Keep Clear of Cameco (TSX:CCO) and Avoid the Poor Outlook for Uranium

Description

There has been a surge of optimism regarding the outlook for nuclear power and uranium over recent months. The spot price for uranium has rallied off 2018 lows; even after softening since the end of 2018, it is still at around US$24 per pound, although that is significantly lower than pre-Fukushima highs of US$72 a pound. The growing bullishness surrounding the outlook for uranium is primarily based on the volume of reactors under development globally. This has failed to give Canadian uranium miner **Cameco's** (TSX:CCO)(NYSE:CCJ) stock a boost, with it having lost 14% since the start of 2019.

Will uranium become a stranded asset?

The outlook for uranium miners remains poor, despite claims of an improved outlook. Much of the emerging bullishness is centred around the World Nuclear Association's claims that uranium demand is poised to soar, because there are around 50 reactors under construction globally. The association also anticipates that global nuclear power capacity between 2016 and 2040 will grow by 25% to 518 gigawatts (GW).

This has seen industry insiders and market pundits claim that the outlook for uranium is positive and prices will continue to firm, as those reactors are commissioned and demand for the radioactive fuel rises.

While these are positive developments, what the bulls fail to recognize is that many of those reactors are destined to replace existing nuclear plants that are due to be decommissioned.

There is a wave of reactor retirements approaching. The International Energy Agency stated five years ago that around 200 reactors would be decommissioned between 2014 and 2040, while the International Atomic Energy Agency expects 320 GW of retirements by 2050. That essentially indicates it will take the addition of around 10 GW of reactor capacity annually just to ensure that current capacity is maintained. This certainly doesn't paint the picture of an industry which is expanding at a steady clip.

When you tie in the growing push to reduce dependence on nuclear power, it is likely that global nuclear capacity will slowly decline. Germany's legislature has approved government plans to shut down all nuclear reactors by 2022.

In 2017, the government of South Korea elected to drop plans to build six previously approved reactors and implemented plans to idle 10 of the 223-reactor fleet in operation. France also plans to reduce its dependence on nuclear power, reducing its contribution to the nation's electricity mix by 25%. For this to be achieved, around 12 reactors will need to be shut down.

There are many more nuclear phase-out initiatives under way globally which, when coupled with reactors being decommissioned due to age, indicates that the volume of new reactors coming online won't significantly move the needle for uranium demand.

Even decreases in supply, primarily driven by various uranium miners shuttering high cost operations, have done little to boost the price. If anything, those actions have only removed a portion of the oversupply that has existed. There are also nations like Namibia that are boosting uranium production to maximize the financial benefit they received before uranium becomes a stranded asset.

This is bad news for Cameco, which has been battered by uranium's sustained weakness since Fukushima, and there is every sign that uranium and nuclear reactors could become stranded assets. Despite the average spot and long-term price for uranium for the first quarter 2019 being 20% and 10% higher than a year earlier, respectively, Cameco's revenue plunged by 32%.

The miner also reported a net loss of $18 million compared to a $55 million profit a year earlier. On an adjusted basis, that loss blows out to $33 million because of $23 million in derivative losses incurred by Cameco's hedging program. The company's McArthur River and Key Lake assets remain shuttered because of weak uranium prices and, for the reasons discussed, it is unlikely that they will return to a level that will see Cameco restart operations.

Foolish takeaway

Uranium mining appears to be an industry in terminal decline. While Cameco has gone a long way to improving efficiencies at its operations, reducing production costs and strengthening its balance sheet, thereby boosting its resilience, over the long term, the turn away from nuclear power will inevitably cause the company to decline.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/29
Date Created
2019/07/22
Author
mattdsmith