



Is Cameco (TSX:CCO) Stock a Buy?

Description

Cameco Corp ([TSX:CCO](#))([NYSE:CCJ](#)) has lost more than 30% of its value in the past year, and in five years it's down more than 40%. The last time the stock was trading consistently lower than where it is today was back in the early 2000s.

From a price point, it looks like it could be an attractive buy. However, it's important to understand what's been behind the declining share price before we can assess whether the stock is a good investment today.

Why has Cameco had such a bad year?

The **TSX** climbed 14% over the past year, making Cameco's fall during that time even more pronounced given how strong the markets were in 2019. The problem, unfortunately, stems from a poor uranium market that's made things difficult for Cameco.

In each of the past three quarters, the company has incurred not only net losses, but also operating losses. Production has been struggling, with no sign that things will improve anytime soon.

In 2017, Cameco first announced it would be [suspending production](#) at McArthur River and Key Lake, citing an "oversupply in the uranium market and no expectation of change on the immediate horizon."

The suspension is still ongoing and hundreds of workers have been laid off. In 2019, the company did say that the economics at the plant were improving but that there were no plans to restart production.

In April of last year, CEO Tim Gitzel said, "We want to be very clear, the market conditions necessary for a restart decision have not been achieved. Therefore the production suspension will continue for an indeterminate duration."

Uranium prices remain low

At the beginning of 2019, the price of uranium was US\$28.9/lb, a [big improvement](#) from the US\$21.9/lb it was averaging in the prior year. Unfortunately, the price would go on to decline shortly afterward and by July it would fall below 2018's averages.

Although Cameco and other producers have slashed production, it unfortunately wasn't enough to improve the price of uranium. And until the price shows some strength, it's hard to be bullish on Cameco or any other uranium producer.

Is the stock worth the risk?

The one positive for Cameco is that the company remains cash-flow positive and generating free cash flow of \$245 million over the trailing 12 months, which is important to ensure that the company's financials aren't in danger. Although profitability is important, cash is what keeps the lights on, and Cameco isn't burning through it.

The stock has been on a gradual decline, falling 8% in the past six months. Without an improvement in the company's financials, there's little reason to expect that the stock's trajectory will turn things around.

Even if Cameco is doing all the right things to try to keep its costs down, it needs a higher price of uranium in order to generate a strong enough top line to be consistently profitable.

Despite Cameco trading at a very low price, that shouldn't be enough to entice investors to buy the stock today. There are still many question marks surrounding the company's future, which makes the stock a very risky investment.

CATEGORY

1. Energy Stocks
2. Investing

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Date

2025/08/21

Date Created

2020/01/28

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