The Case for Buying Uranium Stocks Just Got Stronger

Description

Metals investors take heed. Lithium, copper, and cobalt all have their fans. But there could be another source of metals upside on the way, from a source that has long been in the doldrums: uranium. Today we're going to talk about **Cameco** (TSX:CCO)(NYSE:CCJ), and why it's suddenly a buy.

Uranium prices are looking set to rise in 2020

Nuclear power has its headwinds. But the sector could be due for a big boost. The answer has a lot to do with COVID-19 response plans.

Barrick Gold and **Yamana Gold** are already top names to buy because of COVID-19. The former stock could generate 85% total returns by 2025. This suggests that Barrick would be one of the best-returning metal investments if you're going to buy just one of the currently outperforming gold names.

With all the uncertainty in the markets, it's understandable that metal investors are piling into gold. Look at investor sentiment in the economy. Banking, a strong indicator of fear and greed, has plunged. Never mind this week's rally. Year-on-year, Canada's banks are in the dog house. **Scotiabank** is down 23%. **CIBC** is down 21%. **TD Bank** is down 17%.

Contrast this with the best gold stocks. Barrick is up 72% since last April. **Newmont** is up 83. Yamana Gold is up 47%. But never mind gold producers. They're sound investments, but they've already had plenty of air time during the coronavirus market crash. So how about uranium, an industry that straddles metals and energy investing?

Investors have been sitting on the uranium fence, waiting for a sign. Nobody could have predicted that the sign would come from a pandemic. But Kazatomprom, the world's largest producer of uranium, has slashed its 2020 production guidance because of the coronavirus. This is a green light for investors to start stacking up shares in names like Cameco. Why? Because output lowered by 4,000 metric tons will bolster prices.

Another case of supply outstripping demand

Kazatomprom produced 42% of the world's uranium in 2019. The announced reduction of 4,000 metric tons is equivalent to 8% of this year's supply. This means that producers of uranium have an opportunity for higher profits.

Just like oil, a disparity between supply and demand has been uranium's biggest problem. The oil industry is unprofitable, which should only help the nuclear energy industry.

As one of the most productive uranium suppliers, Cameco is an especially strong play for higher uranium prices. It is a joint venture partner with Kazatomprom, with a 40% stake in their shared Inkai mine in southern Kazakhstan. Cameco has stated that the coronavirus response will include reduced operations in its mines for a projected three-month period.

The bottom line

Uranium has been an overlooked field, although big names like Bill Gates have been getting behind nuclear power lately. Could the oil price war and coronavirus add up to uranium upside? Cameco is soaring 14% this week, so investors clearly think so. Selling at book price, the stock is still a steal and offers significant upside.

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