Is Cameco Corp (TSX:CCO) Now a Viable Long-Term Growth Opportunity?

Description

As one of the largest uranium miners in the world, **Cameco Corp** (TSX:CCO)(NYSE:CCJ) draws plenty of attention from potential investors. Uranium is, after all, a commodity that is slated to see higher demand in the next few years as a growing number of countries worldwide turn back to nuclear power as a cleaner and quicker way to power booming infrastructure growth.

But does this make Cameco a good investment? Despite the recent view that the uranium market is beginning to correct, it has been an absolute mess over the course of the past decade, and the factors that caused the last price collapse could very well occur again.

Let’s talk about uranium prices

Uranium is used as fuel for nuclear reactors around the world and is sold on the market. In terms of price, back in 2011, uranium was trading over US$60 per pound up until the Fukushima disaster effectively dried up all demand in the market sending prices plummeting to multi-year lows into the US$20s per pound. Over the course of the past two years, uranium prices have staged a slight recovery, with the current price per pound sitting near US$28.75.

Two important factors that need to be mentioned here are the overall supply and price.

Following the Fukushima disaster, Cameco continued to maintain mining operations at similar levels to 2011 despite the drop in demand, which resulted in a glut of supply. Note that Cameco was not alone in this practice; most uranium miners maintained their production levels due to the long-term nature of contract pricing as well as the belief that the dip in prices would be temporary.

Typical uranium supply agreements can span a decade or more in length and contain pre-arranged pricing and terms. This is part of the reason why Cameco as a larger miner with more clients was able to withstand the multi-year drop in prices better than most of its peers. In fact, up until last year, Cameco still offered a generous dividend to investors of the company.

Last year’s efforts to control costs not only meant slashing Cameco’s dividend but also shuttering facilities and fulfilling existing contracts from the existing supply glut – a measure that was also utilized by some of Cameco's peers in the industry, including Kazatomprom – the world's largest miner that committed to slashing production by 20% over a three-year period in a coordinated bid to drive down global supply levels an drive up prices. Given that uranium prices are averaging higher year-over-year over the course of the trailing nine-month period, the strategy has worked.

Cameco's opportunity

After nearly a decade since the Fukushima disaster, there is a renewed interest in nuclear power, which is the first reason that investors should take note of. That interest, particularly in countries experiencing a boom in infrastructure spending has led to an impressive 50 reactors currently under construction around the world.

By way of comparison, there are approximately 450 reactors in 30 countries operational today. The vast majority of those new reactors under construction are in India and China, both of which have aggressive growth targets that are heavily reliant on nuclear power. Beyond those 50 reactors under construction, a further 150 are in various stages of planning and approval, and a further 300 being proposed.

These numbers are not even taking into consideration the current complement of reactors around the world that still require uranium contracts or are slated to be upgraded over the course of the next few years.

Finally, there's Cameco's long-standing dispute with the CRA over the 2003, 2005 and 2006 tax years. In September, the Tax Court of Canada handed down decision in favour of Cameco. Despite already being priced into the stock, this was a collective, albeit temporary sigh of relief for investors. The CRA has since opted to appeal that decision, which could mean as much as an additional two years for the matter to be heard and ruled on.

In summary, while Cameco may appear too risky for most, those investors with an appetite for risk could benefit from taking a small but long-term position in the stock, with less risk-tolerant investors diversifying elsewhere.

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