Should Cameco Corp. (TSX:CCO) Stock Be in Your Portfolio Today?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) is up 30% since early February, but market, geopolitical, and company-specific challenges prevail.

Let's take a look at Canada's largest uranium producer to see if this is the right time to put Cameco on your contrarian buy list.

Market woes

Uranium spot prices are trending around US$23 per pound. In early 2011, before the tsunami hit the coast of Japan, utilities paid US$70.

The Fukushima nuclear disaster sent the market into a prolonged downturn, eventually taking uranium spot prices below US$20. Cameco and other producers have shelved development plans and shut down mines over the past seven years in an attempt to provide balance to the market, but secondary supplies continue to fill short-term demand from utilities, keeping prices under pressure.

Most nuclear plants have historically purchased their uranium supplies on long-term contracts, and those agreements are one reason that Cameco continues to report net realized sale prices above the spot price. However, energy companies are in no hurry to sign up for new agreements once their existing contracts expire, thereby putting additional pressure on Cameco and its peers.

Upside potential

At some point, secondary supplies will dwindle to the point where spot prices will begin to recover. This will likely spark a wave of long-term contract signing, as utilities will need to secure supply at guaranteed prices. Once that process begins, uranium prices should continue to recover and provide a tailwind to the industry. Cameco currently trades for about $14 per share, compared to $40 back in early 2011.

U.S. tariff threat?

American uranium producers have asked the U.S. government to look into the impact that uranium imports might have on national security.

According to the U.S. Energy Information Administration (EIA), American producers supplied about 11% of the U.S. uranium market in 2016. The companies filing the complaint want the government to intervene and ensure that American production supplies 25% of the U.S. market. Canadian producers, including Cameco, supplied about 25% of the uranium delivered to U.S. reactors in 2016.

Tariffs could hit Cameco, although the decision might also benefit the company, depending on who the U.S. decides to penalize.

Cameco owns two uranium mines in the United States, but the company has effectively ceased production at the Crow Butte and Smith Ranch-Highland facilities in an effort to protect cash flow in a difficult market. If U.S.-based production gets preferred treatment under a new tariff program, Cameco could benefit and boost investment at the locations.

However, that could also be countered by potential tariffs on uranium imports from Canada. For the moment, investors will have to see how the situation pans out.

CRA fight

Cameco's battle with the Canada Revenue Agency over taxes owed on earnings generated by a foreign subsidiary could end up costing the company more than $2 billion in penalties and taxes. The court case for the first batch of disputed years wrapped up last September, and a decision is expected in the next 12 months.

Should you buy?

The long-term outlook for uranium should be positive, but weak prices, trade threats, and the big tax fight make this stock a high-risk play in the near term.

At this point, I would look for other opportunities in the market.

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