



A Contrarian Stock Pick That Delivered Big Gains in 2018

Description

The pullback in the [TSX Index](#) has put many of Canada's top stocks in the red for the year.

However, a number of other companies that have been in the doghouse for some time have actually generated strong returns, and investors are wondering if more gains could be on the way.

Let's take a look at **Cameco** ([TSX:CCO](#))([NYSE:CCJ](#)) to see if it deserves to be on your 2019 [buy list](#).

Rebound underway

Cameco is Canada's top uranium producer and owns some of the highest-grade resources on the planet.

The multi-year rout in the uranium sector has forced the company to cut costs and shut down facilities in an effort to match production with demand. The entire industry has gone through this process, and while secondary supplies continue to keep market prices under pressure, the long-term outlook should be positive.

At some point, the supply balance will shift, and the lack of investment in new mines or expansion projects means the industry could face a shortage in the coming years. If that happens, uranium prices should soar and Cameco's stock price would rise in step.

CRA win

The company has also been in a long battle with the Canada Revenue Agency over taxes owed on profits generated through a foreign subsidiary. Cameco recently won the first round of the case that covered 2003, 2006, and 2006. The CRA has decided to appeal the decision, which could drag things out an additional two years. Subsequent tax years are also in the CRA's sights. The Canadian tax authorities have reassessed 2007-2012 and Cameco says additional years could be reassessed.

Nonetheless, the win has given investors more confidence to buy the stock.

Higher prices

Uranium prices have trended higher in 2018, rising from close to US\$20 per pound to US\$29. This is still too low for most producers to restart closed mines, but the trend suggests that more gains could be on the way.

Should you buy?

Cameco started 2018 at \$12 per share. At the time of writing, the stock trades for \$15.50. Cameco fetched more than \$40 per share back in 2011, so the upside potential is significant if uranium prices can maintain their upward momentum.

The decision in favour of Cameco in the CRA battle bodes well for the company, although the CRA's appeal indicates that it plans to dig in its heels. Cameco says it is at risk of taxes and penalties of at least \$2 billion if the CRA wins the appeal and successfully applies its claims for the 2003-2017 tax years.

The uranium market is starting to improve and Cameco is positioned well to benefit from additional price gains. I wouldn't back up the truck, but investors who are of the opinion the CRA is going to lose its appeal, this might be a good time to start a small contrarian position in Cameco.

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