



Cameco Corp (TSX:CCO) Stock's Big Thursday Rally

Description

Cameco Corp's ([TSX:CCO](#))([NYSE:CCJ](#)) stock traded as much as 22% higher in early trading on the TSX on Thursday, and nearly hit its 52 week high after the company made the big and all bullish announcement on the long-standing tax dispute that had serious implications on its cash flow and financial position.

The Tax Court has ruled in favour of Cameco in its dispute of the reassessments issued by Canada Revenue Agency (CRA) for the 2003, 2005 and 2006 tax years.

"Cameco's marketing and trading structure that involved foreign subsidiaries like Cameco Europe, and the related transfer pricing methodology used for certain intercompany uranium sale and purchase agreements are in full compliance with Canadian laws for the tax years in question," stated Cameco's press release on Thursday.

The ruling does not cover all the tax years in dispute, but it is hoped that the CRA may apply the ruling to all the other tax years in dispute. The case has long been a significant risk factor on the stock, dragging the uranium mining giant's valuation down as it made the ticker one of the most risky bets on a uranium market recovery.

That risk has just been substantially reduced.

The [early August rally definitely did not sustain](#), but investors bullish on the recovery of one of the best uranium mining stocks with the arguably the lowest production cost profile have been accorded yet another opportunity to beat their chests as the bet is paying well this year.

Implications of the judgement

Cameco may get a big tax refund from the CRA, and the company may recover legal costs incurred during the legal wrangle.

Moreover, the court decision could be applied to several other CRA re-assessments, meaning that potential tax liability analysts had estimated could reach four billion dollars including penalties and

interest, could potentially become a zero liability.

Most noteworthy, the ruling could boost the struggling miner's cash flow position, giving it a new lease of life that could enable it to ride the unsightly wave of market weakness that have ravaged the global uranium mining industry.

Cameco equity has been [derisked in some significant way](#).

Beware the new uncertainty

The CRA could appeal the case to the Federal Appeals Court, which could take another two years until final judgement. Further, the case could still go to the Supreme Court, adding another two years to the timeline to cash realization, assuming all rulings go in Cameco's favour.

All in all, it may take another four years until the ruling gets eternally finalized, and that could be a long wait. Several things could have happened in between.

Investors may need to take note that this latest ruling is not legally binding on other tax years in dispute and the timing for the issuance of the revised reassessments by the CRA, along with refunds and interest is uncertain.

Investor takeaway

Cameco has won a battle, and the market will look to the CRA's next action before judging whether the war is over or there are some further battles to be fought (and won), before the valuation discount on the stock can be fully eliminated.

That said, the latest ruling requires that investors reduce the CRA case discount today, and this has some tremendous positive effects on the stock price.

This rally could sustain for many more trading days, but the future of the uranium market remains blurry as prices remain heavily subdued, threatening the viability of the business over the long term.

A return of higher uranium market prices will go a long way in alleviating Cameco pains.

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