GW of capacity.

Ultimately, demand is looming, but it's just not there yet. Until these major countries start launching the dozens of reactors currently in production, the supply and demand equation is going to remain off balance. That can be a little frustrating for investors who have been waiting for Cameco to turn around for a few years now.

So what should you do?

It all depends on how patience you have. I do believe that uranium will experience a strong return over the coming years as China and India bring their reactors online. However, there's a lot of available supply on the market, both from primary and secondary sources.

Therefore, it could take some time for uranium to reach the spot prices of 2011. If you have the patience to wait, these are great prices. However, if you want to invest in something a little faster, maybe look elsewhere.

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