



How Poor Is the Long-term Outlook for Cameco Corp. (TSX:CCO)?

Description

The last few years since the Fukushima nuclear disaster in Japan has been a grueling experience for uranium miner **Cameco Corp.** ([TSX:CCO](#))([NYSE:CCJ](#)). Weaker uranium prices and a poor outlook for nuclear power generation has weighed heavily on its performance. A recent uptick in the spot uranium price, which sees the radioactive metal up by 30% since the end of 2017, and an improving outlook have bolstered Cameco's stock causing it to rise by 22% for the year to date.

Increasingly bullish outlook for uranium

There are some analysts who are increasingly bullish on uranium and the outlook for nuclear power, which will act as a tailwind for Cameco. That is because of the growing number of reactors under construction and the push to significantly reduce greenhouse emissions in an attempt to halt global warming.

According to the World Nuclear Association, there are 50 reactors under construction globally and key to the bull-thesis is that on being commissioned they will trigger a surge in demand for uranium. Most of those reactors are in China and India, where rapidly growing as well as modernizing economies are causing demand for electricity to explode.

While nuclear power is an attractive solution to boost power generation and reduce its impact on the environment because it doesn't emit greenhouse gases it is becoming [increasingly unpopular](#). This is primarily due to the dangers it poses during times of catastrophic failure, as demonstrated by the Fukushima incident. There are also concerns over the safe processing and storage of the radioactive waste that it produces.

Bullish analysts point to growing demand for the fuel and rising supply constraints as the reason to be optimistic for uranium and Cameco. This makes the demand side dynamics for uranium appear healthy, pointing to higher consumption which will bolster prices.

However, other nations are moving to reduce their dependence on nuclear power in favour of renewable sources of energy which in recent years have become significantly cheaper to install and operate. The inherent risks associated with nuclear power see France intending to reduce the share of

its electricity generated by nuclear by 25% by 2025. Whereas Germany has measures in place to decommission all reactors by 2022 and South Korea intends to undergo a similar process.

According to analysis conducted by asset management firm Lazard, utility scale solar and wind generated electricity is significantly cheaper to produce than nuclear as well as coal and natural gas-fired power generation. This explains why a record level of [renewable energy](#) was installed during 2017 and most of that new installed capacity was composed of solar and wind. This points to a sharp deterioration in demand for nuclear power over the long term, particularly given that some of the reactors under construction will replace existing reactors that are to be decommissioned.

No analysis is complete without an understanding of the supply-side of the equation. Recent production cutbacks by Cameco and Kazakhstan's state-owned producer Kazatomprom triggered uranium's latest rally and those are likely only to be temporary. Both miners will boost output once uranium prices firm sufficiently to make the operations that they have shuttered economic to operate. Then you have nations such as Namibia, the world's sixth-largest producer, which is aiming to boost production to benefit financially from uranium before it falls into disuse, becomes a stranded asset and loses its value.

The long-term outlook is poor

While the average spot price during the third quarter 2018 was higher than the equivalent period in 2017 Cameco's revenue of \$488 million was flat year over year. This can be attributed to much of the uranium sold by the miner being priced according to long-term contracts. Cameco, however, reported a significant improvement in its bottom line, announcing adjusted net income of \$15 million compared to a \$50 million loss a year earlier.

The miner has also secured additional uranium deliveries during the fourth quarter 2018, which along with firmer prices, bodes well for Cameco to report stronger earnings. This will give its stock a short-term lift, but it appears that any lasting recovery may never occur. The reasons for this are simple: there is no sign of the bear market for uranium ending anytime soon. A combination of declining demand over the long-term and the potential for supply to grow significantly all points to uranium never attaining its pre-Fukushima prices.

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