If You Only Buy 1 Uranium Stock, This Should Be It

Description

Cameco (NYSE:CCJ)(TSX:CCO) is one of the world's largest providers of uranium fuel. The company's head office is in Saskatoon, Canada. Cameco's uranium segment is involved in the mining, and sale of uranium concentrate. The company's fuel services segment engages in the refining, conversion, and fabrication of uranium concentrate. This segment also produces fuel bundles and reactor components for nuclear reactors. Cameco also sells uranium and fuel services to nuclear utilities.

The company has a price-to-book ratio of 1.32, dividend yield of 0.51% and market capitalization of $6.42 billion. Debt is very sparingly used at Cameco as evidenced by a debt-to-equity ratio of just 0.21. The company has excellent performance metrics with an operating margin of 8.32% .

Cameco controls the world's largest high-grade reserves and low-cost uranium operations. Utilities around the world rely on the company's nuclear fuel products to generate power in safe, carbon-free nuclear reactors. The company's strategy is to focus on tier-one assets and profitably produce uranium at a pace aligned with market signals in order to increase long-term shareholder value.

The company's uranium production capacity accounts for 9% of world production. Management recently signed a binding agreement to increase Cameco's ownership interest in a laser enrichment technology that, if successful, will use lasers to commercially enrich uranium. The company expects nuclear energy to be a central part of the solution to the world's shift to a low-carbon, climate resilient economy. Cameco is focused on providing a clean source of energy.

Market access and trade policy issues have affected the uranium industry, created uncertainty and contributed to the delay of end user demand in the spot market. Despite the significant demand created by the reduction in uranium supply, the volume of uranium executed under long-term contracts is still below annual consumption levels. This has depressed Cameco's earnings.

Cameco’s management believes that the uranium demand cycle is on an upswing and the market will transition to one where price reflects an economic return on primary production. The company preserves tier-one assets and does not try to sell into an oversupplied spot market.

Unlike other commodity producers, Cameco does not build up an inventory of excess uranium, ensuring that working capital is not tied up. The company has taken advantage of opportunities the market provides in the form of spot uranium demand.

At times, Cameco sources material to satisfy consumption demand if the company expects the price of uranium to significantly rise over a 12-month period. This demonstrates management flexibility to meet demand obligations. Cameco’s contracting decisions emphasize regional diversification, the product form, and logistical factors.

Cameco’s goal is to protect and extend the value of the company’s contract portfolio on terms that provide adequate protection when prices fall. The company’s focus on maximizing cash flow, executing on a sound strategy and self-managing risk is expected to serve it well once uranium prices recover from current, depressed levels.

At current prices, investors have the opportunity to purchase the world’s best uranium producer at a big discount to intrinsic value.

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