Insiders Can't Get Enough of This $40 Energy Stock

Published: 8/23/24

Editor's Note:

As a subscriber to Benzinga Research, you're entitled to special weekly research reports in which our analysts break down the most exciting and potentially profitable opportunities on their radar. In this week's report, Ryan Faloona pulls back the curtain on one $40 stock that's attracting immense institutional interest as it makes enormous strides in an emerging $40 trillion industry.

Dear Benzinga Member,

Company insiders and Wall Street firms sell stocks for all kinds of reasons, from liquidity needs to tax incentives.

But, as the fabled investor Peter Lynch observed, they buy for only one reason: They think the stock is going up.

And in Q2/2024, institutions bet heavily on one $40 energy stock, with some of the world's most informed and plugged-in firms buying millions of shares at once.

Vanguard Group bought 320,222 shares…

Bridgewater Associates—the brainchild of legendary investor Ray Dalio—bought 1.72 million shares…

And Blackrock—the world's largest private equity firm, with $10.5 trillion undermanagement—scooped up 326,808 shares.

All told, 341 Wall Street firms and other institutional heavyweights bought shares of this $40 stock last quarter.

You probably don't need me to tell you that the stocks insiders buy tend to outperform the ones that insiders pass over.

But to put the "insider's edge" into perspective, a study from the University of Pennsylvania's Wharton School of Business found that insider buying tends to outperform the overall market by as much as 10.2% per year.

So when this stock came onto my radar—and the frenzy of institutional buying around it became apparent—I immediately screened its fundamentals to see if this $40 energy stock was still a "Buy."

Here's what you need to know about the stock Wall Street is buying hand over fist…

At the Center of a $40 Trillion Renaissance

Just one pound of it produces more energy than two million pounds of coal…

One kilogram of it can generate the same amount of energy as burning nearly a kg of mineral oil.

And a single fuel pellet of it can unlock the same amount of power as 17,000 cubic feet of gas.

I'm talking about uranium, the element that can be easily split to release energy in nuclear reactors—but only after it's been enriched.

Nuclear power is controversial, and it's had a bad reputation in the past. A few disasters like the Three Mile Island accident in 1979, the Fukushima nuclear accident in Japan, and most famously Chernobyl, still come to mind for many people when assessing the risks and tradeoffs of nuclear power.

But it's fair to point out that tradeoffs come with every single power source. A study form Harvard found that an average of 43,000 people died of pollution form coal-fired power plants every year from 1999 to 2007.

A study form Boston University found that pollution from oil and gas led to 7,500 deaths, 410,000 asthma attacks, and $77 billion in annual health care costs in the U.S. alone.

And as for clean energy… solar panels and electric vehicles will require enormous amounts of rare earth minerals and silver. In the U.K. alone, 200,000 tons of cobalt will be needed to switch from fossil-powered cars to EVs—more than the world's entire current supply.

And even though innovations in fracking have brought on an energy boom in the U.S., our politicians are determined to phase out fossil fuels in the long run.

Only nuclear power can fill the gap in the meantime. This dynamic is a key reason that Forbes is calling nuclear fusion a $40 trillion opportunity.

This is why even Japan—site of the infamous Fukushima nuclear reactor meltdown—is restarting old nuclear reactors to meet energy demands.

It's why the U.K. is building the most expensive nuclear power plant in history to meet 7% of its annual energy needs when completed.

It's why the U.S. Senate just voted 88-2 to pass the ADVANCE Act to speed up the approval and construction of new nuclear power plants…

And it's why China just announced a $31 billion push to build 11 new nuclear reactors across five of its provinces, after approving 10 new reactors in each of the last two years.

Nuclear power is now an indispensable part of the energy mix—so much so that not even the sweeping international condemnation against Vladimir Putin's invasion of Ukraine, and the sanctions placed on Russia in response, could stop the West from buying $1.2 billion of uranium from Russia in 2023.

Russia is among the world's biggest supplier of enriched uranium. It produces more than 40% of the world's uranium from low-concentrate ore to enriched uranium that can serve as nuclear fuel.

Naturally, the U.S. is eager to ban Russian imports of enriched uranium, for reasons of national security. But until another supplier steps up to take Russia's place, the West can't turn its back on Russian uranium yet.

Meanwhile, uranium prices are already surging, climbing from $30 per pound in 2021 to $87 today. And with Kazakhstan—the world's second-largest supplier—running low on sulfuric acid, a key uranium mining chemical, supply problems are only growing even as demand soars.

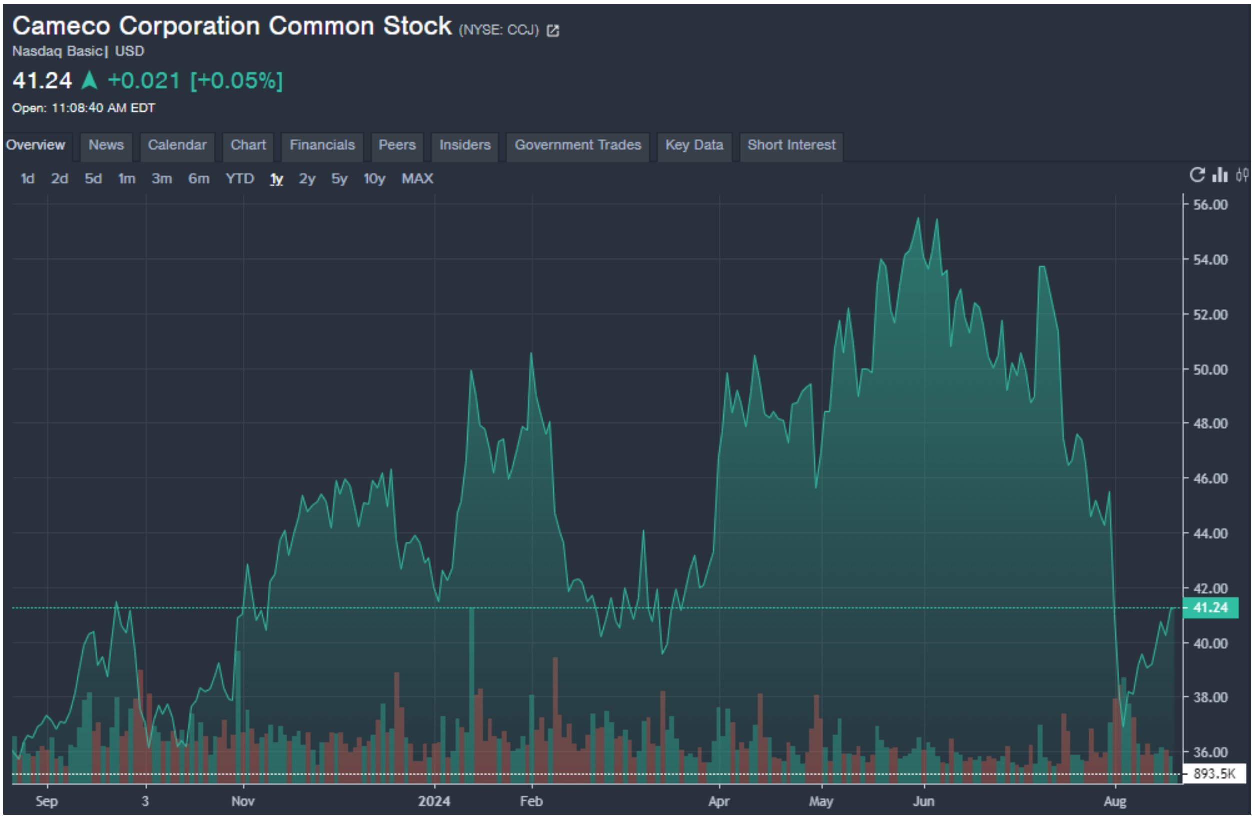
That's a perfect setup for Cameco (NYSE: CCJ).

The West's Answer to Russian Uranium

Headquartered in Saskatchewan, Kazakhstan, Cameco has operations in the U.S., Canada, and Kazakhstan.

The company has over 485 million pounds of proven and probable uranium reserves. Importantly, they're in politically stable jurisdictions that won't fall under the scope of Western sanctions. And most of these reserves come from the Athabasca Basin, which is the biggest source of high-grade uranium in the world.

Last year, Cameco mined and enriched over 17 million pounds of uranium, or 17% of the global production.



Source: ***Benzinga Pro***

And when the company reaches full capacity once several licensing agreements are approved, this should rise to 30 million pounds a year.

When Cameco reaches this milestone, it will produce nearly as much enriched uranium as Russia produces today. And then the West can start to think about spurning Russian uranium, much to Cameco's benefit.

Already, Cameco is well on the way to achieving this… in 2024, it's expected to produce 22 million pounds of enriched uranium.

Meanwhile it's becoming more efficient, slashing its production costs to $15 per pound, from $18 last year.

Because Cameco derives more than 80% of its revenues from uranium sales, the stock is well-positioned to soar as uranium prices climb. In fact, analysts forecast Cameco's revenues will soar to $2.5 billion next year, up from $1.2 billion in 2021.

Already, revenues are up 24% year-over-year, while earnings have climbed by 163% year-over-year as Cameco grows sales while cutting costs.

I'm especially excited about a savvy acquisition that management pulled off last year which have yet to move the needle for Cameco's business.

In November of last year, Cameco inked a deal to buy a 49% stake in Westinghouse Electric, a nuclear technologies manufacturer and service provider. The acquisition will expand Cameco's reach across the entire nuclear industry by boosting fuel and reactor sales.

It's no mystery to me why the world's biggest and most plugged-in investment firms, from Blackrock to Vanguard, are buying millions of shares of CCJ each quarter… when it comes to a company that's growing its margins in a growing sector, there's very little not to like.

In particular, free cash flow for Cameco is soaring. It's more than quadrupled from $93 million in 2022 to $366 million in 2023.

Fundamentals like these are why analysts are forecasting a 20% rise in Cameco's share price within the next 12 months. Of course, these are largely the same analysts who have underestimated Cameco's sales growth by 25.2%, 17.4%, and 5.7% in each of the last three quarters.

That said, after examining the stocks volatility and price action, I'm not quite ready to recommend a move on Cameco quite yet. While the company could soar from here, it's price-to-earnings (PE) ratio suggests some volatility ahead.

I believe that in the next few months, investors could be presented with a much more favorable entry point. Therefore, while I'm certainly long-term bullish on Cameco, I don't recommend you move on this stock quite yet.

I'll be watching Cameco closely in the months ahead. And when it's time to move on it, readers like you will be among the first to know.

Regards,

Ryan Faloona – Benzinga Pro Director / Host of Live Trading

Legal Disclosures:

This communication is provided for information purposes only.

This communication has been prepared based upon information, including market prices, data, and other information, from sources believed to be reliable, but Benzinga does not warrant its completeness or accuracy except with respect to any disclosures relative to Benzinga and/or its affiliates and an analyst's involvement with any company (or security, other financial product or other asset class) that may be the subject of this communication. Any opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This communication is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Benzinga does not provide individually tailored investment advice. Any opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments, or strategies to particular clients. You must make your own independent decisions regarding any securities, financial instruments, or strategies mentioned or related to the information herein. Periodic updates may be provided on companies, issuers, or industries based on specific developments or announcements, market conditions, or any other publicly available information. However, Benzinga may be restricted from updating information contained in this communication for regulatory or other reasons. Clients should contact analysts and execute transactions through a Benzinga subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

The author of this report may hold shares or have a position in the stocks mentioned in this report. This disclosure is made in accordance with U.S. Securities and Exchange Commission regulations and is intended to fully inform readers of any potential conflicts of interest. As always, investing in securities carries a high degree of risk; you should consult with your financial advisor before making any investment decisions.