



This Stock Just Dropped 10% in 3 Months!

## Description

When a stock drops by a considerable amount in a relatively short period of time, taking a quick look at that company and any opportunities on the horizon is usually a good idea. More often than not, that decline is due to a less-than-stellar earnings announcement or a shifting in priorities across some major initiative.

One such example that recently dropped considerably in price is **Cameco** ([TSX:CCO](#))([NYSE:CCJ](#)).

## Cameco's snowballing problems

Cameco has been dealing with uranium supply and demand issues for nearly a decade. When demand for nuclear power evaporated following the Fukushima disaster in 2011, Cameco held production levels steady for several years, despite a drop in demand. This resulted in Cameco continuing to mine a product that nobody was buying, leading to a surge in supply.

Cameco has tried to wait out the current slump in uranium prices by cutting costs and shuttering facilities. The company even slashed its once attractive dividend to save cash and continue operations. That dividend is now a paltry \$0.08 annualized payout that comes out to a 0.56% yield. That annual payout is less than the quarterly payout the company once had before it was slashed at the end of 2017, but nobody really expected Cameco to continue offering a yield of over 3% while the uranium market was eroding.

There's also Cameco's long-standing dispute with the CRA. Fortunately, the result of that matter came out in favour of Cameco, and in the most recent quarter, Cameco received an award of \$10.25 million in legal fees stemming from the dispute. An additional amount to Cameco, which is yet to be determined, is expected to be determined before the end of the year. Despite the legal victory, the potential of a \$2 billion tax bill weighed heavily on the stock, and that victory has not really been reflected in the current stock price.

For the most part, Cameco has done well in cutting costs and navigating issues. The recent price cut comes on the heels of the company's first-quarter results announcement, which saw Cameco report a

net loss of \$18 million — substantially worse than the \$55 million earned in the same period last year.

## Why this stock could go nuclear

Nuclear power is finally becoming an attractive option again. This is especially true for developing nations that have ambitious infrastructure needs that require a massive injection of clean power to bolster their power grids that only nuclear reactors can provide.

As of last month, there are 50 nuclear reactors under construction around the world in 15 different countries. Most of those new reactors can be traced back to ongoing infrastructure projects in China, India, and Russia. Beyond those initial 50 reactors, an additional 100 reactors are currently planned or on order to begin construction and a further 300 are being proposed.

Finally, there are 30 additional countries that are either considering or starting a nuclear program of their own.

For Cameco, this represents a unique opportunity for long-term growth. The growing demand for uranium stemming from these new reactors will also help push uranium prices higher. So far in 2019, uranium spot prices have remained between US\$24 and US\$28 per pound, while long-term pricing remaining at above US\$31 per pound. To put it another way, uranium prices are now at levels not seen since early 2017, and those prices are likely to continue growing.

Cameco currently trades at just over \$14, down from the 52-week high of \$17.12.

## Can Cameco hold out until the market recovers?

Cameco's efforts to slash costs and wait out the uranium market recovery are worth recognizing. The company's large size and deep pockets helped in this regard, not unlike how precious metals miners endured years of struggle following the 2011 collapse in gold prices.

To put it another way, Cameco's efforts to slash costs and wait out a uranium market recovery have so far been a slow, painful, but steady process. Cameco has long-term potential in this regard, but that long-awaited return to profitability is likely still some time out.

This means that unless you're not already invested in Cameco and waiting out the market, there are [far better](#) and [less-risky](#) options to add to a growth-focused portfolio.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

### TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

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