TSX Investors: Sell or Buy Canadian Uranium Stocks?

Description

Last Tuesday, **Cameco** (TSX:CCO)(NYSE:CCJ) celebrated U.S. president Donald Trump's decision to execute no new exchange confinements on uranium imports under Section 232 tariffs and quotas. Until 2009, Canada was the world's largest producer of uranium when Kazakhstan's production surpassed Canada's 22% market share. Today, Canada exports 85% of the $2 billion of Canadian produced uranium.

Recently, uranium production has made daily headlines in the news regarding Iranian enrichment levels surpassing international treaty expectations. Trump has also been raising attention to the issue in international trade agreements. Tuesday's announcement follows concerns that the current U.S. president would impose additional duties on uranium production as part of his campaign to support U.S. production and national security interests.

The U.S. is one of Canada's primary buyers of uranium, and Canada controls about 35% of U.S. uranium imports.

Uranium exports drive a critical component of Canada's export economy and national security. Considering its importance, TSX investors may want to overlook the inevitable volatility and consider investing in uranium production.

Cameco loses 22% in one year

Shareholders in Cameco suffered from a loss of over 22% last year. Increased competition from developing economies like Kazakhstan and international trade tensions resulted in excess production capacity in Canada. The decreased production translated into a 25% drop in net receivables.

However, a more favourable international trade environment and a trend toward debt reduction may hint at promising stock price performance over the next year. Cameco deleveraged to 66% of the company's reported debt level in the past year. Moreover, the company nearly doubled its cash assets while holding shareholder equity and assets constant.

Last week, Cameco released a press release announcing that international arbitrators awarded Cameco $40.3 million in damages from a contractual disagreement. In its 2018 annual report, the company discussed further debt pay downs if the contract disputes yield cash settlements in favor of Cameco. Thus, shareholders may expect further declines in debt levels preceding improved stock price performance.

Cameco began as a government enterprise until the company's initial public offering in 1991 when the government offered 20% ownership on the Toronto Stock Exchange. In 2010, the company signed supply agreements with China Guangdong Nuclear Power and China Nuclear Energy Industry Corporation. The company also exports uranium to Taiwan, India, and South Korea.

Foolish takeaway

After the tragic Fukushima disaster in 2011, demand for nuclear energy markedly dropped, as suppliers responded by shutting reactors. More recently, the market has rebounded, and Cameco expects future earnings to reflect these developments.

Notably, a recent Taiwanese government initiative to phase-out nuclear energy failed in November 2018 by a large margin. Nuclear power is a non-emitting energy source compliant with global climate change goals. Although the 2011 disaster resulted in significant environmental and economic damages, nuclear energy remains a preferred energy source.

Risk-friendly investors should undoubtedly consider spicing up their portfolios with stakes in Cameco. The decision will support a strategic Canadian export enterprise and could quickly return over 30% in returns by next year. Conservative investors, however, should tread carefully before making any substantial commitments.

While uranium production appears to be on the verge of an upswing, this is a volatile industry not for the faint of heart.

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