Is This Risky Stock Worth Investing In?

Description

Most investors would agree that 2018 will go down as a year of turmoil with markets showing mixed results across various segments. After starting off on a strong footing, the market saw not one but two considerable corrections this year that has in many cases erased most, if not all of the earnings for the year.

Surprisingly, one of the companies that performed considerably well this year and has actually stabilized considerably is **Cameco Corp.** (TSX:CCO)(NYSE:CCJ).

Cameco has long been viewed as a troubled, if not risky investment owing to the prolonged weakness in uranium prices that has persisted for nearly a decade. That weakness, coupled with the fact that Cameco maintained its production levels while demand remained weak resulted in a massive supply glut of uranium on the market.

A recap of 2018: cuts, and perhaps, opportunity?

Toward the end of last year, Cameco began the process of scaling back production, with the hope being that sustained, if not growing demand for uranium would gradually reduce and then eliminate the supply glut in the market and drive prices higher.

Cameco also underwent a series of deep albeit necessary cuts to staffing during the year and even slashed its dividend, which at one point provided a yield of 3% to more of a token state of $0.08 per year.

Concurrently, that growing demand for uranium was founded in a resurgence in nuclear reactor construction was witnessed across the world as nations experiencing infrastructure booms turned to nuclear power as a means to quickly provide a source of affordable power to their power grids. Specifically, India, China, and Russia have led the charge in this regard, representing over half of the reactors under construction worldwide.

Finally, there's Cameco's long-standing battle with the CRA that finally came to a close (for the moment) this past fall. The potential tax bill that Cameco could have been held liable for could have hit $2 billion, but the court ruled in Cameco's favour in the matter. Unfortunately, the relief for Cameco is only temporary as the CRA recently moved to appeal the decision.

Should you buy?

Whether it's the production cuts or ramping up in demand, uranium prices are finally witnessing some growth. Over the course of the past two years prices reached well into the low US$20s per pound, but as of last month, uranium prices have seen steady increases in the previous five months, to the current level of near US$29 per pound.

Industry pundits see this as a direct result of the supply cuts instituted by Cameco and its peers, and a pre-crisis price of US$55 per pound as a possibility within the next few years, which should, in theory, provide a healthy bump in earnings.

In terms of results, Cameco was able to turn a profit in the most recent quarter of $28 million, representing a massive improvement over the $124 million loss reported in the same period last year. While all of this can be interpreted as Cameco pulling through and emerging as a viable investment option, there are still considerable risks in investing that should be weighed.

In my opinion, unless you have an extreme appetite for risk, there are far better growth options on the market worthy of consideration, many of which that still provide a handsome dividend.

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