



## Is 2020 the Beginning of the End for Cameco (TSX:CCO)?

### Description

The world's largest publicly listed uranium miner, **Cameco** ([TSX:CCO](#))([NYSE:CCJ](#)) has been roughly handled by the market over the last five years, and there are signs that it will continue to perform poorly in 2020 after losing 25% since the start of 2019. The primary reason for Cameco's dismal performance has been a long-term decline in the price of uranium after Japan's Fukushima Daiichi nuclear disaster in March 2011. Since then the radioactive fuel has fallen into a [protracted slump](#) because of a sharp decline in the use of nuclear power across the globe.

### Declining demand

While there is growing optimism surrounding the outlook for nuclear power and uranium, there are indications that the radioactive metal will remain caught in a protracted slump which bodes poorly for Cameco. After peaking in 1996, the use of nuclear energy, which is essentially a carbon-free power source, has fallen significantly because of safety and environmental concerns.

In the wake of Fukushima, there has been a concerted push to phase out nuclear power across the globe. France has committed to reducing the share of its power produced by nuclear plants by up to 50% and to close 14 reactors by 2035. Switzerland is committed to switching off five nuclear power plants and permanently switched off the first in December 2019. South Korea is another nation committed to a nuclear phase out.

The pace at which the popularity of nuclear power is declining has been accelerated by the rise of renewable energy, which over the last decade has become increasingly cheaper and more reliable. According to the International Energy Agency (IEA) renewable energy is expected to expand by 50% between the end of 2018 and 2024. The increasing uptake of renewable electricity production can be attributed to a sharp reduction in the cost of production which now sees hydro, solar and wind competitive with fossil fuels and nuclear. Renewables are also vastly less hazardous and have a far lower impact on the environment while reducing carbon emissions and slowing the advent of global warming.

A key indicator that pundits point to when laying out the bull case for Cameco is that there are around

50 nuclear reactors under construction globally which they claim will lead to a significant increase in demand for uranium.

However, most of those reactors aren't expected to be completed until 2021 or later and many are to replace existing plants that have reached the end of their productive life and are to be shutdown. Others may also never be completed due to growing pressure across the world to phase out nuclear power.

Those factors don't bode well for a significant lift in demand for uranium, which is part of the reason why prices remain soft.

Another aspect of the equation is supply, and there is no shortage of uranium. Even after Cameco shuttered its MacArthur Lake operations, the price of uranium failed to rally significantly and has softened since then, even after the miner announced that the production suspension was indeterminate.

According to the International Atomic Energy Agency, current uranium production is more than adequate to meet global demand for the radioactive fuel regardless of the role played by nuclear power in the world energy mix.

For those reasons, it is highly unlikely that supplies of uranium will become constrained, as some pundits are predicting.

That certainly doesn't bode well for higher prices, explaining why Cameco's stock continues to languish. For the third quarter of 2019, Cameco reported further poor results with revenue declining by 38% year over year, gross profit plunging by 68% and a net loss of \$13 million compared to a profit of \$28 million a year earlier. Even a substantial decrease in expenses, which saw third-quarter administration costs fall by 38% year over year and exploration spending decline by \$2 million have done little to boost Cameco's profitability.

## Foolish takeaway

A sustained recovery of uranium appears increasingly unlikely and that bodes poorly for the fortunes of Cameco, the world's largest miner of the radioactive fuel. The miner reported a net loss for the first three quarters of 2019 and there are no signs of any respite in sight. The poor outlook for uranium, because of the growing unpopularity of nuclear power, makes Cameco a [stock to avoid](#).

### CATEGORY

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2. Metals and Mining Stocks

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