



December 08, 2020

Cameco Corp. (CCO)

Uranium Sector Gets Four Catalysts; Are "ESG" Investors Gaining Interest, and Is It Time to Buy?

Uranium Stocks Have Rallied +32.6% Since 10/28 vs. +12.9% for S&P 500... But Why?

In our view, and after discussions with Uranium miners in Canada, we believe the recent strength in "nuclear stocks" is due partially to higher spot volumes in Oct./Nov. (**Ex. 1**), but also: **(1)** the U.S. Senate Committee on Environment and Public Works, last week, passing a bill that could fund a uranium strategic reserve through Sep. 2021 in the amount of \$150mn (down from the initial \$1.5bn over 10yrs announced by President Trump earlier this year), and exclude any Chinese or Russian company involvement in supplying the stockpile (implying, following a long lay-off, the US uranium industry may be in the midst of a revival - *the Democratic Party included nuclear in its party platform for the first time in five decades* ([link](#)), likely due to grid issues associated w/ solar, and Joe Biden's energy plan ([link](#)) includes a carve out for nuclear power), **(2)** the 11/28/20 announcement by Cameco that someone at its Cigar Lake mine tested positive for COVID-19 ([link](#)), **(3)** the subsequent 12/7/20 announcement by Cameco that a second person tested positive for COVID-19 at its Cigar Lake mine ([link](#)), and **(4)** indications last night that the Ukraine (i.e., the 9th largest global producer) has idled all three of its uranium mines due a to lack of funding ([link](#)) - *admittedly, these mines are capable of just 2.0mn lbs/year of output U₃O₈, which, admittedly, is <2% of global production (assuming Cigar Lake is running at nameplate)*. That said, with the global Uranium market in a fundamental supply deficit, any curtailments (no matter how small) will go to helping absorb the inventory overhang from years of excess supply - **Cameco and Kazatomprom, who represent ~55% of current global Uranium production, are managing their output with one objective in mind: higher prices.** In short, with interest in alternative energy and low GHG emissions markets gaining momentum among ESG investors, **we see the uranium sector as well positioned to attract new funds as a "catch-up" play, particularly given the Global Uranium ETF Index is up just +6.5% over the past five years, vs. +80.3% for the S&P 500 over the same timeframe.** When you add to the above discussions we've held with Uranium investors over the past few days, we feel some of the "sidelined" money is poised to come flowing back into the Uranium space. And, should Cameco announce further COVID-related issues at Cigar Lake, and ultimately shut the mine down (albeit, temporarily), we feel this would provide acute tailwinds to Uranium contract negotiations currently underway. As a reminder, while uranium spot prices are currently \$29.48/lb, when considering spot prices moved above quoted contract prices in the month of May/June, a dynamic which last occurred dating back to 7/30/07 (**Ex. 2**), it is our opinion that the Uranium market is currently defined as a sellers market; this can be further evidenced by Cameco's 3Q20 contracted price being up +13% YoY - **Ex. 3.**

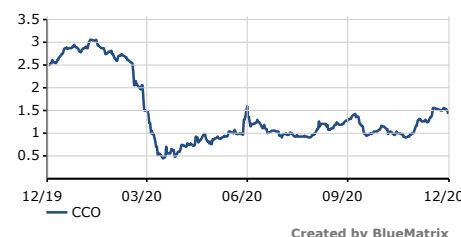
Stock Rating:	Buy
Symbol:	CCO (NYSE)
Price:	C\$15.56
Price Target:	C\$27.00
Fiscal Year End:	December

Market Data

52-Week High:	\$3.10
52-Week Low:	\$0.36
Enterprise Value (\$M):	\$7,129
Market Cap (M):	\$668
Number of shares (MM):	395.8
Float:	395.0
Average Daily Volume MM:	1.24

Estimates

		2020E	2021E	2022E
EBITDA	Q1	\$65.0	\$65.0	\$115.0
	Q2	\$(3.0)	\$134.0	\$154.0
	Q3	\$71.0	\$134.0	\$325.0
	Q4	\$123.0	\$110.0	\$404.0
	FY	\$257.0	\$444.0	\$998.0
EPS	Q1	\$(0.05)	\$(0.02)	\$0.11
	Q2	\$(0.13)	\$0.11	\$0.13
	Q3	\$(0.02)	\$0.09	\$0.40
	Q4	\$0.02	\$(0.02)	\$0.54
	FY	\$(0.19)	\$0.18	\$1.18

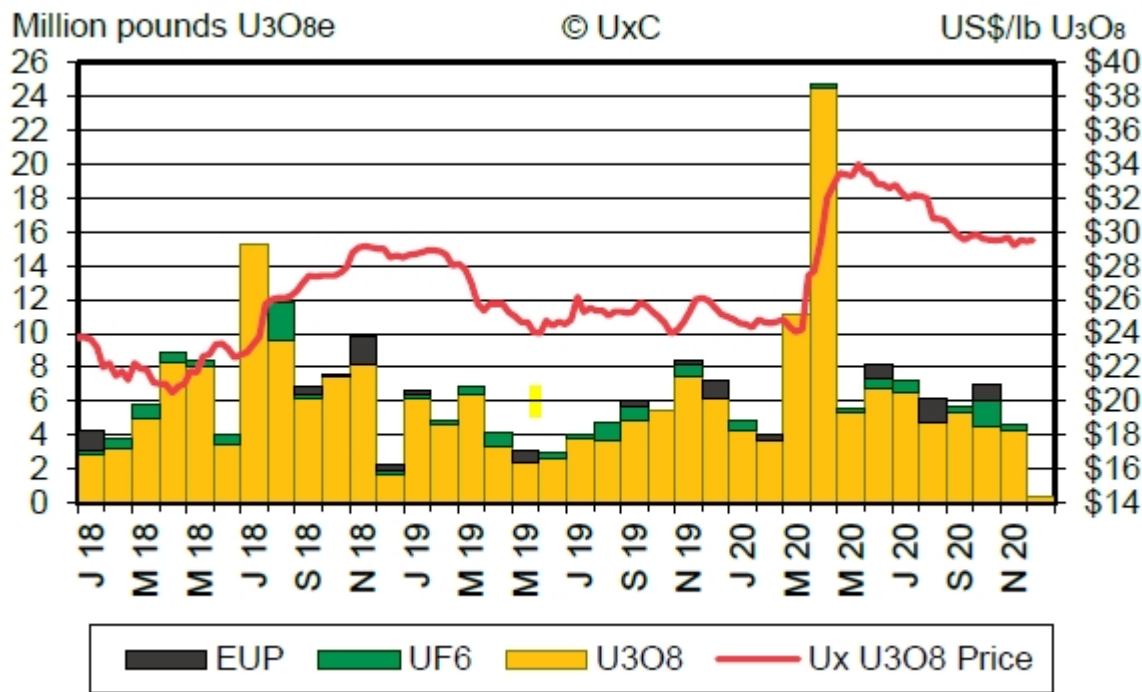
One Year Performance Chart

Source: FactSet

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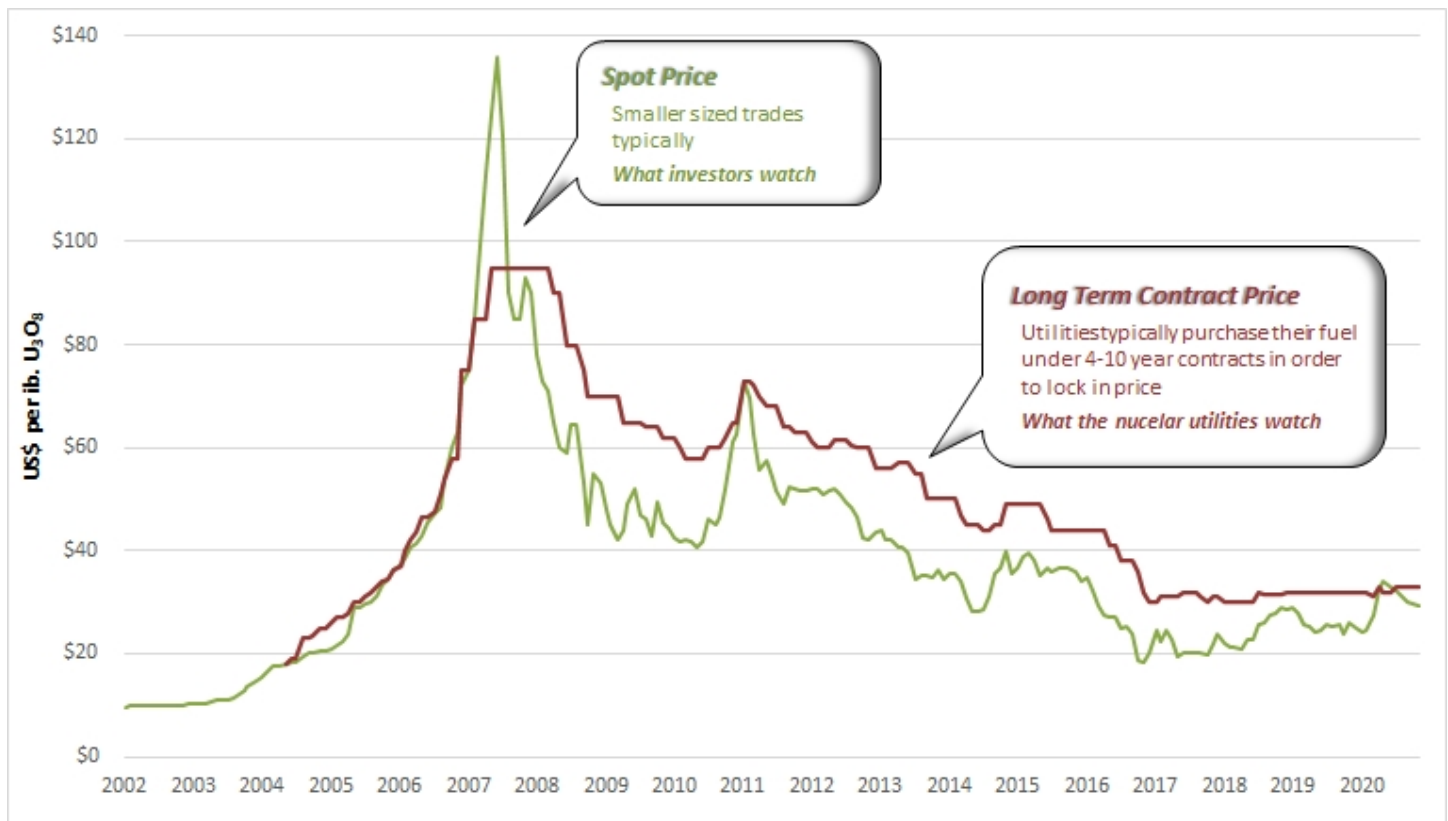
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Exhibit 1 - Ux U3O8 Price vs. Spot Volume by Form



Source: UxC Market Statistics, GLJ Research LLC.

Exhibit 2 - Uranium Does not Trade on an Open Market Like Other Commodities - Prices are Negotiated Privately



Source: UxC Market Statistics, World Nuclear Association ("WNA"), Purepoint Uranium Group Inc., GLJ Research LLC.

Exhibit 3 - Cameco 3Q20 Contracted Price +13% Above Listed UxC 3Q20 Avg. Contracted Price

Financial results by segment

Uranium

HIGHLIGHTS	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	2020	2019	CHANGE	2020	2019	CHANGE
Production volume (million lbs)	0.2	1.4	(86)%	2.3	6.3	(63)%
Sales volume (million lbs)	6.7	6.1	10%	22.0	17.5	26%
Average spot price (\$US/lb)	31.08	25.45	22%	30.00	25.83	16%
Average long-term price (\$US/lb)	35.33	31.33	13%	34.50	31.61	9%
Average realized price (\$US/lb)	33.77	30.94	9%	32.80	32.05	2%
	(\$Cdn/lb)	44.85	10%	44.46	42.72	4%
Average unit cost of sales (including D&A) (\$Cdn/lb)	49.90	41.46	20%	47.33	41.75	13%
Revenue (\$ millions)	302	248	22%	976	748	30%
Gross profit (loss) (\$ millions)	(34)	(3)	>(100)%	(63)	17	>(100)%
Gross profit (loss) (%)	(11)	(1)	>(100)%	(6)	2	>(100)%

Source: Company filings, UxC Market Statistics, GLJ Research LLC.

What About Uranium Supply/Demand? With the idling of capacity in the Ukraine last night, we now estimate 2020E production of 120mn lbs vs. consumption of 181mn lbs, or a deficit of 59.345mn lbs (**Ex. 6**); this compares to our assumed deficit of just 7.250mn lbs on 8/28/20 when we first initiated CCO with a BUY rating. So what? Well, it's important to remember that in 2019 UxC Market Statistics released a report showing that the majority of utilities were at and/or below normal strategic levels of inventory. Moreover, we remind our readers that the last two unexpected spikes in uranium prices (**Ex. 5**) - which occurred in 2006 (due to flooding at Cigar Lake) and 2010 (due to Chinese utilities coming to market for long-term contracted supply) - are both events that we see potentially repeating in 2021. And, it's also important to remember in 2006, Uranium prices went from ~\$40/lb to ~\$75/lb, making a similar move in 2010 when Chinese mills "reloaded" their long-term contracts. The point is, with: (a) the global deficit in supply being 8.2x worse than we originally projected on 8/28/20, (b) China's long-term uranium 2010 contracts being long-in-the-tooth (utilities typically purchase their uranium fuel under 4-10yr contracts in order to lock in price, meaning China's contracts/strategic supply are nearing their end-of-life), and (c) an unprecedented supply shock driven by COVID-19 (i.e., a similar supply shock caused the sharp move higher in uranium prices in 2006 - **Ex. 5**), we believe trying to perfectly time the uranium bull market could prove foolish at this point. Lastly, in our discussion with Cameco management this evening, we learned that they are now in discussions with the wildly coveted "ESG" investor(s). And, with one of our clients going as far as to say: "GLJ, if you think ESG is looking at Uranium names, you're way off", we feel the fund inflows that could befall the Uranium space have the potential to surprise even the staunchest Cameco bull - we were, admittedly, surprised/encouraged to hear ESG investors are now looking to nuclear companies as a means to satisfy their ESG mandate.

Deal Volumes Pick Up in Nov. 2020. As detailed in **Ex. 4** below, first focusing on the Uranium spot market, we note that coming off last month's volume skid, spot activity picked up a bit. That is, including activity from this past Monday's month-end Nov. deals, there were a total of eight transactions for the week involving about one million pounds U₃O₈. Activity was split with delivery at both Cameco and increased volume levels at ConverDyn. While November activity fell below averages, stronger activity over the past week pushed 2020 volume to a new annual record of 550 transactions involving 89.8mn lbs U₃O₈ booked through 12/7/20. Pricing, however, remains somewhat flat with certain sellers again looking for any available bids in the market, potentially seeking to move limited quantities of material prior to year-end - the Ux U₃O₈ price increased slightly to \$29.50/lb, up \$0.05 for the week of 12/7/20. Furthermore, based on activity, the most competitive offers for delivery within three months at Cameco have been reported at a \$0.25 premium, vs. a \$0.70 discount for ConverDyn, and a \$0.60 discount for Orano the Ux spot price of \$29.50/lb. Moving to the contracted market, activity remained limited over the past week with no new demand or contract awards reported so far in December, although a non-U.S. utility that was out for up to two million pounds U₃O₈ with delivery in 2022-25 made its notifications known as of Nov. month-end. Additionally, a few utilities have been either pursuing quiet off-market discussions, or are evaluating entry into the contract market with a couple expected to enter the market in the early part of next year (i.e., a non-U.S. utility seeking 1.4mn lbs U₃O₈ for delivery in 2023-28 and another foreign utility reviewing initial offers for delivery of three to four reloads of enriched uranium product ["EUP"]). **As such, with volumes and deal activity modestly higher in both the spot and contracted markets, we would expect spot prices to show some resilience near-term, pushing "sidelined" money back in the the Uranium stocks.**

Exhibit 4 - UxC U3O8 Spot and Contracted Deal Statistics (by week)

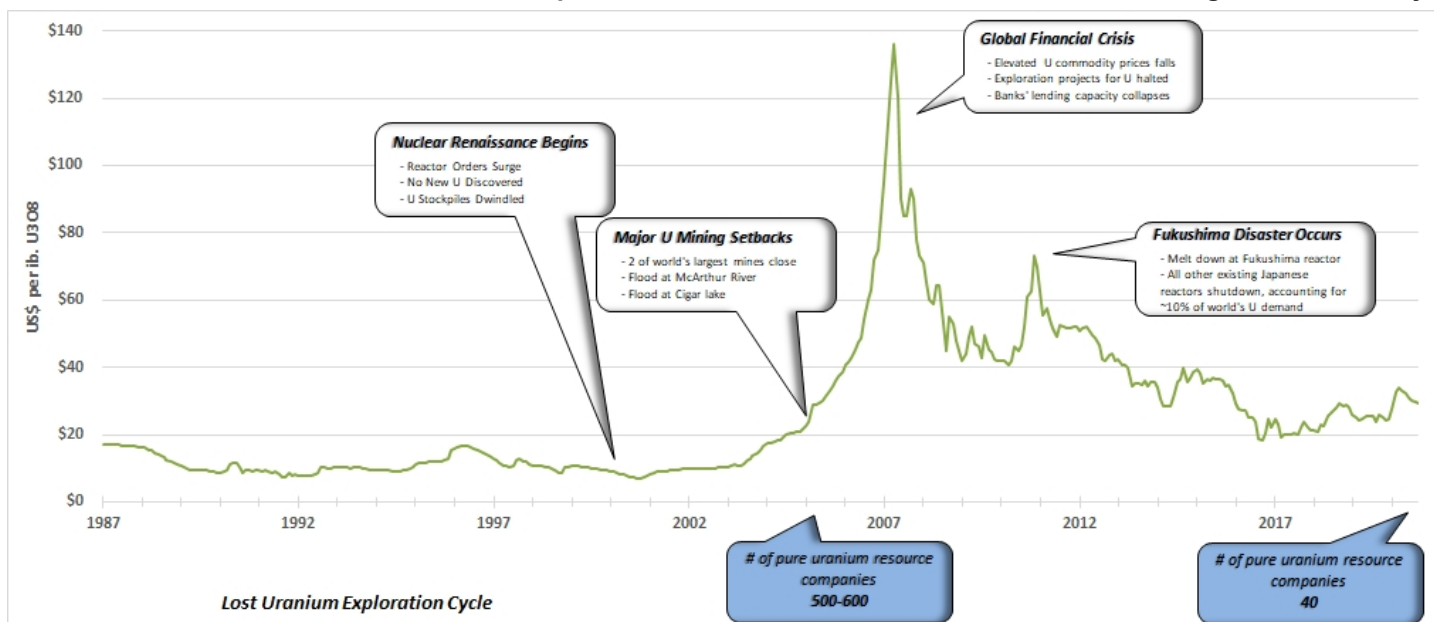
	1/27/20	2/24/20	3/30/20	4/27/20	5/25/20	6/29/20	7/27/20	8/31/20	9/26/20	10/26/20	11/30/20	12/7/20
U₃O₈e (millions lbs)												
Spot												
Volume (mn lbs)	1.3	2.2	7.6	15.1	4.4	4.4	4.4	5.7	5.0	4.9	3.1	4.7
# Deals	12	14	62	84	40	36	31	35	40	32	25	27
U₃O₈e (millions lbs)												
Contract												
Volume (mn lbs)	W	0.0	6.6	W	0.0	W	W	W	0.0	W	W	W
# Deals	2	0	7	3	0	1	1	6	0	5	1	3
Uranium Spot Price \$/lb												
Seq. Change %	-2.6%	1.4%	10.9%	19.5%	3.8%	0.0%	-3.2%	-5.8%	0.0%	-3.1%	-1.9%	0.0%

Note: W = withheld due to client confidentiality.

Source: UxC Market Statistics, GLJ Research LLC.

Should One Use UxC's \$29.50/lb Contract Price as the "Right" Price? In short, no. What do we mean? Well, quantitatively, as noted above, Cameco's 3Q20 reported contract price of \$35.33/lb was +13% above the average 3Q20 UxC reported Uranium contracted price of \$31.13/lb . How is this possible? Well, qualitatively, based on several discussions we've had this and last week - *as well as the fact that pricing details for the bulk of contracted uranium agreements are not disclosed* - we see UxC Market Statistics' contract number as not indicative of what's actually being transacted real-time (these details are rarely provided).

Exhibit 5 - Uranium Does not Trade on an Open Market Like Other Commodities - Prices are Negotiated Privately



Source: UxC Consulting, World Nuclear Association ("WNA"), Purepoint Uranium Group Inc., GLJ Research LLC.

Exhibit 6 - GLOBAL URANIUM DEMAND & SUPPLY ('000 lbs. U3O8)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
DEMAND ('000 lbs. U3O8)														
Country														
Canada	5,196	4,859	4,859	4,857	4,536	4,899	4,899	4,899	4,535	4,535	3,804	3,260	3,239	3,532
%y/y	NA	-6%	0%	0%	-7%	8%	0%	0%	-7%	0%	-16%	-14%	-1%	9%
China	15,166	22,094	16,224	24,482	25,073	24,364	25,416	22,147	28,264	35,728	29,590	32,352	44,284	38,132
%y/y	NA	46%	-27%	51%	2%	-3%	4%	-13%	28%	26%	-17%	9%	37%	-14%
France	23,516	17,213	22,809	23,233	22,196	23,796	22,643	22,543	22,339	22,339	22,339	20,810	23,127	23,264
%y/y	NA	-27%	33%	2%	-4%	7%	-5%	0%	-1%	0%	0%	-7%	11%	1%
Japan	906	1,289	5,161	3,387	3,314	2,414	2,563	6,039	9,054	7,993	8,527	12,477	9,829	9,622
%y/y	NA	42%	300%	-34%	-2%	-27%	6%	136%	50%	-12%	7%	46%	-21%	-2%
Russia	13,059	14,660	13,207	13,087	14,248	10,993	12,940	13,636	9,548	12,995	12,133	9,956	12,765	12,710
%y/y	NA	12%	-10%	-1%	9%	-23%	18%	5%	-30%	36%	-7%	-18%	28%	0%
South Korea	9,045	6,728	12,335	14,496	7,564	10,590	9,722	9,474	10,861	10,969	9,885	11,210	13,381	7,979
%y/y	NA	-26%	83%	18%	-48%	40%	-8%	-3%	15%	1%	-10%	13%	19%	-40%
United States	44,522	51,419	53,188	45,060	51,209	41,343	42,309	50,158	46,719	40,235	48,050	44,974	43,272	43,903
%y/y	NA	15%	3%	-15%	14%	-19%	2%	19%	-7%	-14%	19%	-6%	-4%	1%
Other	51,479	51,051	45,383	41,998	39,059	44,584	41,455	35,622	36,077	36,817	37,864	36,948	31,847	41,919
%y/y	NA	-1%	-11%	-7%	-7%	14%	-7%	-14%	1%	2%	3%	-2%	-14%	32%
Power utility demand	162,889	169,313	173,166	170,600	167,199	162,984	161,948	164,517	167,397	171,610	172,193	171,988	181,744	181,061
%y/y	NA	4%	2%	-1%	-2%	-3%	-1%	2%	2%	3%	0%	0%	6%	0%
Total inventory-related demand	29,700	28,500	19,600	21,000	20,000	17,000	20,000	17,000	14,000	12,000	10,000	8,000	7,000	7,000
%y/y	NA	-4%	-31%	7%	-5%	-15%	18%	-15%	-18%	-14%	-17%	-20%	-13%	0%
Total underlying demand ('000 lbs. U3O8)	192,589	197,813	192,766	191,600	187,199	179,984	181,948	181,517	181,397	183,610	182,193	179,988	188,744	188,061
%y/y	NA	3%	-3%	-1%	-2%	-4%	1%	0%	0%	1%	-1%	-1%	5%	0%
SUPPLY ('000 lbs. U3O8)														
Mine supply														
Africa	19,683	19,067	19,983	22,879	23,641	8,274	9,516	14,273	21,410	23,551	24,605	24,605	24,605	24,605
%y/y	NA	-3%	5%	14%	3%	-65%	15%	50%	50%	10%	4%	0%	0%	0%
Australia	14,702	16,333	15,186	16,561	16,518	14,040	12,636	13,900	15,290	16,513	16,513	16,513	16,513	16,513
%y/y	NA	11%	-7%	9%	0%	-15%	-10%	10%	10%	8%	0%	0%	0%	0%
Canada	34,632	36,500	34,078	18,189	18,000	10,600	14,063	16,172	18,194	18,194	18,194	18,183	22,145	35,962
%y/y	NA	5%	-7%	-47%	-1%	-41%	33%	15%	13%	0%	0%	0%	22%	62%
Kazakhstan	61,880	63,948	60,817	56,417	59,129	49,077	53,985	56,684	59,518	59,518	59,518	59,518	54,640	54,084
%y/y	NA	3%	-5%	-7%	5%	-17%	10%	5%	5%	0%	0%	0%	-8%	-1%
Russia	7,943	7,811	7,582	7,551	7,710	8,004	8,298	8,689	8,689	8,689	8,689	8,689	8,689	8,689
%y/y	NA	-2%	-3%	0%	2%	4%	4%	5%	0%	0%	0%	0%	0%	0%
Ukraine	3,120	2,600	1,600	1,742	2,185	0	0	1,000	1,250	1,563	1,953	2,148	2,185	2,185
%y/y	NA	-17%	-38%	9%	25%	0%	0%	0%	25%	20%	25%	10%	2%	0%
United States	3,264	2,921	2,469	1,495	219	200	151	151	151	151	151	151	151	151
%y/y	NA	-11%	-15%	-39%	-85%	-9%	-25%	0%	0%	0%	0%	0%	0%	0%
Uzbekistan	6,250	6,250	6,250	6,250	6,250	2,500	3,000	4,500	6,300	6,426	6,426	6,426	6,426	6,426
%y/y	NA	0%	0%	0%	0%	-60%	20%	50%	40%	2%	0%	0%	0%	0%
Other	6,828	6,583	6,537	6,399	6,354	4,130	4,543	5,452	5,997	6,387	6,387	6,387	6,387	6,387
%y/y	NA	-4%	-1%	-2%	-1%	-35%	10%	20%	10%	7%	0%	0%	0%	0%
Total mine production	158,302	162,013	154,502	137,483	140,006	96,826	106,191	120,821	136,799	140,991	142,436	142,620	141,741	155,002
%y/y	NA	2%	-5%	-11%	2%	-31%	10%	14%	13%	3%	1%	0%	-1%	9%
Total secondary supply	53,431	49,245	49,707	56,614	54,119	23,812	21,981	32,971	49,457	51,930	56,158	50,890	47,622	40,858
%y/y	NA	-8%	1%	14%	-4%	-56%	-8%	50%	50%	5%	8%	-9%	-6%	-14%
Total supply ('000 lbs. U3O8)	211,733	211,258	204,209	194,097	194,125	120,639	128,172	153,793	186,256	192,921	198,594	193,510	189,363	195,860
%y/y	NA	0%	-3%	-5%	0%	-38%	6%	20%	21%	4%	3%	-3%	-2%	3%
Supply/demand surplus (deficit) ('000 lbs. U3O8)	19,144	13,445	11,443	2,497	6,926	(59,345)	(53,776)	(27,724)	4,859	9,311	16,400	13,523	619	7,799
surplus/(deficit) % of total	9%	6%	6%	1%	4%	-49%	-42%	-18%	3%	5%	8%	7%	0%	4%

Source: Bloomberg, Ux Consulting, GLJ Research LLC.

Conclusion? The Uranium sector supply/demand balance is the tightest we've seen since pre-Fukushima. Furthermore, producers who account for over 50% of global supply are keeping capacity at bay for the sole purpose of driving Uranium prices higher. When you add to this the Uranium stocks are now gaining attention from ESG investors due to their low GHG footprint and quintessential role as a clean energy alternative, we see the set-up for incremental/new Uranium investments as opportune. Under this backdrop, we prefer Cameco given its low-cost industry positioning and solid balance sheet - *Cameco currently boasts a cash-to-debt ratio of 79.5%, which was enabled by the company fortifying its balance sheet during the most recent downturn.*

TIMESTAMP

(Article 3(1)e and Article 7 of MAR)

December 08, 2020, 20:20 ET.

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Valuation and Risks

Cameco Corp.

Valuation/Risks. Applying the 5-year average uranium mining EV/EBITDA multiple of 10.0x to our 2022 EBITDA estimate of C\$998mn, and adjusting for net cash of C\$712mn (Cameco currently boasts more cash than debt on its balance sheet), we arrive at a 2021E year-end price objective of C\$27/shr. In short, we see the key difference in our forward projections, vs. those currently reflected in the Consensus forecasts, resting with our view that uranium prices are in the process of inverting higher as utilities opportunistically look to lock in new long-term contracts (we believe uranium miners will look to lock in contracts materially above the current prevailing spot market prices). **Risks to our call.** The key risks to our call include: (1) any worsening in sentiment toward nuclear or more favorable sentiment toward alternative energy power fuel sources, (2) weaker-than-expected global energy growth, (3) production hiccups at Cameco's Cigar Lake and/or McArthur River mines, (4) any further push-out of the planned restart of the Japanese nuclear fleet.

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Buy – we expect the stock price to appreciate by 10% or more over the next 12 months

Neutral – we expect the stock price to change by less than 10% within the next 12 months

Sell – our firm's opinion is that this stock likely will be down by 10% or more over the next 12 months

Cameco Corp. Rating History as of 12/08/2020



Current Rating Distribution (as of 12/08/2020)

Coverage Universe	Percent	Inv. Banking Relationships *	Percent
Buy (Buy)	31	Buy (Buy)	0
Hold (Hold)	6	Hold (Hold)	0
Sell (Sell)	62	Sell (Sell)	0

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