



Cameco Corp (TSX:CCO): Buy, Hold, or Dump?

Description

There are few companies on the market today that have stirred as much emotion and controversy over the years as **Cameco** ([TSX:CCO](#))([NYSE:CCJ](#)). Despite the fact that the Cameco has seen its share price drop significantly over the years, Canada's largest uranium miner still commands a base of loyal investors that foresee a time (perhaps rapidly emerging) when the stock and, by extension, uranium prices will rise again from their current multi-year slumber.

Let's take a look at the stock and whether an investment is warranted.

Why invest in a uranium miner?

Uranium is primarily used as fuel for the several hundred nuclear reactors scattered around the world. Similar to the PPA contracts common among [defensive utility stocks](#), the supply agreements that uranium miners such as Cameco sign typically span a decade or more in duration and include pricing terms.

The current multi-year slump in uranium prices began shortly after the Fukushima incident back in 2011, which drastically reduced demand for uranium and left Cameco mining a large amount of a product that few wanted to purchase. The end result was a glut in supply, which was initially a non-issue for Cameco, as those long-term agreements had more favourable pricing.

Over the past two years, that supply glut has become a bigger issue, leading to Cameco and other large miners around the world drastically cutting production and shuttering supply in an effort to drive up prices, fulfilling existing orders from its massive supply to further help lift market prices. Additionally, Cameco's decision to slash its once-impressive dividend and cut its workforce down to size reflected the new reality of the uranium market.

Fortunately, those efforts appear to be working. Uranium prices, which are currently hovering near US\$29 per pound, are at their highest levels in three years, and over the past year, Cameco's stock price has surged over 40%.

Part of the reason for that surge stems from the improving situation on the supply side, but also worth noting is the renewed demand for uranium, particularly in developing countries around the world that have very ambitious and extensive infrastructure projects. In particular, Russia, China, and India all have ambitious growth targets that are reliant on new reactors coming online within the next few years, and nearly half of all new reactors under construction around the world at the moment can be attributed to those countries.

Additionally, as demand for nuclear power begins to make a resurgence, mature nuclear markets are also reconsidering their previous decisions to shutter plants. Japan, which at one point had over 50 operational reactors, is steadily moving towards reactivating many of those reactors with several slated to reopen later this year.

Should you buy?

It's not hard to see the long-term potential that Cameco has for investors, so the more appropriate question for those investors contemplating an investment might be whether you should buy *right now*. The steady increase in the price of uranium coupled with a renewed demand for nuclear power could continue to drive the stock higher in 2019 and fuel improved results from the company. That being said, investing in Cameco is something best left to those investors with long-term agendas with a tolerance for risk.

If you already have a [well-diversified portfolio](#) of investments and can handle the potential risks, a small long-term position in Cameco may be warranted.

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