



Cameco Corp. Posts Impressive Profit in Q1: 4 Reasons Investors Should Remain Cautious

Description

Cameco Corp. ([TSX:CCO](#))([NYSE:CCJ](#)) released its first-quarter results last week, which showed the uranium producer finishing in the black after struggling recently. Total revenues of \$439 million were up 12% from last year and the company was able to bank \$55 million of that as profit; a year ago, it posted a loss of \$18 million.

Cameco credits the strong results to its restructuring efforts as well as higher uranium prices. While this is a solid step in the right direction, here are four reasons why you may want to wait before investing in the stock.

Outlook not raised for the year despite the strong start

If a company has a better-than-expected quarter, it provides the company with justification to raise its projections for the year. However, in Cameco's case, the company didn't change its guidance for the year, stating that it expected cash flow to be comparable to the previous year.

This isn't a bad thing, however. After all, Cameco accumulated over \$770 million in free cash in 2017 by not raising expectations, suggesting that the company isn't convinced that things have significantly improved. If that's the case, then investors shouldn't be much more optimistic either.

Market for uranium is still very uncertain

In its earnings release, Cameco was very careful about what it said — and what it didn't. One of the items that the company didn't mention was that uranium prices have rebounded, and that it expects commodity prices to continue to increase. Instead, Cameco CEO Tim Gitzel stated, "As 2018 unfolds, we will continue to evaluate the market signals; however, we remain resolved in our efforts to focus on what we can control."

For its part, Cameco has made significant strides in trying to improve what it can by shutting down some operations and [slashing its dividend](#). Both moves will help strengthen its financials in case of tougher times and position the company well for a recovery, especially if uranium prices find some

momentum.

Tax dispute still looms

On top of its lengthy [challenges](#), Cameco could face a big bill from the Canada Revenue Agency should it lose its case relating to alleged back taxes owing. An unfavourable decision could saddle the company with more than \$2 billion in extra costs at a very inopportune time. Cameco expects to receive news of the decision within 12 months, and you can be sure that it will have a big impact on the company's stock price when it does.

Arbitration with customer set for 2019

Cameco is also having a dispute with **Tokyo Electric Power Company Holdings Inc. (TEPCO)**, which is set to be resolved in Q1 of 2019. That, too, has a lot of cash at stake. Cameco is looking to recover costs related to the power company cancelling its contract, which was a big blow to its top line and was expected to generate \$1.3 billion in revenue for Cameco. This is another item that, when resolved, will have a seismic impact on its share price.

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