Should You Buy a Uranium Stock?

Description

Do you own a uranium stock? The segment has taken off in recent months. But is this rally a temporary blip on the radar or a sign of bigger things to come? Let's look at whether **Cameco** (TSX:CCO)(NYSE:CCJ) in particular finally warrants a place in your portfolio.

Uranium prices are on the move: Why does this matter?

The spot price for uranium has stayed over US$40 per pound since September. In fact, the price is now over US$45 per pound. This brings uranium miners such as Cameco closer to profitability. Additionally, it also starts the process of erasing nearly a decade of depressed pricing and weak demand.

To put that into context, it was nearly a decade ago that that uranium traded north of US$45. In the aftermath of the 2011 Fukushima disaster, demand for nuclear power and, by extension, uranium dropped dramatically. A series of new reactors constructed around the world has helped feed that resurgence. That growth is largely based in China, Russia, and the U.A.E.

But why does this matter? Cameco is one of the largest uranium producers on the planet. That uranium is used as fuel in those nuclear reactors. That fuel is purchased under long-term uranium contracts that can span a decade or more in duration.

To counter that weak market, Cameco was forced to shutter its facilities and fulfilled contacts from its existing supply. The company even slashed its dividend and reduced its workforce to hoard cash. Those painful efforts were done in an attempt to weather the current storm.

Fortunately, it looks like that storm may be ending. That being said, improved pricing alone won't make Cameco, or any other uranium stock a good buy.

Let's talk results and outlook

Cameco last provided a quarterly update back in October. During that quarter, the company reported a loss of US$72 million. On an adjusted basis, the company reported a loss of US$54 million. By way of comparison, during the same quarter in 2020, Cameco reported a net loss of US$61 million. On an adjusted basis, that loss extended to US$78 million last year.

Overall, the company is sitting on much better financials than in the past. Cameco ended the quarter with a cool US$1.4 billion in cash, with only US$1 billion in debt obligations.

But does this make Cameco a solid buy?

There are intriguing signs to take from this recent update. The steadily rising price of uranium is a clear indicator of growing demand. A similarly steady influx of new reactors popping up around the globe also means Cameco can potentially procure additional contracts.

The improving market conditions also mean that Cameco may restart its portfolio of shuttered mines. That includes the McArthur River mine, which is one of the richest deposits on the planet. Any reopening comes at an additional cost, which could reduce some of that perceived opportunity.

Should you buy this uranium stock or look elsewhere?

In my opinion, Cameco is still perceived as a risky investment. The company may well do a full recovery and even reinstate its once-appetizing quarterly dividend, but that won't happen anytime soon. The stock has already surged over 70% year to date and over 100% over the trailing 12-month period. Before jumping on board, prospective investors should keep in mind the massive losses Cameco continues to report. More importantly, investors should be aware of what it will take to eliminate those losses altogether and return Cameco to a position of growth.

In short, unless you have an appetite for extreme risk, there are far better options on the market to invest in. Even better, many of those options provide tasty dividends with yields higher than the paltry 0.27% yield Cameco offers.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media

6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. dafxentiou
2. kduncombe

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/09/09
Date Created
2021/12/07
Author
dafxentiou