



Should Cameco Corp. or Teck Resources Ltd. Be on Your Buy List?

Description

Mining stocks have delivered mixed performances over the past year, and investors are wondering which names could be setting up for a strong 2018.

Let's take a look at **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) and **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)) to see if one is attractive today.

Cameco

Cameco is Canada's largest uranium company and one of the top players in the global market, but the company is battling an extended downturn in uranium prices that began in early 2011 when the tsunami hit the coast of Japan and caused the Fukushima nuclear disaster.

How bad has it been?

Cameco was a \$40 stock, and uranium traded for US\$70 per pound before the accident. Today, investors can pick up a share of Cameco for \$11.50, and uranium spot prices are trending close to US\$22 per pound.

In November, Cameco slashed its dividend and announced the suspension of operations at its McArthur River mine and Key Lake milling operations. Management said the difficult situation in the market is expected to continue.

Producers have reduced output and shelved plans for new developments, but secondary supplies are keeping uranium prices at very low levels.

Cameco is also fighting a battle with the Canada Revenue Agency (CRA). If Cameco loses the case, it could be on the hook for penalties and taxes of more than \$2 billion.

Japan hopes to get its reactors back in service, but only five of the country's 48 facilities had resumed commercial operations as of November 30 last year.

On the positive side, more than 50 new reactors are under construction around the globe, and one report suggests annual uranium demand could increase 50% by 2030. The extensive production cuts and lack of new development could result in a supply shortage at some point in the coming years.

Teck

Teck's stock price rallied from \$4 per share in early 2016 to above \$38 last month. The stock has held up well during the recent [market pullback](#) and currently trades for \$36 per share.

The company produces metallurgical coal, copper, and zinc. All three commodities went through a nasty five-year downturn but roared back to life over the past two years.

A strengthening global economy and upbeat predictions for infrastructure spending in the United States are part of the reasons why Teck remains popular with investors.

In addition, Teck is a partner in the Fort Hills oil sands development that recently began production. The facility was a huge cash drain through the oil rout, and many analysts were worried the site would not make money once it began commercial operations.

The recovery in [oil prices](#) has come at exactly the right time, and pundits are feeling better about the project.

Teck has taken advantage of the recovery in commodity prices to reduce debt and strengthen the balance sheet, so there is less risk of another plunge back to previous levels.

Is one more attractive?

The long-term outlook for uranium should be positive, but I wouldn't back up the truck for Cameco just yet. Investors should at least wait for some clarity on the CRA case before buying the stock.

Teck looks more attractive today, although investors should keep the position small, given the huge recovery off the 2016 low and the volatile nature of the commodity space.

If you are not a big fan of miners, other interesting opportunities exist in the Canadian market.

CATEGORY

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2. NYSE:TECK (Teck Resources Limited)
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Author

aswalker

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