



3 Reasons Cameco (TSX:CCO) Is Still a Good Buy Despite a Disappointing Q1

Description

Cameco ([TSX:CCO](#))([NYSE:CCJ](#)) is down after releasing its latest quarterly results. And while investors might be disappointed in the results and likely tempted to keep their fingers on the sell button, there are three reasons to remain optimistic about the stock.

Company remains optimistic for the future

In the earnings release, Cameco president and CEO Tim Gitzel suggested that there's a lot of promise for the future: "We see growing support for nuclear, and with more than 50 reactors under construction, demand is certain and predictable. However, supply is uncertain and declining. We have seen meaningful production cuts, and reductions in producer inventories, which has led to increased demand for uranium in the spot market from producers and financial players."

The spot price for uranium seems to support the idea that things are getting better, as [prices](#) are well above where they were over the past two years. It's an encouraging sign that we've seen over the past six months that could help lead to more stability for Cameco and other uranium companies. However, before investors get too excited, they'll likely want to see that translate into some stronger results first.

Despite the optimism, the company is not yet ready to restart operations at its McArthur River/Key Lake location, where it [suspended activity](#) back in 2017.

Fuel service revenue has been growing

Although it is still a fraction of its uranium-related revenues, Cameco has seen sales volume rise for fuel services. In Q1, volumes were up 25% and sales from the segment had increased by 30% year over year. While it added just \$19 million to the top line, if Cameco can continue to work on developing this segment that will help decrease its overall exposure to uranium prices. The average realized price for fuel services actually went up 2% from last year compared with a 25% drop in uranium prices.

Less uncertainty facing the company today

Prior to its earnings release, Cameco had announced on April 30 that it had received a favourable result from its tax dispute with the Canada Revenue Agency (CRA). Cameco will get back \$10.25 million in legal fees and it will also get an amount, which is still to be determined, related to its disbursements.

The CRA alleges that Cameco was avoiding taxes in prior years, and that could have resulted in the company being saddled with a bill of more than \$2 billion. Although the bullet has been dodged for now, the CRA is able to appeal, and Cameco believes it will take a couple of years to determine the outcome of that.

While Cameco is still not entirely out of the woods, the news should allow investors to breathe a little easier in the short term, knowing that there isn't going to be a big expenditure relating to this come down in the foreseeable future.

Bottom line

Cameco didn't have a great result for investors to get excited about this past quarter, but it's still a good long-term buy, and there are signs that finally, things might be getting better for the company.

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