



The Death Knell for Nuclear and the End of Cameco (TSX:CCO)

Description

The last decade has [been extremely tough](#) for the world's largest publicly listed uranium miner **Cameco** (TSX:CCO)(NYSE:CCJ). The radioactive fuel uranium has been caught in a prolonged slump since the 2011 Fukushima disaster sparked considerable unease around the world regarding the dangers posed by nuclear power. During 2019, the spot price for uranium lost 10% to be trading at US\$24.93 per pound. Since then the nuclear fuel has softened further to be worth US\$24.45 a pound, and there are signs of worse to come, despite the optimism voiced by some industry pundits and investors.

The end of nuclear energy

Nuclear energy is in a state of terminal decline because of concerns over its safety and the inexorable rise of renewable energy. Not only are renewables safer than nuclear energy, but costs have fallen sharply over the last three years, and many sources, such as solar, wind, and hydro, are now far cheaper.

Renewables are expanding at a rapid clip globally. According to data from the International Renewable Energy Agency (IRENA) between 2014 to 2018, total global renewable installed capacity for electricity expanded by 39% compared to 10% for non-renewable capacity.

The surge in the popularity of renewables isn't only because of the battle against climate change or the push to reduce carbon emissions; the costs associated with power generation from wind, solar, and hydro have fallen significantly. Utility scale solar and onshore wind on average generate electricity more cheaply than coal-fired facilities and are significantly less costly than nuclear.

According to IRENA, hydro is the cheapest form of renewable energy generation with an estimated average cost of around a third of nuclear power. Importantly, not only does hydro lack the negative externalities associated with nuclear, including the disposal of highly toxic waste and used reactor components, it can provide a reliable source of steady baseline power.

For some time, a key argument against renewables has been that the intermittent nature of solar and wind means they are incapable of providing a consistent source of baseload power to ensure the

stability of the electricity grid. Hydro plants like nuclear and coal can provide baseload power. Growing improvements in battery technology, including expanded capacity, means that with the use of storage devices wind and solar can do the same.

A common assertion to support the bullish view of uranium is that there are 415 operational reactors and another 50 under construction, which it is believed will create greater demand for the radioactive fuel and therefore higher prices. A factor often ignored by those pundits is that the global reactor fleet has an average life of just over 30 years, meaning that many are approaching the end of their operational lives and will be shuttered or replaced by the reactors being built.

That, combined with construction delays as well as a push by many governments, including France, Switzerland, Germany, and South Korea, to reduce their dependence on nuclear power means that demand for uranium won't expand as claimed.

Looking ahead

The nuclear power industry and uranium miners are experiencing significant secular headwinds, meaning the outlook for Cameco remains poor. For the first nine months of 2019, Cameco reported a 22% year-over-year decrease in revenue and a 36% decline in net profit, leading to a \$54 million net loss compared to a \$6 million profit a year earlier. Cash costs per pound shot up by a worrying 19% year over year, and total costs were 5% higher, impacting profitability in a difficult operating environment under pressure from softer uranium.

Cameco reported a loss for the first three quarters of 2019, and because of softer uranium as well as higher production, costs appears likely to report a large full-year loss. There are signs that Cameco will struggle to deliver a solid improvement in results, despite management's attempts at controlling costs and success in strengthening the miner's balance sheet. That means the miner's stock will continue to tumble in value after losing a whopping 31% over the last year to be trading at around half of its value five years ago.

For these reasons, Cameco is a stock to be avoided with it facing considerable secular pressures that could eventually challenge its [ability to survive](#).

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