



Don't Underestimate This Miner's Growth Potential

Description

Cameco Corp. ([TSX:CCO](#))([NYSE:CCJ](#)) is often referred to as a long-term investment option with significant potential. That view is based on the premise that the uranium market will eventually make a recovery and propel Cameco back towards profitability.

That view has come under scrutiny in recent months, as concerns about Cameco's existing long-term contract book winding down and the state of the uranium supply glut keeping prices low are still ongoing.

Cameco's problems all date back to a single event

The current weakness in uranium prices and, by extension, the lackluster demand for uranium and nuclear power can be traced back to the 2011 earthquake and tsunami that damaged the Fukushima reactor in Japan.

In the weeks and months following the Fukushima disaster, countries shelved plans for nuclear reactors and turned back to fossil fuels and, in some cases, adopted [renewable energy](#) sources to meet their growing power needs.

This effectively muted all demand for uranium, leaving Cameco and other miners still mining a product that nobody wanted and that was decreasing in price.

Can Cameco really recover?

I'm still optimistic about Cameco making a recovery over the long term and attribute that optimism to the following factors:

Cameco is now a well-oiled machine which is about to get even leaner

Years of belt-tightening have made Cameco efficient right across the board. Cameco has shuttered more expensive facilities and cut administration and staffing costs. More recently, the company slashed its dividend for even more savings.

Additional savings are in store for 2018. Cameco is looking at further slashing administration and capital expenditures this year by 14% and 24%, respectively. Those cuts should provide a further boost to free cash flow, which has generated an impressive US\$393 million over the trailing 12-month period.

The supply cuts are finally taking shape

One of the often-cited recommendations to address Cameco's supply glut was to institute widespread supply cuts. While Cameco did institute several cuts over the past few years to production, they often fell short of clearing the backlog of uranium

Those long-anticipated supply cuts are now real and deep enough to make a dent in that supply glut. Late last year, both Cameco and Kazakh-based KazAtomProm, which is the largest uranium miner on the planet, both made deep cuts to production that should curb the global production of uranium by 20% or more.

To put the extent of those cuts into perspective, last year Cameco produced 23.8 million pounds of uranium last year and has a forecast to produce just 9.1 million pounds this year.

Nuclear power is making a resurgence

Nuclear power is making a resurgence in new and mature markets. Nuclear countries such as France and the United States have aging nuclear facilities that will require updates or significant expansion.

Markets such as India and China are expanding at a feverish pace and need a massive infusion of power to their grids on a scale that only nuclear power can provide. Those two markets alone account for a significant portion of all nuclear reactors currently under construction, and they have both committed to utilizing nuclear power to meet that demand.

In fact, India has already signed a long-term uranium contract with Cameco.

Should you invest in Cameco?

Cameco holds immense potential, but that potential hinges on uranium prices improving and clearing the current supply glut. In other words, that recovery could take several more quarters or even a year to materialize.

Investors looking at the long term may want to take a small position in the company, whereas those investors planning for more short-term returns might be better suited to look at some [other investments](#).

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