Is Cameco Stock a Buy During a Recession?

Description

Cameco (TSX:CCO)(NYSE:CCJ) stock offers long-term-oriented investors an opportunity to profitably play the uranium market's recovery. Although the company's current net buyer status on the uranium spot market appears as a drawback as prices soar, most pieces, including unusual ones, are coming together in favour of buying the dip on Cameco stock during the second half of 2022.

Cameco is a leading integrated uranium miner and nuclear fuel producer in North America. An excellent management team successfully navigated a tough decade for uranium after prices crashed post the 2011 Fukushima nuclear disaster in Japan. CCO stock is a clean energy play well placed to weather any recession should there be one in the near term.

Uranium spot and long-term contract prices are finally on a rising trend. Data from Cameco's most recent earnings report showed that first-quarter 2022 spot prices were 92% higher than they were in 2020. Average long-term contract prices were 40% higher.

Although the spot market has since weakened a bit (average prices for the second quarter are much lower than multi-year highs seen during the first quarter,) the market is still up for the year, and spot prices rebounded slightly in June.

Cameco stock may outperform in a recession

Cameco stock fell by 13% over the past month. However, shares may outperform in an upcoming recession.

The company is emerging from six consecutive years of revenue declines and shrinking operating income. It's entering a new multi-year growth path beginning in 2022 with a strong balance sheet and a growing contracts portfolio.

The uranium giant had a cash, cash equivalents, and short-term investments balance of $1.48 billion and just $1 billion in long-term debt going into the second quarter of this year. Its balance sheet is amazingly intact, and it continues to generate positive free cash flow.

Cameco added 40 million pounds of uranium under new long-term contracts in early 2022. Future potential revenue may be higher, even if a recession hits North American economies in the near term.

Cameco serves a nuclear market that knows no recession. Whatever happens to the economy in the short term, nuclear reactors won't shut down. Their management teams (and governments) won't stop planning for future growing electricity base load demand either.

Wall Street analysts expect Cameco to report $508.7 million in sales or a 42% year-over-year growth for the second quarter. Revenue expectations for the year top $1.8 billion and exceed $2.1 billion for 2023. Normalized earnings per share for 2023 may exceed $1 for the first time in seven years. Free cash flow should grow, too.

Recession or no recession, Cameco stock may outperform over the next five years. The company has a potentially bigger market to capture, thanks to Russia.

Cameco may benefit from a Russia fallout

It's highly likely that the Russia-Ukraine conflict may reshape long-term nuclear supply chains. European and North American nuclear market players who currently rely on Russian nuclear supply chains are likely to shift their nuclear reliance to trusted allies. Canada-based Cameco could be a favourite integrated nuclear fuel partner to give a call.

Foolish bottom line

Cameco stock's 128% price return over the past five years outperformed the TSX's 25% gain by a wide margin. Shares rallied as uranium prices recovered. While a potential near-term recession in North America may not disrupt the business, new customer wins and a decision to restart mining operations may mean growth when other industries decline. CCO stock may outperform in a bear market.

However, with a forward price-to-earnings ratio of 27.7 and a price/earnings-to-growth ratio of 2.8, Cameco stock isn't cheap. Investors should watch out for a multiple contraction during a down market.

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brianparadza