



## Here's Why I'm Still Bullish on Uranium Miners

### Description

**Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)) has persevered in a difficult uranium market for a decade, but that there are signs that a recovery may finally be taking hold.

This isn't the first time we've witnessed growing optimism in the uranium market, but the forces and stakes to drive prices higher are much stronger than they've ever been previously.

### What's wrong with the uranium market?

Back in 2011, uranium prices were hovering above US\$60 per pound amid a growing demand for nuclear power as a cheap, clean, and safe alternative to traditional fossil fuels. That view changed instantly when an earthquake and subsequent tsunami damaged the Fukushima reactor in Japan. Uranium demand all but ceased and prices for the uranium that Cameco mines plummeted to one third of their former price – where they have remained ever since.

Since then, Cameco has increasingly operated in survival mode, instituting operational cost cuts, closing facilities, and slashing its dividend; in other words, doing anything that it could to wait out the exceptional market conditions that experts believe will eventually pass.

### Why has a recovery yet to appear?

That recovery still hasn't come, and Cameco's market share and business model are both its greatest ally and its greatest foe.

Uranium contracts can span up to a decade in duration, with prices that are subject to less fluctuation than the open market. To put it another way, Cameco's customers are locked-in to paying for uranium at rates higher than the market, which has in some ways shielded Cameco from the full impact of those depressed prices.

The only problem with taking that business-as-usual view is that the market has remained at those depressed levels for a decade now, meaning that Cameco's order book is going to have an increasing number of renewals at much lower rates.

The reluctance of Cameco and other miners to address this situation sooner has resulted in a supply glut, which hasn't helped prices.

What the supply glut did, however, is force both Cameco and KazAtomProm, which is the world's largest uranium miner to announce [deep cuts to production](#) late last year in an effort to kick start the uranium market. This should, in theory, clear the supply glut and push prices up.

### **Will uranium prices recover?**

While there's little doubt that a recovery in the uranium market will occur, the only question is when. The deep cuts and facility closures by Cameco are steps in the right direction, but the market also needs an external catalyst to finally edge prices higher.

That catalyst is coming in the form of rapid infrastructure development we're witnessing in several countries around the world. There are over 50 reactors currently under construction globally, and China and India are leading that charge as both have aggressive growth policies reliant on nuclear power.

China alone has 20 reactors under construction and is estimating that its nuclear capacity will be second to only the USA and France within the next two years. Further, of the 160 or more planned reactors around the world, there are at least one dozen shovel-ready starts planned for each of the next few years.

### **Final thoughts**

In Cameco's recent quarterly update, the company surprised analysts by posting a year-over-year improvement of 12% in revenue, which came in at \$439 million. Cameco also posted a \$55 million profit for the quarter, which is a noted improvement over the \$18 million loss reported in the same quarter last year.

Given the impact of those deep production cuts, the better-than-expected results and ongoing growth prospects in foreign markets, Cameco does resemble a promising [turnaround stock with long-term growth potential](#).

### **CATEGORY**

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dafxentiou

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