Is Cameco Corp (TSX:CCO) a Buy After a Strong 2018?

Description

It's been a very tumultuous road for **Cameco Corp** (TSX:CCO)(NYSE:CCJ), but it definitely appears as though things are improving for the uranium producer. Last week, it reported its year-end results and they ended with a nice surprise: a profit for the full year. Earnings of $166 million were nearly a complete reversal from the $205 million loss that Cameco incurred a year ago.

Although Cameco did benefit from a hefty income tax recovery of $126 million, it still had a strong operational gain from its earnings totaling $70 million versus a loss of $128 million in 2017. Investors might be surprised to learn that Cameco didn't do a whole lot better this year; it was barely able to avoid impairment charges. Last year, impairment wiped off nearly $360 million from the company's earnings and set the stage for what would prove to be an abysmal year.

In fact, gross profit of 14% was significantly weaker this year than the 20% margin Cameco generated a year ago. But despite a lower margin and other operating expenses rising by nearly $60 million, it was the impairment costs that made the biggest difference year over year. However, it's still a good result for Cameco, which has not posted a profit since 2015 when it recorded earnings of $65 million.

Why the outlook is strong for 2019

Cameco has had to make some hard decisions over the past few years, including slashing its dividend and suspending production, but the company believes that it's in good shape over the long term.

CEO Tim Gitzel in the company's press release: "Our outlook for 2019 is also as we expected, and reflects the deliberate decisions we have made. Our decisions come with some near-term costs, but they are the right decisions to make in order to build long-term value. Although we currently expect our gross margin could be weaker, our balance sheet will remain strong. We will continue to maintain a significant cash balance, and generate cash from operations, allowing us to self-manage risk. And, there is significant potential upside to our outlook."

There are some caveats to the outlook, as Cameco is still involved in a tax dispute with the Canada Revenue Agency and has an outstanding dispute with TEPCO that could have a big impact on its financials if the company is successful. However, the CEO is correct in stating that the decisions that the company has made have made it in a stronger position both today and for the future.

Should you buy Cameco?

Cameco's stock has been on the path to recovery over the past year, rising more than 50% during the past 12 months. And at a price-to-book multiple of just 1.3, the stock could still be a good buy. With uranium prices showing strength lately, Cameco could be a big benefactor of higher sales price which could lead to some strong results in future quarters.

Whenever you're dealing with commodities, you're going to be taking on some risk. That's no different when investing in a stock like Cameco that's going to be heavily dependent on the price of uranium. The stock is an appealing buy today, but investors should be aware that there's still a lot of uncertainty surrounding both the company and the industry.

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