



2 Stocks to Profit From the Uranium Boom

Description

In 2016, I [asked](#) when uranium prices would ever recover. At the time, the uranium spot market was pricing in a big rebound. In fact, **JPMorgan Chase & Co.** estimated that uranium prices would more than double by 2020.

That resurgence never came. Today, prices are still near decade-long lows.

While many uranium investors have thrown in the towel, a major boom could be just around the corner. This could be your chance to profit at the absolute bottom of the cycle.

How uranium prices can spike

It's important to have some historical context to why uranium prices have been depressed for so long. Understanding the underlying causes can give you a clear insight into how prices can increase quickly.

Uranium prices, which were stable for decades, spiked dramatically from 2004 to 2008, moving higher by more than 500%. The biggest cause was a resource bull market driven by ramping demand from China. In order to fuel its rapidly expanding economy, many investors were counting on Chinese demand for decades to come.

The financial crisis that followed abruptly ended that enthusiasm; prices slid more than 70%.

Following the collapse, many analysts forecasted a multi-year rise due to classic demand and supply dynamics. The Fukushima disaster threw a wrench into those estimates. Countries around the world started shutting down nuclear power facilities while pressuring new projects to abandon their plans.

Still, long-term demand is expected to rise given massive energy needs from growing economies in Africa and Asia. So why haven't prices ticked up?

Typically, uranium is sold via long-term contracts. Following the Fukushima event, nearly every nuclear power producer has been avoiding long-term commitments until the regulatory environment clears up.

Today, massive amounts of potential demand remains on the sidelines.

Over the next year or two, those contracts will need to be renewed en masse, providing the perfect conditions for a pricing spike.

Here's how to capitalize

Two stocks are well positioned to benefit from a uranium bull market. One company produces uranium, while the other simply hoards it.

Cameco Corp ([TSX:CCO](#))([NYSE:CCJ](#)) is one of the world's largest uranium producers. [According](#) to Fool contributor Amy Legate-Wolfe, Cameco "is in a position to start up quickly with its closed-down mines and expand even further once uranium prices shoot up again," giving you leveraged exposure to any pricing upside.

Uranium Participation Corp (TSX:U) is an even cleaner way to take advantage. The company simply invests nearly all of its assets in uranium. If prices rise, the value of their inventory also rises, directly benefiting shareholders.

Even Uranium Participation Corp's management team admits that "long-term contract coverage from the previous uranium bull cycle is coming to an end, and has been acting as a lifeline to high-cost mines." Buying the company's stock lets you make a direct bet on that thesis.

CATEGORY

1. Energy Stocks
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