Cameco Corp. (TSX:CCO) Stock Explodes After Weak Earnings: What's Going on Here?

Description

Cameco Corp. (TSX:CCO)(NYSE:CCJ) stock opened nearly 10% higher this morning. The reason? The uranium miner just reported a huge loss for its second quarter and reiterated that the uranium markets aren't showing any signs of a recovery yet.

Yes, you read that right. If you look at Cameco's Q2 numbers, you'd have to rub your eyes to believe the stock actually soared post the earnings release.

The truth is, the market has found a silver lining within the report that would otherwise make investors jittery at first glance. I'll tell you what that is, but first, here's what Cameco's Q2 numbers looked like:

- Revenue down 29% to $333 million
- Gross profit down 72% to $26 million
- Net loss shot up $76 million from only $2 million in Q2 2017
- Loss per share of $0.19 versus no profit, no loss in the year-ago quarter.

What's there to like here?

Worse yet, Cameco has decided to suspend operations at its key mine, McArthur River/Key Lake, for an "indeterminate" period and will permanently lay off 550 workers. Any investor would consider a company shutting key operations and laying off workers as a red flag. That, however, isn't what the market sees in Cameco's case.

The curious case of Cameco

Cameco first announced plans to temporarily suspend operations at McArthur River/Key Lake to cut production late last year. Investors cheered the move, believing that it will ease the supply glut in the uranium market, lift uranium prices, and pave the way for a much-awaited recovery for uranium producers like Cameco.

That, however, hasn't happened yet. Cameco just said it hasn't seen any improvement in the uranium market and is therefore extending suspension of its key mine indefinitely. The market, nonetheless, believes this is hugely positive, as a deeper production cut could speed up the industry's revival.

Not surprisingly, nearly every publicly listed uranium stock surged after Cameco's just-released earnings report.

Should you buy or sell Cameco now?

Any recovery will take a long time to play out. Even if uranium production declines, buyers (primarily nuclear power reactors) need to return to drive demand. With the world divided between the pros and cons of nuclear reactors after the Fukushima Daiichi disaster in 2011, it won't be easy.

That said, you must appreciate Cameco's near-term outlook: it just upgraded its full-year revenue guidance by a good 8% to $1.89-2.14 million thanks to higher expected sales volumes against deliveries under its running contracts.

The best part: Cameco expects its fiscal 2018 cash from operations to be 20-30% higher from last year. That means the stock still looks cheap today, but with Cameco's deliverable volumes set to drop substantially next year, and no new contracts in sight yet, investors might want to tune down their expectations and look elsewhere for bigger returns.

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