



Is Cameco Corp. an Attractive Pick Today?

Description

Contrarian investors are searching for [beaten-up stocks](#) that appear to have bottomed and might be on the verge of a significant recovery.

Let's take a look at **Cameco Corp.** ([TSX:CCO](#)) ([NYSE:CCJ](#)) to see if it might be an interesting pick right now.

Rough times

Canada's largest uranium producer has endured a tough run over the past seven years amid falling uranium prices and a nasty battle with the Canada Revenue Agency.

Uranium traded for US\$70 per pound in early 2011, before the tsunami hit Japan. After the Fukushima nuclear accident, Japan shut down its entire fleet of nuclear reactors, and countries around the world took a step back to evaluate their nuclear energy programs.

Uranium went into a tailspin, eventually falling below US\$20 per pound in late 2016. Aside from a couple of brief rallies, it hasn't really recovered. At the time of writing, uranium trades for less than US\$25 per pound.

Cameco slashed the [dividend](#) late last year and has reduced or suspended production at a number of its operations. Guidance in the Q1 2018 report was cautious, with 2018 cash flow expected to be similar to 2017.

CRA case

Cameco's trouble with the CRA is connected to taxes potentially owed on earnings generated by a foreign subsidiary. The trial for the first batch of disputed years wrapped up in September, and Cameco says a decision is expected in the next 12 months. If Cameco loses the case, it could be on the hook for taxes and penalties of more than \$2 billion.

Opportunities

On the positive side, annual uranium demand is expected to increase by as much as 50% through 2030, supported by the construction of new reactors. More than 50 facilities are currently being built and additional sites are planned. In addition, Japan is slowly getting its reactors back online, and that process might start to pick up momentum in the next few years.

Regarding supply, Cameco and its peers have reduced production and shelved development plans to the point where the market could see a supply shortage in the coming years. At the moment, supply gaps are being covered by secondary sources, but that situation won't last forever.

Risks

Improvements in solar and wind technology have driven down costs to the point where large-scale industrial projects are making more sense. The trend is expected to continue and could prove to be strong competition for nuclear power in the coming decades.

Should you buy?

Cameco recently surged on news Kazakhstan is prepared to cut production even further to support uranium prices. This isn't the first time the world's largest producer has made such a statement, and previous rallies on such news have failed to hold.

The long-term outlook might be positive, but investors should be careful chasing Cameco's move from \$13.40 to \$15.70 per share in the first few days of June. At the very least, I would wait for a decision on the CRA case before buying the stock.

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