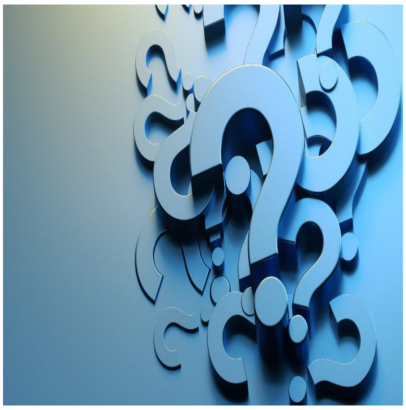

Has Cameco (TSX:CCO) Improved Enough?

Description

When the price of uranium approached US$60 per pound, investors viewed **Cameco** (TSX:CCO)(NYSE:CCJ) as full of potential. Strong demand for nuclear energy created a quick, cheap, and arguably safe means to meet the growing power needs of countries.

Then in 2011, the Fukushima disaster happened, and demand for nuclear power and, by extension, the uranium that Cameco mines, all but disappeared overnight. As demand dropped, so too did the price of uranium. This left Cameco, which was still mining uranium, holding onto more of a product that was declining in price that nobody was buying. The resulting supply glut just added to those woes.

Since then, Cameco has slashed its production costs and reduced or even halted production across some of its facilities. Cameco also began fulfilling existing contracts by purchasing uranium on the open market aimed at driving up prices. Cameco's once-impressive dividend was also slashed, with the 0.65% yield becoming more of a rounding error than a respectable payout.

Have those efforts worked?

Cameco has seen some progress in its efforts to rein in costs and curb production. Those cuts have also helped reduce the massive supply glut of uranium on the market, but whether those cuts will continue to improve Cameco's position remains to be seen.

Then we have the uranium market itself. A resurgence in the demand for uranium, fueled by aggressive infrastructure projects in developing economies such as Russia, India, China, and the U.A.E have all helped push prices to higher levels.

Currently, there are about 50 new reactors under construction around the world. A further 100 reactors are in the planning phase, and a further 300 reactors are being proposed. In other words, we are steadily seeing a resurgence in nuclear power around the world, which can only be good news for Cameco.

Earlier this month, Cameco reported results for the fourth quarter of 2019. In that quarter, Cameco reported earnings of $128 million, or $0.32 per diluted share. In the same period last year, Cameco posted earnings of $160 million, or $0.40 per diluted share. Despite the drop in earnings, over the course of the full fiscal Cameco generated $527 million in cash from operations, and the company moves into fiscal 2020 with $1.1 billion in cash and $1 billion in debt.

What should you do?

Even with Cameco in a much better position now than it was a year ago, in my opinion, the stock remains an extremely risky investment at this juncture.

Investors looking for a precious metals investment would be better suited to any number of other options available on the market, many of which also pay out a handsome dividend.

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