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Will Cameco Corporation Go Bankrupt?

By [Leia Klingel](#) - February 19, 2015 | More on: [CCJCCO](#)

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Cameco Corporation's ([TSX:CCO](#))([NYSE:CCJ](#)) stock has had a rough few years, plunging as demand for uranium evaporated in the aftermath of the Fukushima nuclear disaster. Now, just as some optimism is starting to spread over the future of the uranium market, Cameco has been dealt another big blow: the

Canadian Revenue Agency (CRA) and the U.S. Internal Revenue Service (IRS) are taking action for back taxes. With Cameco's financial position already on shaky ground, would tax fines bankrupt the company?

Tax woes

The company's tax disputes with the CRA and the IRS are based on the premise that Cameco may have improperly declared revenue to its Cameco Europe subsidiary. The CRA is looking for back taxes and transfer-pricing penalties that could add up to an astonishing \$1.5 billion. So far it looks like the IRS seeks to collect US\$32-million, but it is still auditing tax returns from 2010 to 2012.

The IRS demands are relatively new; the CRA dispute has been going on for awhile. Cameco says it has done nothing wrong.

Financial position

To put into perspective how big of a hit the tax fines could be, in 2014, Cameco's earnings were about \$2.4 billion (non-adjusted). Clearly, the back taxes could be a serious blow to the company's cash flow. Cameco will use debt to pay the fines, but it already has a fair bit of debt.

The bright side is that in Q4 its quarterly earnings increased by 14%, year-over-year, thanks to improving uranium prices and a drop in unit cost sales. Q4 earnings totaled \$73 million.

Revenue, however, was not as encouraging. The company's quarterly revenue fell 9% to \$889 million.

Is bankruptcy possible?

While Cameco waits for its day in court with the CRA, it has to pay 50% of the total back taxes and fees. The immediate, and potential future financial hit that Cameco may endure during a time when uranium market remains depressed are negative factors for the company. But, bankruptcy is still a far stretch.

Cameco is the world's largest uranium company, responsible for about 16% of global production. While uranium may be somewhat depressed right now, long-term forecasts point toward a resurgence in demand, and prices. The company may have to acquire debt to pay off its tax burdens (if fined) and under the very worst case scenario, may have to liquid some assets, but bankruptcy would most definitely be a last resort.

To put it into numbers, Macroaxis, a provider of analytics for investors provides a metric called Probability of Bankruptcy. The Probability of Bankruptcy is a proprietary multi-factor model that provides a normalized Z-Score that shows the potential of a company becoming insolvent in the next two years. Values over 90% are considered high-risk. For Cameco's NYSE stock, Macroaxis has the Probability of Bankruptcy at 26.73%. The TSX stock is calculated at 52%.

Cameco Corporation is definitely on shaky ground. If you want more steady options we have five stocks for you to choose from.

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