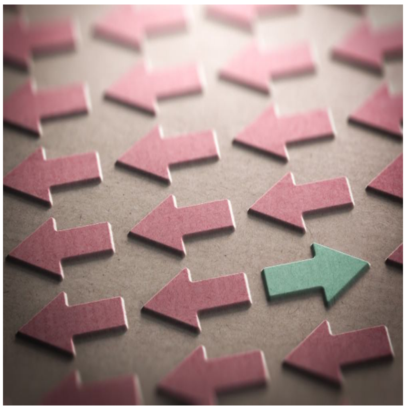

Is Cameco (TSX:CCO) a Good Buy on the Dip?

Description

Cameco (TSX:CCO)(NYSE:CCJ) has been struggling this year with its share price down around 28%. Things, unfortunately, have not been getting any better lately, but with the stock trading at levels not seen since early 2018, it could be a good contrarian bet for a company that still looks very well managed.

Let's take a closer look at the company and the factors impacting it to see whether it's worth the risk.

Uranium prices have been stabilizing

Although uranium prices started high to begin the year, averaging US$28.90 for January, in the following four months, prices slipped to as low as US$24.05. However, they have rallied since then, which is a good sign, as it could mean we may not see the sub-US$22 prices that caused problems for Cameco in 2018.

Uranium price is ultimately the biggest factor for the company in determining how the stock does and whether it's likely to do well on earnings or not. If investors see that prices are rising, they will be more bullish on the prospects. However, with uranium being so volatile in recent years, it may take multiple periods of stability before investors are convinced the stronger commodity prices are here to stay.

Nuclear accident in Russia hasn't helped

Earlier this month, there was news out of Russia that there had been a nuclear accident which killed five people and that raised radiation levels. Although it had nothing to do with Cameco or its operations, the news had a negative impact on the stock, reminding investors of the risks involved with the industry.

This is an example of just some of the challenges that the company has had to face over the years, as external factors have often weighed the stock down even amid some good quarterly results.

Has the price become low enough to make it a buy?

Cameco's stock is trading below its book value, but the problem is that's not new territory for the stock. Even though it has continued to fall this past month, it still may be a bit expensive for value investors. With limited profits, Cameco is still at a price-to-earnings multiple of around 30.

The stock trading at a low may not, unfortunately, attract investors just yet. There also haven't been any recent developments surrounding the stock to warrant much optimism that things will get better from where they are today.

Bottom line

At this stage, Cameco is still a very long-term play for investors. In the past, the stock has seen rallies, but they've often been short-lived. Especially with all of the other bargains that could be had in the markets today, Cameco is just not one that stands out. With lots of uncertainty and risk still hovering over the company, the price may still not be enough to justify an investment today.

Until we see some positive developments in the industry or from Cameco to suggest things are improving, I wouldn't consider buying the stock, even if it falls below $10.

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