November 4, 2020
Company Update

CAMECO CORPORATION

Q3/20 Results Miss, Cigar Lake Production Back On-Line

Equity Research

EVENT

This morning, Cameco reported Q3/20 operating and financial results, and gave an update on the restart of operations at Cigar Lake.

BOTTOM LINE

Negative. Q3/20 EPS and CFPS were a sizeable miss on our numbers and consensus estimates and no new long-term contracts were signed by Cameco in the quarter. The stock has come under pressure following the quarterly results (down 6% currently).

FOCUS POINTS

- **Q3/20 Miss:** EPS, adj. was a miss at $(0.20) vs. our estimate of $(0.09) and consensus of $(0.05), and CFPS (before w/c changes) was also a sizeable miss at $(0.05) vs. our $0.13 estimate and consensus of $0.24. The miss was primarily driven by higher care and maintenance costs at Cigar Lake ($18 MM or $0.05/share) and higher spot market uranium purchase costs.
- **Cigar Lake Restart:** As previously announced, Cameco resumed operations at Cigar Lake in September and initial production was achieved after a two week ramp-up. The mine produced 0.2 MMlb U_3O_8 in Q3, and 2020 production guidance for Cigar Lake has been set at 5.3 MMlb (indicating Q4 production of 3.0 MMlb).
- **McArthur River Remains on Care & Maintenance:** Cameco stated that the mine will remain on care and maintenance for an indefinite amount of time due to continued weakness in the uranium market. Any restart at the operation would be dependent on increasing delivery commitments (long-term contracts). McArthur could be ramped back up to nameplate capacity in 3-12 months.

Recommendation: Buy

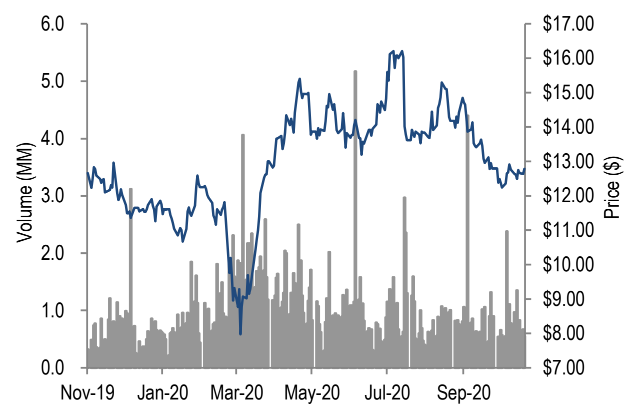
Symbol/Exchange:	CCJ-NYSE, CCO-TSX
Sector:	Metals & Mining
All dollar values in C$ unless otherwise noted.	
Current price:	US$9.73/$12.79
One-year target:	US$11.75/$15.50
Return to Target:	17.5%
Cash and Equivalents:	$772.8 MM

Financial summary

Shares O/S (MM)	395.8	52-week range	$7.69 - $16.71
Market cap ($MM)	$5,062.8	30D avg. vol. (000)	831.3
Market float (MM$)	$5,053.2	Fiscal year-end	31-Dec

	2018A	2019A	2020E	2021E
Uranium Production (MMlb)	9.2	9.0	5.3	9.1
Prod'd & Purch'd (MMlb)	23.3	28.0	36.6	25.1
Uranium Sales (MMlb)	35.1	31.5	29.9	25.1
Realized U3O8 Price ($/lb)	$47.96	$43.88	$45.11	$61.75
Cash Operating Costs ($/lb)	$27.87	$28.98	$38.38	$36.78
EPS, dil., adj.	$0.54	$0.11	($0.25)	$0.51
Dividends per share	$0.18	$0.08	$0.08	$0.08
CFPS	$1.22	$1.09	$0.42	$1.32
Free CFPS	$1.55	$1.14	($0.44)	$1.04

Source: Company Reports and Cantor Fitzgerald Estimates.
Note: All figures in millions, unless stated otherwise.



Company profile: Cameco Corporation operates in two primary segments: uranium and fuel services. The Company boasts the world's largest high-grade uranium reserves and low-cost uranium operations.

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See disclosure and a description of our recommendation structure at the end of this report.

Q3/20 RESULTS A MISS

This morning, Cameco reported Q3/20 operating and financial results, and provided a macroeconomic outlook for the uranium sector. Adjusted EPS was a miss at $(0.20) vs. our $(0.09) estimate and consensus of $(0.05). CFPS (before w/c changes) was also a sizeable miss at $(0.05) vs. our $0.13 estimate and consensus of $0.24. The Company sold 6.7 MMlb in Q3, entirely from inventory purchased on the spot market as operations at Cigar Lake ramped up in the closing weeks of Q3, with production totalling 0.2 MMlb. Cash costs on purchased U_3O_8 sold in the quarter was down modestly Q/Q, slightly offset by the predictably high cost of U_3O_8 produced at Cigar Lake during ramp-up. Higher sales volumes and lower realized sales prices resulted in revenues of $379 MM, in-line with our $377 MM estimate. We note that sales volumes vary widely quarter to quarter, entirely dependent upon Cameco's schedule of contract deliveries which are highly variable. The Company maintained a strong balance at exit Q3/20, despite generating *negative* free cash flow of $83 MM largely related to a build-up in Cameco's accounts receivable this past quarter. At quarter end, Cameco held inventory of 14.8 MMlb U_3O_8 equivalent (excluding broken ore), similar to what was held at exit Q2/20, and equating to ~$710 MM at prevailing spot U_3O_8 prices and foreign exchange rates. As a result, the Company's cash, cash equivalents, and short-term investments balance decreased to $793 MM, down from $878 MM at exit Q2/20. Subsequent to quarter end, Cameco refinanced its 2022 debentures, extending the maturity date out to 2027, and reducing its interest rate from 3.75% to 2.95% (equating to savings of ~$0.8 MM per quarter). Cameco's total debt position is unchanged with no short-term debt, and long-term debt of $1.0 BB now comprised of senior unsecured debentures maturing on June 24, 2024 ($500 MM at 4.19%), Oct 21, 2027 ($400 MM at 2.95%, refinanced last month), and November 14, 2042 ($100 MM at 5.09%). Cameco also has access to a $1.0 BB unsecured revolving credit facility; however, it does not anticipate the need to draw from it in 2020. The Q3/20 headline results are summarized below:

- **Realized Uranium Prices (<u>miss</u>):**
  Cameco realized average prices of $44.85/lb on its sales in Q3/20, slightly lower than our $48.00/lb estimate and down from $46.13/lb in Q2/20.
- **Average unit cash cost of sales (<u>in-line</u>):**
  $42.10/lb vs. our estimate of $41.29/lb, and $43.82/lb in Q2/20. As mentioned, costs remained dependent on spot U_3O_8 prices due to a lack of material production from Cigar Lake and Inkai. We expect this to change in Q4.
- **Uranium Production (<u>miss</u>):**
  0.2 MMlb U_3O_8 vs. our estimate of 0.9 MMlb, but up from Q2/20 levels of 0.0 MMlb.
- **Uranium Purchased (<u>miss</u>):**
  7.0 MMlb U_3O_8 vs. our estimate of 5.0 MMlb, but below Q2/20 levels of 14.7 MMlb.
- **Uranium Sales (<u>beat</u>):**
  6.7 MMlb U_3O_8 vs. our estimate of 5.9 MMlb, and lower than Q2/20 levels of 9.2 MMlb.
- **Fuel Services Production (<u>miss</u>):**
  2.0 MMkgU vs. our estimate of 3.1 MMkgU, and below Q2/20 levels of 2.7 MMkgU.

- **Fuel Services Sales (<u>miss</u>):**
  2.8 MMkgU vs. our estimate of 3.6 MMkgU, and below Q2/20 levels of 3.2 MMkgU.
- **EPS, adjusted (<u>miss</u>):**
  Cameco reported headline EPS of ($0.15). Normalized EPS, after adjusting for derivative losses ($31 MM – downward $0.08 impact), reclamation provision adjustments ($7 MM – upward $0.02 impact), and associated income tax adjustments ($7 MM – upward $0.02 impact), came in at ($0.20), below our ($0.09) estimate and consensus of ($0.05).
- **CFPS, adjusted (<u>miss</u>):**
  The materially lower earnings drove a miss to CFPS in Q3/20. CFPS (before w/c changes) was reported at $(0.05) vs. our $0.13 estimate and consensus of $0.24.

Exhibit 1. Quarterly Results Comparison

Avg. Realized Price:	**Q1/20A**	**Q2/20A**	**Q3/20A**	**Q3/20E**
U3O8 (US$/lb U3O8)	$31.39	$32.99	$33.77	$35.56
U3O8 (C$/lb U3O8)	$41.44	$46.13	$44.85	$48.00
U (C$/kgU)	$29.91	$28.95	$26.95	$26.00
Uranium Segment:				
U3O8 production (MMlb U3O8)	2.1	0.0	0.2	0.9
U3O8 purchased (MMlb U3O8)	4.6	14.7	7.0	5.0
Produced & purchased (MMlb U3O8)	6.7	14.7	7.2	5.9
Total uranium sold (MMlb U3O8)	6.0	9.2	6.7	5.9
Cash costs per pound (US$)	$27.81	$43.82	$41.44	$41.95
Total costs per pound (US$)	$32.53	$43.82	$42.10	$41.29
Uranium cash margin	33%	5%	8%	13%
Fuel Services Segment:				
U production (MM kgU)	3.7	2.7	2.0	3.1
Sales volume (MM kgU)	3.1	3.2	2.8	3.6
Avg. unit cost of sales incl. D&A (C$)	$20.47	$21.48	$22.81	$20.75
Financials (C$MM)				
Revenue	$345.6	$525.3	$378.9	$376.5
Cost of goods sold	($310.1)	($539.4)	($402.5)	($376.5)
Gross profit	$35.4	($14.1)	($23.6)	($0.0)
Operating Income	$2.7	($75.4)	($63.9)	($34.7)
Total other income / (expense)	($15.4)	$8.3	($2.4)	($15.1)
Net income (loss)	($19.2)	($53.0)	($60.8)	($36.4)
EPS, dil. (C$)	($0.05)	($0.13)	($0.15)	($0.09)
EPS, dil. adj. (C$)	$0.07	($0.16)	($0.20)	($0.09)
CFPS (before W/C), dil. (C$)	$0.17	$0.03	($0.05)	$0.13

Source: Cantor Fitzgerald, Cameco Reports

2020/2021 OUTLOOK

As of exit Q3/20, Cameco was well positioned with cash/equivalents/ST investments of $793 MM and undrawn credit facility capacity of $1.0 BB; its balance sheet is sufficiently strong to weather sustained production shutdowns (McArthur River, Key Lake) and/or potential COVID-related interruptions at Cigar Lake and Port Hope. Cameco stated that it does not expect to draw on its credit facility at least for the remainder of 2020. Cigar Lake operations were restarted in September and ramped-up over a two-week period, producing 0.2 MMlb U_3O_8 in the quarter, with 2020 attributable production guidance set at 5.3 MMlb U_3O_8. The restart will aid Cameco in meeting its deliveries; however, unit costs of sales are anticipated to remain high as it will continue to rely heavily on spot market purchases in 2020 to meet remaining contract deliveries. The Company stated that it may begin making spot market purchases for 2021 contract deliveries over the remainder of this year, and it is our view that Cameco will remain a large spot market buyer until prices rebound, likely to the $35-40/lb range.

Exhibit 2. Cameco NAVPS Breakdown

Asset	Value ($MM)	$ Per Share	% of NAV
Cigar Lake	$1,241	$3.14	21%
McArthur River / Key Lake Mill	$2,689	$6.79	46%
Inkai	$618	$1.56	11%
Other mining assets (BV)	$133	$0.34	2%
Total Mining Assets	**$4,681**	**$11.83**	**80%**
Fuel Services Division	$1,398	$3.53	24%
Cash + S/T Investments	$793	$2.00	13%
Current Debt + S/T Leases	$0	$0.00	0%
Long Term Debt + L/T Leases	($997)	($2.52)	-17%
Future Equity Financing	$0	$0.00	0%
Future Debt Financing	$0	$0.00	0%
	$1,193	**$3.01**	**20%**
Net Asset Value, fully diluted	**$5,874**	**$14.84**	
P/NAV		0.86x	

Source: Cantor Fitzgerald

URANIUM MARKET COMMENTARY

According to Cameco management, the spot market remains in a state of oversupply and under-demand with Cameco remaining the largest fundamental spot buyer. Willing sellers are active in the spot market, with the main source of supply being uncommitted primary production from supply centers that do not have term contracts, likely State Owned Enterprises (SOEs). This material is dumped onto the spot market indiscriminately, often mismatched in terms of timing as to when fundamental buyers are adding to their inventories. This excess spot market material, when not purchased by Cameco, is purchased in large part by intermediaries (traders) that “churn” the material short-term with the intent of locking in a modest profit. Cameco notes that the term market remains the fundamental market in uranium, as opposed to the spot market, although the current term price is effectively the forward carry-trade price of the oversupplied spot market. On the conference call, Cameco management noted that COVID-related uranium supply disruptions combined with record low interest rates has somewhat reduced the ability for intermediaries to effectively implement profitable carry trades in the spot market, but not eliminated it entirely. Discussions on term contracting are on-going according to Cameco, but no “on-market” contracts were signed in the third quarter. Utilities typically need either a supply or demand shock to resume contracting in earnest, such as the Cigar Lake flood in 2006 and the China uranium contracting demand shock in 2010. The long-term supply/demand fundamentals for higher uranium prices is intact, but utilities remain lethargic in the signing of new higher-priced long-term contracts that would incentivize new production.

TARGET AND RECOMMENDATION

Based on a 50/50 blend of 1.0x $NAVPS_{8.0\%}$ and 12.0x forward year CFPS (unchanged), we are maintaining our Buy rating and target price of US$11.75/$15.50/share on Cameco. We believe that 12.0x 2021E CFPS is a fair multiple considering CCJ's three-year average (11.9x) and long-term average (15.7x).

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HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

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UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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