



## Contrarian Investors: Is Cameco Corp. Attractive Right Now?

### Description

Buying [unloved stocks](#) at the right time can result in oversized gains when better days finally arrive, or when the market decides the selloff has gone too far.

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

### Tough times

At the beginning of 2011, uranium sold for US\$70 per pound, and Cameco traded at \$40 per share. Then the tsunami hit the coast of Japan and everything changed.

The Fukushima nuclear 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 prices went into an extended downward spiral, and the stock prices of producers followed.

Today, the market continues to struggle with oversupply and weak prices, despite significant production cuts by global uranium producers. Spot prices for uranium currently sit around US\$22 per pound, and Cameco is trading for \$12 per share.

### Japan restarts

Japan is working hard to get its nuclear fleet back online, but legal battles and operational challenges are dragging the process out longer than most analysts had expected. At the time of writing, only five of Japan's 42 operable reactors are in commercial operation.

### Cameco's numbers

Cameco has done a good job of reducing costs and cutting production in an effort to preserve cash flow and adjust to the difficult market conditions. Unfortunately, there is only so much management can

do, and the company was forced to make a drastic cut to its [dividend](#) late last year.

The company reported a adjusted net earnings of \$59 million for 2017, which was lower than the previous year. Falling uranium prices had a big impact, and while the company's averaged realized sale price was 66% above spot prices due to long-term contracts, investors shouldn't expect a significant improvement in 2018.

Why?

Customers are holding off signing new long-term supply deals, preferring to fill demand gaps with secondary supplies in the spot market. As more long-term contracts expire, Cameco could see its averaged realized sale price come down.

### **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. The trial for the tax years 2003, 2005, and 2006 concluded in September 2017, and Cameco says it could be six to 18 months from the end of the trial before a decision arrives.

If Cameco loses the case, it could be on the hook for more than \$2 billion in taxes and penalties.

### **Should you buy?**

Investors shouldn't expect a turnaround anytime soon, but the long-term outlook for uranium is actually positive. Japan should eventually get its fleet back in commercial use and more than 50 new reactors are under construction around the world. One report suggests annual uranium demand could rise 50% by 2030.

If you have some patience and are willing to ride out additional volatility, there is an argument to be made that Cameco might be attractive for a small contrarian position at the current price. However, I would probably wait for a decision on the CRA case before buying the stock.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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