Cameco Corp CCO (XTSE)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 09 Apr 2020 21:57, UTC	13.00 CAD 09 Apr 2020	20.50 CAD 07 Feb 2020 21:57, UTC	0.63	0.63 09 Apr 2020	0.62 09 Apr 2020	5.15 09 Apr 2020	Uranium	Standard

Morningstar Pillars

Morningstar Pillars	Analyst	Quantitative
Economic Moat	Narrow	Narrow
Valuation	★★★★	Undervalued
Uncertainty	High	High
Financial Health	—	Moderate

Source: Morningstar Equity Research

Quantitative Valuation

CCO

Undervalued | Fairly Valued | Overvalued

	Current	5-Yr Avg	Sector	Country
Price/Quant Fair Value	0.66	0.80	0.84	0.75
Price/Earnings	66.5	146.5	16.0	15.2
Forward P/E	0.0	—	10.9	10.8
Price/Cash Flow	9.5	22.6	6.7	8.4
Price/Free Cash Flow	11.1	3,720.9	14.4	14.9
Trailing Dividend Yield%	0.63	1.97	3.75	3.71

Source: Morningstar

Bulls Say

- The continued depletion of secondary uranium stockpiles will put increased onus on mined supplies to meet rising global demand, lifting prices.
- Cameco can increase uranium production substantially over the next several years.
- Cameco owns several of the world's highest-grade uranium deposits. The company's McArthur River mine in Saskatchewan boasts ore grade concentrations 100 times higher than the industry average.

Bears Say

- Public sentiment toward nuclear power worsened in the wake of Fukushima. Germany plans to shutter its entire nuclear fleet by 2022, and the timing and quantity of reactor restarts in Japan (home to the world's third-largest reactor fleet) is highly uncertain.
- Post-Fukushima reactor shutdowns have mired the uranium market in oversupply.
- A good deal of the nuclear renaissance hinges on China's new-build activity. Uranium prices would suffer if China were to fall seriously short of its ambitious plans.

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Cameco Management Sees Reasons for Growing Optimism in 2020, but Recovery Timing Remains Uncertain

Business Strategy and Outlook

Kristoffer Inton, Analyst, 07 February 2020

We think the market is mispricing narrow-moat uranium miner Cameco. Uranium offers a rare growth opportunity in metals and mining. China's structural slowdown portends the end of a decade-long boom for most commodities--but not for uranium.

Uranium prices declined consistently from 2011 to 2017, owing to the supply glut caused by delayed Japanese reactor restarts. However, this situation is unsustainable as much of existing production would be unprofitable at these prices. Yet, because most uranium is transacted through long-term contracts negotiated years in advance, a disconnect between realized and spot prices makes it appear that lower prices are sufficient.

Meanwhile, we expect global uranium demand to rise roughly 40% by 2025, a staggering amount for a commodity that saw next to zero demand growth in the past 10 years. We expect new reactor capacity to drive the strongest uranium demand growth in decades. A quadrupling of China's reactor fleet headlines this growth. China's modest nuclear reactor fleet uses little uranium today. That's set to change in a major way. Beijing is pivoting to nuclear in order to reduce the country's heavy reliance on coal. New reactors in India, South Korea, and Russia as well as eventual restarts in Japan lend additional support.

Years of low spot prices have prevented investment in new mines, while existing mines have entered care and maintenance or near the end of their lives. As such, mined supply of uranium will struggle to keep pace amid rising demand and falling secondary supplies. Low uranium prices since Fukushima have left the project cupboard bare, and we expect a cumulative supply deficit to emerge by 2023. These shortfalls should begin to affect price negotiations in the next couple years, since utilities tend to secure supplies a few years before actual use. We forecast that contract market prices will rise to $65 per pound to encourage enough new supply.

As one of the largest and lowest-cost producers globally with expansion potential, Cameco should benefit meaningfully from higher uranium prices. The company benefits from stellar ore grades, large scale, long life, and an attractive operating cost profile.

Analyst Note

Kristoffer Inton, Analyst, 07 February 2020

Cameco finished 2019 largely as expected, with an 11% decrease in revenue to CAD 1.9 billion largely due to a 10% and 6% decline in volume and realized price, respectively. It expects further revenue decline in 2020 to roughly CAD 1.5 billion to CAD 1.6 billion, stemming from fewer committed sales. Management has done a good job of cutting costs where it can, helping to preserve cash. Nevertheless, while Cameco waits for demand to recover, near-term results are not representative of future earnings potential.

Our long-term forecasts are largely unchanged, but we've updated our near-term outlook to reflect weaker sales volumes and higher costs than previously expected. We aren't overly concerned, as much of the spending is geared toward maintaining Cameco's long-term competitive positioning. Further, the company has plenty of liquidity, with nearly CAD 1.1 billion in cash, CAD 2.5 billion in credit lines, and no major debt maturity until 2022.

Our changes lead us to lower our fair value estimates to $15.50 and CAD 20.50 per share, down from $16.50 and CAD 21.50 previously. Cameco's narrow moat is unchanged. Although its world-class low-cost production is largely offline amid uranium market weakness, we expect the company to return its mines into production when prices recover.

Shares remain vastly undervalued, as we think the market underestimates future prices. However, we reiterate or high uncertainty rating. We continue to believe better prices will be needed to spur mothballed and new mines into production to meet still-rising demand, but the timing of the recovery is uncertain due to the opaqueness of the market. Although we know more uranium will be needed as the global reactor fleet continues to grow and that primary supply has decreased, it's difficult to estimate

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Operating Margin	TTM/PE
Cameco Corp CCJ	USD	3,671	1,404	5.06	68.49
National Atomic Co Kazatomprom JSC KAP	USD	3,231	1,088	25.04	9.83
National Atomic Co Kazatomprom JSC 0ZQ	USD	3,231	1,088	25.04	9.12
National Atomic Co Kazatomprom JSC 590T	USD	3,231	1,088	25.04	8.56

when the uranium market will turn without knowing inventory levels.

Economic Moat

Kristoffer Inton, Analyst, 07 February 2020

Production costs are the primary litmus test for measuring competitive advantage in the highly cyclical mining industry. All producers can generate fat returns on capital when commodity prices are high, but only the lowest-cost producers can be expected to generate excess returns on capital through the cycle. Measured by cash cost of production, Cameco ranks among the lower-cost uranium miners at CAD 15 per pound in 2017 (before royalties) by virtue of an enviable asset base anchored by the extremely high-grade McArthur River mine in Saskatchewan. Generally, this is a recipe for strong returns on capital.

However, owing to long-term contracts struck with utilities before the post-2003 surge in uranium prices, the company has been unable to fully capture the economic benefits due its cost profile. As a result, by our measurements, Cameco hasn't consistently generated returns in excess of its capital cost (about 10% in our model) over the past several years.

We expect this to change in the coming years. We expect that Cameco's price realizations will naturally improve as contracts struck in periods of weaker uranium prices continue to roll off its books. A concurrent improvement in contract prices (toward our $65 midcycle estimate) and new low-cost production from Cigar Lake should help Cameco clear its cost of capital over the long term.

Fair Value & Profit Drivers

Kristoffer Inton, Analyst, 07 February 2020

Our fair value estimate is CAD 20.50 per share. We use an exchange rate of CAD 1.33 per $1 as of Feb. 7 to convert our fair value estimate. We forecast that real uranium prices will rise to $65 per pound by 2022 in the contract market, as higher prices will be necessary to encourage the new mines needed to meet rising demand and fill the gap left by the continued drawdown of stockpiles.

We expect to see significant earnings growth in the long term because of higher market uranium prices, driven by the expansion of China's reactor fleet, and growth in uranium sales volume driven by higher mine output.

We assume a roughly CAD 700 million charge for the CRA dispute. This is based on two potential outcomes. In an unfavorable outcome, Cameco estimates it would have to pay between CAD 1.95 and 2.15 billion in cash taxes and transfer pricing penalties. We include an additional 75% to represent the potential for material interest and installment penalties. In a favorable outcome, Cameco estimates it would recover more than CAD 300 million in previously paid cash taxes, interest, and penalties. We assume a 25% chance of an unfavorable outcome and 75% chance for a favorable outcome based on the favorable ruling Cameco received in 2018.

We employ a 10-year explicit forecast horizon in our Cameco model. This allows us to capture the significant volume growth that the company is likely to realize in the coming decade and the convergence of realized prices with prevailing market prices as older long-term contracts struck at significantly lower uranium prices roll off the books.

Risk & Uncertainty

Kristoffer Inton, Analyst, 07 February 2020

The uranium price is the biggest source of uncertainty for Cameco. Over the last several years, prices in the contract market have been as high as $72 per pound (in 2011, immediately before Fukushima) and as low as $29 per pound (early 2018)--volatile, but not especially so by commodity standards. We expect a combination of robust demand and weak supply to push real prices to $65 per pound by 2022, although there is considerable uncertainty around that forecast. For instance, Japanese reactor restarts could be less numerous and slower than we anticipate. Or China could stumble in its ambitious reactor buildout efforts. On the supply side, Kazakh production, always tough to project, could prove stronger than we anticipate. In addition, it's difficult to estimate how much inventory overhand may exist in the market. These excess pounds will need to be consumed before the market reaches balance.

Stewardship

Kristoffer Inton, Analyst, 07 February 2020

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We rate Cameco's stewardship of shareholder capital as Standard.

Cameco had historically been a rather conservative steward of shareholder value but exhibited a willingness to take more risk after a change in leadership. Before 2012, Cameco's largest recent deal was the August 2008 acquisition of the Kintyre uranium exploration project in Australia from Rio Tinto for $347 million, a fairly modest sum relative to Cameco's market capitalization at the time. Under CEO Tim Gitzel, who took over in 2011 from longtime CEO Jerry Grandey, Cameco became more acquisitive, exemplified by three major acquisitions in 2012: the Millennium uranium project ($150 million cash outlay), uranium trader Nukem ($250 million), and the Yeelirrie uranium project ($452 million). Though these projects struggle to provide any return under the current challenging uranium markets, we don't believe Cameco leadership has meaningfully destroyed shareholder capital.

In 2014, Cameco sold its 31.6% stake in Ontario utility Bruce Power for CAD 450 million. The deal made a great deal of strategic sense. For a uranium mining company, the benefits of downstream integration into power generation had always been doubtful, diluting senior management's focus.

Amid the ongoing weakness in uranium markets, we think management has done a good job with the factors it can control by minimizing production and oversupply into the market, cutting costs as it waits for better prices, and maintaining its portfolio's competitiveness. Even as earnings have declined rapidly from low uranium prices, the company has showed significant production discipline, reflecting its commitment to better long-term profitability.

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Analyst Notes Archive

Contract Market Remains Quiet, but Cameco Sees Signs for Better Future After Steady Third Quarter

Kristoffer Inton, Analyst, 03 November 2019

Looking only at the spot market, uranium continues to look weak. At the end of September, prices remained under $26 per pound, more than $3 per pound lower than the start of the year. Amid this apparent continued weakness, Cameco continued to manage its future competitiveness by minimizing its own production and meeting contracts by making opportune purchases from the spot market.

Nevertheless, the quarter progressed largely as expected, as Cameco raised its full-year sales guidance very slightly to $1.77 to $1.92 billion. We're maintaining our fair value estimates of $16.50 and CAD 21.50 per share as well as our narrow moat rating. We continue to see shares are significantly undervalued, though the market is taking longer to turn than we had anticipated. Excess market inventory has been the large and unknown overhang, but the company highlighted a few key developments that point to better days ahead.

First, demand continues to expand while supply continues to fall. Ux estimates 771 million pounds of demand over the next decade that has yet to be contracted. Given the long-dated nature of contracts in the slow-moving industry, this large level of demand represents a much nearer term catalyst for higher prices than most industries.

Second, based on customers conversations, Cameco believes contracting activity has been weighed by the confluence of various global issues. These include potential developments from the U.S. Nuclear Fuel Working Group, the Russian Suspension Agreement, the Iran Sanctions Act, and trade tensions among the U.S., China, and Canada. The uncertainty of these issues is weighing on contracting activity, further pressuring observed prices.

Cameco Management Sees Reasons for Growing Optimism in 2020, but Recovery Timing Remains Uncertain

Kristoffer Inton, Analyst, 07 February 2020

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Quantitative Equity Report | Release: 09 Apr 2020, 17:05 UTC | Reporting Currency: CAD | Trading Currency: CAD | Exchange:XTSE

Cameco Corp CCO ★★★★★Q 09 Apr 2020 02:00 UTC

Last Close	Fair Value^Q	Market Cap	Sector	Industry	Country of Domicile
09 Apr 2020	09 Apr 2020 02:00 UTC	09 Apr 2020			
13.00	19.02	4,998.9 Mil	Energy	Uranium	CAN Canada

There is no one analyst in which a Quantitative Fair Value Estimate and Quantitative Star Rating are attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative fair value. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities. For information regarding Conflicts of Interests, visit http://global.morningstar.com/equitydisclosures

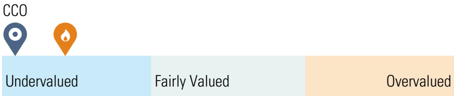
Company Profile

Cameco is one of the world's largest uranium producers. When operating at normal production, the flagship McArthur River mine in Saskatchewan accounts for roughly 50% of output in normal market conditions. Amid years of uranium price weakness, the company has reduced production, instead purchasing from the spot market to meet contracted deliveries. In the long term, Cameco has the ability increase annual uranium production by restarting shut mines and investing in new ones. In addition to its large uranium mining

Quantitative Scores

		Scores All	Rel Sector	Rel Country
Quantitative Moat	Narrow	91	95	90
Valuation	Undervalued	43	19	10
Quantitative Uncertainty	High	88	95	98
Financial Health	Moderate	86	75	79

CCO



Source: Morningstar Equity Research

Valuation

	Current	5-Yr Avg	Sector Median	Country Median
Price/Quant Fair Value	0.66	0.80	0.84	0.75
Price/Earnings	66.5	146.5	16.0	15.2
Forward P/E	0.0	—	10.9	10.8
Price/Cash Flow	9.5	22.6	6.7	8.4
Price/Free Cash Flow	11.1	3,720.9	14.4	14.9
Trailing Dividend Yield %	0.63	1.97	3.75	3.71
Price/Book	1.0	1.1	1.3	1.7
Price/Sales	2.7	2.5	1.3	2.3

Profitability

	Current	5-Yr Avg	Sector Median	Country Median
Return on Equity %	1.5	0.2	9.8	11.2
Return on Assets %	1.0	0.1	4.6	4.6
Revenue/Employee (Mil)	1.0	0.9	1.6	0.4

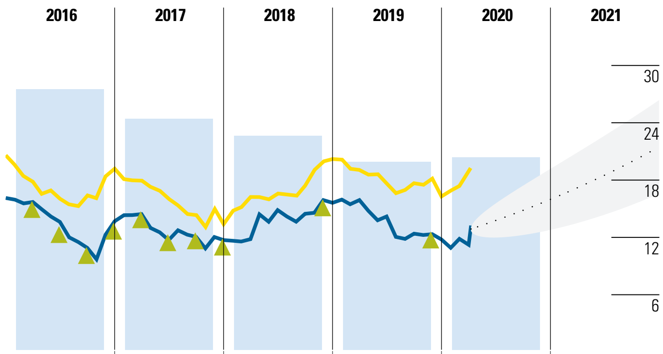
Financial Health

	Current	5-Yr Avg	Sector Median	Country Median
Distance to Default	0.7	0.6	0.5	0.5
Solvency Score	475.4	—	582.8	560.6
Assets/Equity	1.5	1.6	1.6	1.2
Long-Term Debt/Equity	0.2	0.3	0.4	0.3

Growth Per Share

	1-Year	3-Year	5-Year	10-Year
Revenue %	-10.9	-8.5	-4.9	-2.2
Operating Income %	30.0	-27.1	-25.5	-19.6
Earnings %	-54.8	—	4.8	-20.3
Dividends %	0.0	-41.5	-27.5	-10.4
Book Value %	0.0	-1.7	-1.7	0.2
Stock Total Return %	-17.3	-3.5	-5.4	-5.2

Price vs. Quantitative Fair Value



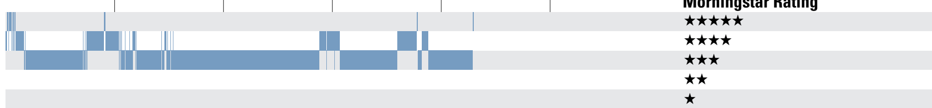
Momentum:	—
Standard Deviation:	26.01
Liquidity:	High

7.69 52-Wk 16.15

7.69 5-Yr 21.44

2016	2017	2018	2019	2020	2021	
-15.4	-14.5	34.0	-24.9	12.7		Total Return %
-36.5	-23.6	42.9	-47.8	30.2		+/– Market (S&P/TSX Composite)
2.85	3.45	0.52	0.69	0.63		Trailing Dividend Yield %
2.85	3.45	0.52	0.69	0.63		Forward Dividend Yield %
78.1	-15.9	-111.1	44.4	66.7		Price/Earnings
2.2	2.1	3.0	2.5	2.7		Price/Revenue

Morningstar Rating^Q



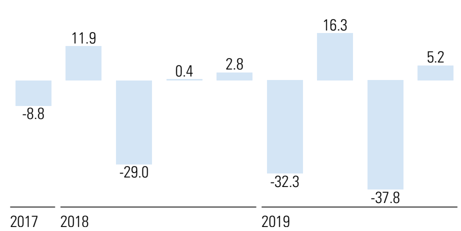
2015	2016	2017	2018	2019	TTM	Financials (Fiscal Year in Mil)
2,754	2,431	2,157	2,092	1,863	1,863	Revenue
14.9	-11.7	-11.3	-3.0	-10.9	0.0	% Change
463	243	238	73	94	94	Operating Income
13.1	-47.5	-2.4	-69.5	30.0	0.0	% Change
65	-62	-205	166	74	74	Net Income
450	312	596	668	527	527	Operating Cash Flow
-359	-217	-114	-55	-75	-75	Capital Spending
91	95	482	612	452	452	Free Cash Flow
3.3	3.9	22.3	29.3	24.3	24.3	% Sales
0.16	-0.16	-0.52	0.42	0.19	0.19	EPS
-66.0	-200.0	—	—	-54.8	0.0	% Change
-0.60	0.82	0.99	2.17	0.62	1.14	Free Cash Flow/Share
0.40	0.40	0.40	0.08	0.08	0.08	Dividends/Share
13.92	13.76	12.50	12.21	12.39	12.62	Book Value/Share
395,793	395,793	395,793	395,793	395,798	395,798	Shares Outstanding (K)

2015	2016	2017	2018	2019	TTM	Profitability
1.2	-1.1	-4.1	3.4	1.5	1.5	Return on Equity %
0.8	-0.7	-2.6	2.1	1.0	1.0	Return on Assets %
2.4	-2.5	-9.5	8.0	4.0	4.0	Net Margin %
0.32	0.29	0.27	0.26	0.24	0.24	Asset Turnover
1.6	1.6	1.6	1.6	1.5	1.5	Financial Leverage
25.3	19.1	20.2	14.1	13.0	13.0	Gross Margin %
16.8	10.0	11.0	3.5	5.1	5.1	Operating Margin %
1,492	1,493	1,494	996	997	997	Long-Term Debt
5,547	5,258	4,859	4,993	4,995	4,995	Total Equity
0.5	0.5	0.5	0.5	0.5	0.5	Fixed Asset Turns

Quarterly Revenue & EPS

Revenue (Mil)	Mar	Jun	Sep	Dec	Total
2019	297.5	387.8	303.2	874.4	1,862.9
2018	439.4	333.3	487.6	831.3	2,091.7
2017	392.5	469.7	485.6	809.0	2,156.9
2016	408.3	466.4	669.7	887.1	2,431.4
Earnings Per Share ()					
2019	-0.05	-0.06	-0.03	0.33	0.19
2018	0.14	-0.19	0.07	0.40	0.42
2017	-0.05	0.00	-0.31	-0.16	-0.52
2016	0.20	-0.35	0.36	-0.37	-0.16

Revenue Growth Year On Year %



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Research Methodology for Valuing Companies

Qualitative Equity Research Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. We believe this bottom-up, long-term, fundamentally based approach allows our analysts to focus on long-term business drivers, which have the greatest valuation impact, rather than short-term market noise.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at an uncertainty-adjusted discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define excess economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

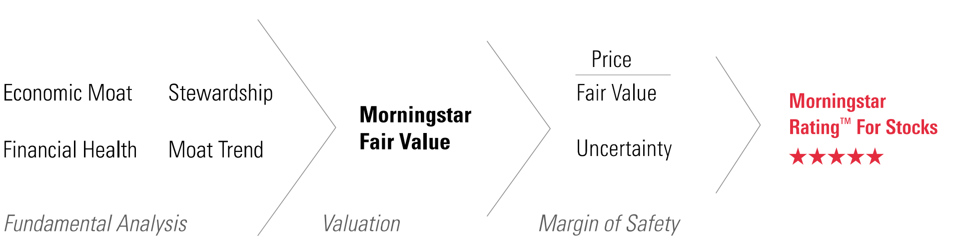
To assess the direction of the underlying competitive advantages, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

All the moat and moat trend ratings undergo periodic review and any changes must be approved by the Morningstar Economic Moat Committee, comprised of senior members of Morningstar's equity research department.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Morningstar Research Methodology for Valuing Companies



Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes, or EBI, and the net new investment, or NNI, to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital, or RONIC, and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until the perpetuity stage is reached. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term market-value weights.

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Research Methodology for Valuing Companies

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the fair value estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

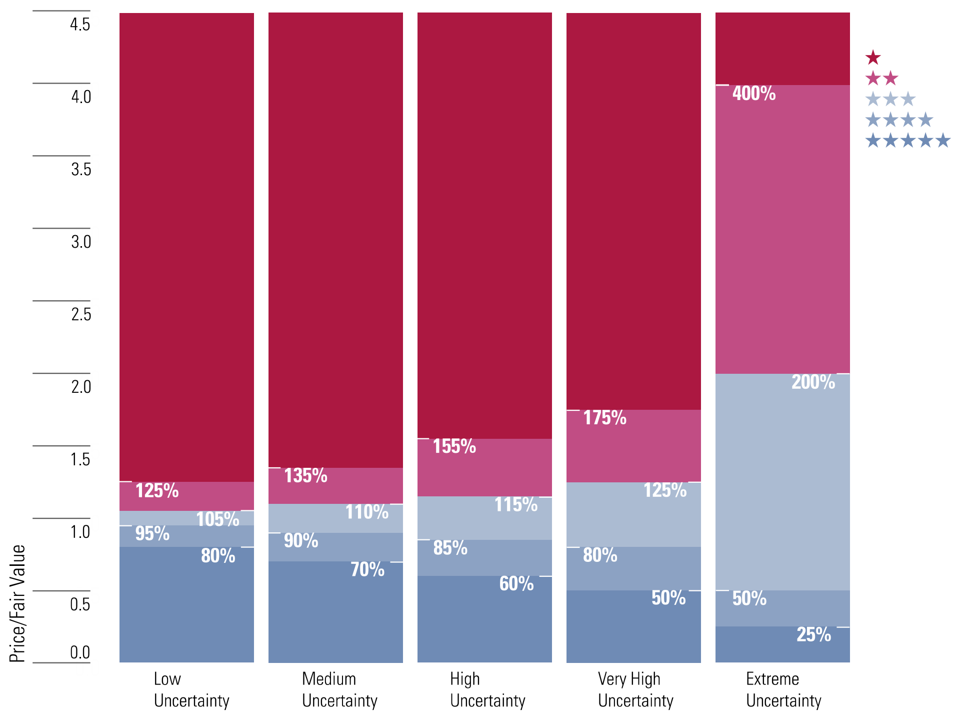
- Low–margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- Medium–margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- High–margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- Very High–margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- Extreme–margin of safety for 5-star rating is a 75% discount and for 1-star rating is 300% premium.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed, which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com.

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. The current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. The market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

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Research Methodology for Valuing Companies

Other Definitions

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Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- Undervalued: Last Price is below Morningstar's quantitative fair value estimate.
- Fairly Valued: Last Price is in line with Morningstar's quantitative fair value estimate.
- Overvalued: Last Price is above Morningstar's quantitative fair value estimate.

Risk Warning

Please note that investments in securities are subject to market and other risks and there is no assurance or guarantee that the intended investment objectives will be achieved. Past performance of a security may or may not be sustained in future and is no indication of future performance. A security investment return and an investor's principal value will fluctuate so that, when redeemed, an investor's shares may be worth more or less than their original cost. A security's current investment performance may be lower or higher than the investment performance noted within the report. Morningstar's Uncertainty Rating serves as a useful data point with respect to sensitivity analysis of the assumptions used in our determining a fair value price.

Quantitative Equity Reports Overview

The quantitative report on equities consists of data, statistics and quantitative equity ratings on equity securities. Morningstar, Inc.'s quantitative equity ratings are forward looking and are generated by a statistical model that is based on Morningstar Inc.'s analyst-driven equity ratings and quantitative statistics. Given the nature of the quantitative report and the quantitative ratings, there is no one analyst in which a given report is attributed to; however, Mr. Lee Davidson, Head of Quantitative Research for Morningstar, Inc., is responsible for overseeing the methodology that supports the quantitative equity ratings used in this report. As an employee of Morningstar, Inc., Mr. Davidson is guided by Morningstar, Inc.'s Code of Ethics and Personal Securities Trading Policy in carrying out his responsibilities.

Quantitative Equity Ratings

Morningstar's quantitative equity ratings consist of:
(i) Quantitative Fair Value Estimate
(ii) Quantitative Star Rating
(iii) Quantitative Uncertainty
(iv) Quantitative Economic Moat
(v) Quantitative Financial Health
(collectively the "Quantitative Ratings").

The Quantitative Ratings are calculated daily and derived from the analyst-driven ratings of a company's peers as determined by statistical algorithms. Morningstar, Inc. (""Morningstar," "we," "our") calculates Quantitative Ratings for companies whether it already provides analyst ratings and qualitative coverage. In some cases, the Quantitative Ratings may differ from the analyst ratings because a company's analyst-driven ratings can significantly differ from other companies in its peer group.

Quantitative Fair Value Estimate: Intended to represent Morningstar's estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the quantitative fair value estimate using a statistical model derived from the fair value estimate Morningstar's equity analysts assign to companies. Please go to https://shareholders.morningstar.com for information about fair value estimates Morningstar's equity analysts assign to companies.

Quantitative Economic Moat: Intended to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the Economic Moat rating a Morningstar analyst would assign to the stock. The rating is expressed as Narrow, Wide, or None.

- Narrow: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 70% but less than 99%.
- Wide: assigned when the probability of a stock receiving a "Wide Moat" rating by an analyst is greater than 99%.
- None: assigned when the probability of an analyst receiving a "Wide Moat" rating by an analyst is less than 70%.

Quantitative Star Rating: Intended to be the summary rating based on the combination of our Quantitative Fair Value Estimate, current market price, and the Quantitative Uncertainty Rating. The rating is expressed as 1-Star, 2-Star, 3-Star, 4-Star, and 5-Star.

★: the stock is overvalued with a reasonable margin of safety.
Log (Quant FVE/Price)<–1*Quantitative Uncertainty

★★: the stock is somewhat overvalued.
Log (Quant FVE/Price) between (–1*Quantitative Uncertainty, –0.5*Quantitative Uncertainty)

★★★: the stock is approximately fairly valued.
Log (Quant FVE/Price) between (–0.5*Quantitative Uncertainty, 0.5*Quantitative Uncertainty)

★★★★: the stock is somewhat undervalued.
Log (Quant FVE/Price) between (0.5*Quantitative Uncertainty, 1*Quantitative Uncertainty)

★★★★★: the stock is undervalued with a reasonable margin of safety. Log (Quant FVE/Price) >1*Quantitative Uncertainty

Quantitative Uncertainty: Intended to represent Morningstar's level of uncertainty about the accuracy of the quantitative fair value estimate. Generally, the lower the quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as Low, Medium, High, Very High, and Extreme.

- Low: the interquartile range for possible fair values is less than 10%.
- Medium: the interquartile range for possible fair values is less than 15% but greater than 10%.
- High: the interquartile range for possible fair values is less than 35% but greater than 15%.
- Very High: the interquartile range for possible fair values is less than 80% but greater than 35%.
- Extreme: the interquartile range for possible fair values is greater than 80%.

Quantitative Financial Health: Intended to reflect the probability that a firm will face financial distress in the near future. The calculation uses a predictive model designed to anticipate when a company may default on its financial obligations. The rating is expressed as Weak, Moderate, and Strong.

- Weak: assigned when Quantitative Financial Health <0.2
- Moderate: assigned when Quantitative Financial Health is between 0.2 and 0.7
- Strong: assigned when Quantitative Financial Health >0.7

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This Report has not been made available to the issuer of the security prior to publication.

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The quantitative equity ratings are not statements of fact. Morningstar does not guarantee the completeness or accuracy of the assumptions or models used in determining the quantitative equity ratings. In addition, there is the risk that the price target will not be met due to such things as unforeseen changes in demand for the company's products, changes in management, technology, economic development, interest rate development, operating and/or material costs, competitive pressure, supervisory law, exchange rate, and tax rate. For investments in foreign markets there are further risks, generally based on exchange rate changes or changes in political and social conditions.

A change in the fundamental factors underlying the quantitative equity ratings can mean that the valuation is subsequently no longer accurate.

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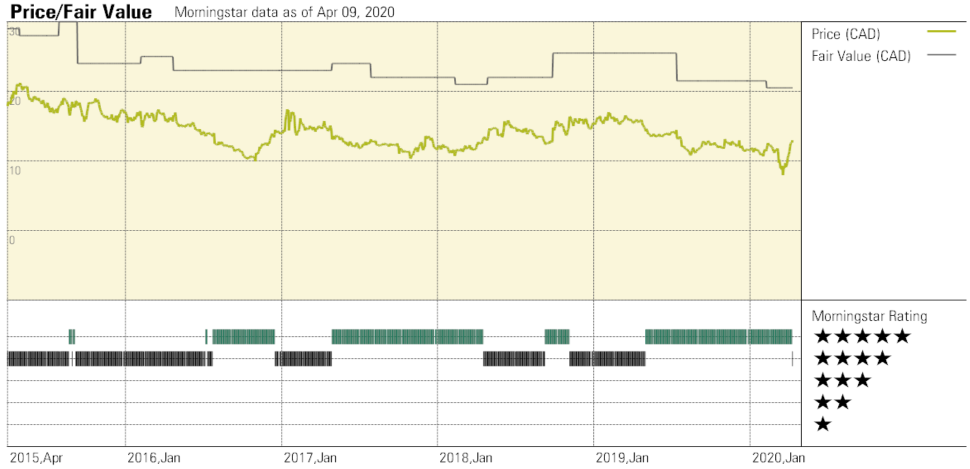
Cameco Corp CCO (XTSE)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	13.00 CAD	20.50 CAD	0.63	0.63	0.62	5.15	Uranium	Standard
09 Apr 2020 21:57, UTC	09 Apr 2020	07 Feb 2020 21:57, UTC		09 Apr 2020	09 Apr 2020	09 Apr 2020		

Price/Fair Value Morningstar data as of Apr 09, 2020



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Cameco Corp CCO (XTSE)

Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★ 09 Apr 2020 21:57, UTC	13.00 CAD 09 Apr 2020	20.50 CAD 07 Feb 2020 21:57, UTC	0.63	0.63 09 Apr 2020	0.62 09 Apr 2020	5.15 09 Apr 2020	Uranium	Standard

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– Morningstar, Inc. may hold a long position in the security subject of this investment research report that exceeds 0.5% of the total issued share capital of the security. To determine if such is the case, please click http://msi.morningstar.com and http://mdi.morningstar.com.

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Morningstar Rating	Last Price	Fair Value Estimate	Price/Fair Value	Trailing Dividend Yield %	Forward Dividend Yield %	Market Cap (Bil)	Industry	Stewardship
★★★★	13.00 CAD	20.50 CAD	0.63	0.63	0.62	5.15	Uranium	Standard
09 Apr 2020 21:57, UTC	09 Apr 2020	07 Feb 2020 21:57, UTC		09 Apr 2020	09 Apr 2020	09 Apr 2020		

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