

Action Note

Equity Research

December 16, 2020

Metals & Minerals

Cameco Corp.

(CCO-T, CCJ-N) C\$17.69 | US\$13.94

Cigar Lake Closes Again; Uranium Price Update

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Event

Earlier this week, Cameco announced the temporary closure of the Cigar Lake mine due to increasing COVID-19 cases in Northern Saskatchewan. We have updated our commodity price deck, including uranium, for 2021 and the next several years.

Impact: NEUTRAL

- **Remote communities in Northern Saskatchewan have been grappling with increasing COVID-19 cases over the past several weeks.** Cameco had six positive tests at its northern operations in recent weeks, including three at Cigar Lake.
- **Cameco noted that it is planning to increase its purchases in the market to secure uranium needed to meet sales commitments.** At September 30, Cigar Lake had produced 2.3mm pounds (Cameco's share) of uranium concentrates. Cameco does not expect to achieve 5.3mm pounds (its share) of production in 2020. As at the end of Q3/20, Cameco held an inventory of 14.8mm pounds of U3O8 equivalent.
- **Cameco suspended its 2020 guidance earlier this year.** However, we are forecasting sales volume of ~30mm pounds U3O8 in 2020, with ~8mm pounds sold in Q4/20. For 2021, we are forecasting uranium sales of ~27Mlbs. Although Cigar Lake is on care-and-maintenance, Cameco expects to incur costs of between \$8mm-\$10mm per month, which will be expensed directly to cost of sales. In addition, purchasing uranium in the market will come at a higher cost to mined production.
- **We have adjusted our uranium price deck for 2021/2022 to US\$34.50/lb and US\$36/lb, respectively (previously US\$36.00/lb/US\$37.50/lb).** We have lowered our price deck slightly to reflect a lower price entering 2021 than we were previously forecasting. We expect that the uncertainty around the timing of the restart of Cigar Lake, which we believe could be several months away, should provide upward support for uranium spot price.

TD Investment Conclusion

Our target price has increased to \$18.00 (from \$16.00). We have increased our target multiple to 1.25x NAV-8% (from 1.15x previously), reflecting expected upward pressure on uranium prices. **However, we believe that Cameco's share price moved in anticipation of the news of the Cigar Lake closure announcement and with less than a 20% return to our revised target price, we are lowering our recommendation to HOLD (from Buy).**



Company Profile

Cameco is one of the world's largest uranium producers. The company's flagship McArthur River and Cigar Lake mines are located in the Athabasca Basin in Saskatchewan, Canada.

Recommendation:

HOLD↓

Prior: BUY

Risk:

HIGH

12-Month Target Price:

C\$18.00↑

Prior: C\$16.00

12-Month Dividend (Est.):

C\$0.08

12-Month Total Return:

2.2%

Market Data (C\$)

Current Price	C\$17.69
52-Week Range	\$7.69 - \$18.39
Mkt Cap (f.d.) (\$mm)	\$7,008.8
EV (\$mm)	\$7,297.3
Current Dividend	\$0.08
Dividend Yield	0.5%
Avg. Daily Trading Vol.	1,738,460

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	396.2
Float Shares (mm)	396.2
Net Debt/Total Cap	5.5%
NAVPS	\$14.34
Working Cap (\$mm)	\$1,453.3

Estimates (C\$)

Year	2019A	2020E	2021E	2022E
EBITDA (\$mm)	372.8	81.7	(19.2)	157.4
EBITDA (\$mm) (old)	-	85.8	86.9	-
EPS (f.d.)	0.10	(0.30)	(0.58)	(0.06)
EPS (f.d.) (old)	-	(0.29)	(0.16)	-
CFPS (f.d.)	1.04	0.14	(0.57)	0.40
CFPS (f.d) (old)	-	0.15	0.24	-

EPS (f.d.) Quarterly Estimates (C\$)

Year	2019A	2020E	2021E	2022E
Q1	(0.08)	0.07	(0.26)	-
Q2	(0.04)	(0.16)	(0.17)	-
Q3	(0.01)	(0.20)	(0.08)	-
Q4	0.23	(0.02)	(0.07)	-

Valuations

Year	2019A	2020E	2021E	2022E
EV/EBITDA	19.6x	89.3x	nmf	46.4x
P/E (f.d.)	nmf	nmf	nmf	nmf
P/CFPS (f.d)	17.0x	nmf	nmf	44.2x

Supplemental Data

Year	2019A	2020E	2021E	2022E
U3O8 (US\$/lb)	26	29	35	36
U3O8 Prod. Mlb	9	5	7	9

All figures in C\$, unless otherwise specified

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Details

As 2020 comes to a close, uranium prices are up ~20% over the course of the year to ~US\$30.00/lb in another eventful year for the commodity. Several key trade issues have now been resolved, including the Section 232 investigation, the Nuclear Fuel Working Group report, and the extension of the Russian Suspension Agreement. This should be positive for the uranium market, creating a more open and competitive market. Despite several positive steps forward, some lingering issues remain as we enter 2021, including COVID-19 and its impact on demand and more importantly supply.

Spot volumes total ~90 million pounds U3O8e year-to-date, which is 50% higher versus the same period in 2019. Term volume has totalled 49.5 million pounds U3O8e year-to-date in 41 deals, which is 21% higher than 2019 volumes. Despite the higher term volumes, there continues to be a lack of urgency in the market and fuel buyers continue to receive multiple responses to RFPs, some of which are reportedly not backed-up by production (e.g. from traders and developers). We continue to believe that the missing piece of the puzzle for a sustained upward move in the uranium term price remains the resumption of a term contracting cycle.

On the supply-side, we note that both Cameco and Kazatomprom continue to demonstrate supply discipline. McArthur River is expected to remain on care-and-maintenance for the foreseeable future (TD assumes a restart in 2023), while Kazatomprom announced earlier this year that it would extend its 20% production curtailment (relative to production expected under subsoil agreements) into 2022. Under the subsoil agreements, 2022 production would have been 28,000tU absent the 20% production curtailment versus current guidance of 22,000–23,000tU.

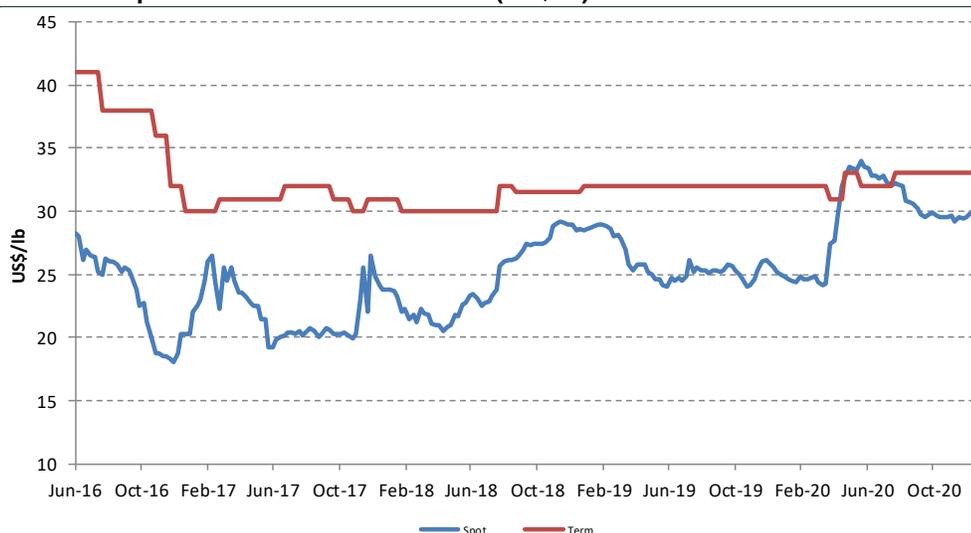
We are currently forecasting 2020 primary production of ~120 million pounds, resulting in an annual deficit of 27 million pounds. We expect primary production to recover to ~128 million pounds in 2021 (assuming that Cigar Lake is curtailed through Q1/21), with the deficit declining modestly to ~24 million pounds.

We have lowered our uranium price deck to US\$34.50/lb in 2021 from US\$36.00/lb previously and trimmed our 2022 and 2023 price deck by approximately 5% to US\$36.00/lb and US\$38.00/lb, respectively. Our long-term price remains unchanged at US\$45.00/lb U3O8 beginning in 2025.

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Exhibit 1. Spot and Term Uranium Prices (US\$/lb)


Source: UxC, TD Securities Inc.

Exhibit 2. Uranium Supply/Demand Model

	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E
Mine Supply - Western World (Mlb U3O8)									
Total Mine Supply - Western World	100	83	85	75	76	80	85	88	86
Net Eastern Mine Supply (lbs U3O8)	54	54	55	44	52	53	60	66	72
Total World Mine Supply (Mlb U3O8)	154	138	140	119	128	132	145	154	158
YoY % change	-7.6%	-10.2%	1.7%	-15.0%	7.7%	3.2%	9.1%	6.8%	2.6%
Secondary Supply									
Global underfeeding and tails re-enrichment*	19	18	18	16	16	15	15	14	14
Mixed Oxide Fuel (MOX)*	5	5	6	6	6	6	6	7	8
US government sales (DOE Proposed)*	3	2	2	1	0	0	0	0	0
Additional Russian secondary supply*	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Total Secondary Supply (Mlb)	27	24	26	24	22	21	21	21	21
Secondary supply as % of global reactor demand	16%	14%	15%	13%	12%	12%	12%	11%	11%
Mobilization of Commercial Inventory	7								
Total Supply	187	169	173	150	157	161	173	183	187
Total World Demand									
Total World Nuclear Generating Capacity (MWe) *	358,819	368,571	372,978	374,420	384,508	385,211	389,242	394,906	398,885
Uranium requirements per MWe	472	472	472	472	472	472	472	472	472
Uranium demand (mmlb)	169	174	176	177	181	182	184	186	188
First Core Requirement (2 year lead)	-	-	-	-	-	-	-	-	-
Total World Demand (Mlb U3O8)	169	174	176	177	181	182	184	186	188
YoY % change	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%	1.0%
Supply / Demand Balance (Mlb)	18	-5	-3	-27	-24	-21	-11	-4	-2
Spot Uranium Price (US\$/lb U3O8)	\$22.12	\$24.82	\$25.94	\$29.49	\$34.50	\$36.00	\$38.00	\$40.00	\$45.00

* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case

Note - TD LT price assumption starts in 2025; a flat US\$45/lb price is assumed for 2025 and beyond.

Source: UxC, WNA, TD Securities Inc. estimates

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Outlook

We have updated our forecasts to reflect the temporary closure of Cigar Lake. We have assumed that the operations will remain closed in Q1/21. We have also incorporated our revised uranium price deck.

Exhibit 3. Cameco Net Asset Value

Cameco Net Asset Value	8%		10%		
	C\$000	C\$/sh	C\$000	C\$/sh	
Nuclear Operations					
McArthur River	69.8% MRJV, 83.33% KLJV	2,261,044	5.71	1,815,314	4.58
Cigar Lake	50.3% JV	945,691	2.39	876,301	2.21
Rabbit Lake	100%	105,003	0.27	79,995	0.20
Inkai	40%	1,393,164	3.52	1,111,474	2.81
Highland-Smith	100%	190,200	0.48	190,200	0.48
Crow Butte	100%	108,600	0.27	108,600	0.27
Conversion	100%	397,020	1.00	349,659	0.88
Total Operations		5,400,722	13.63	4,531,543	11.44
Existing Mines (50% inferred resources @ C\$8/lb)		515,200	1.30	515,200	1.30
Pipeline projects (50% total resources @C\$4/lb) *		628,200	1.59	628,200	1.59
Mining/Project NAV		6,544,122	16.52	5,674,943	14.33
Plus:					
Working Capital		1,453,320	3.67	1,453,320	3.67
Equity Investments		27,402	0.07	27,402	0.07
Minus:					
Corporate G&A		(420,288)	(1.06)	(386,323)	(0.98)
CRA Cash Remittances		206,953	0.52	206,953	0.52
Debt		(997,222)	(2.52)	(997,222)	(2.52)
Reclamation		(1,133,600)	(2.86)	(1,133,600)	(2.86)
Plus/(Minus) balance sheet items		(863,435)	(2.18)	(829,469)	(2.09)
Total NAV		5,680,687	14.34	4,845,474	12.23

* Pipeline projects include: Yeelirrie, Kintyre, Millennium and Fox Lake

TD Metal Price Forecasts	2021E	2022E	2023E	LT
Uranium (US\$/lb)	34.50	36.00	38.00	45.00
US\$/C\$	0.76	0.76	0.77	0.80

Source: TD Securities Inc. estimates

Valuation

CCO is currently trading at a P/NAV multiple of 1.2x, compared with its larger-cap Canadian mining peers at an average of 0.90x. Based on our forecasts, Cameco has traded at an average P/NAV multiple of 1.1x since 2011 (after the Fukushima accident).



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Justification of Target Price

Our \$18.00 target price is based on an NAV-8% multiple of 1.25x (100% weighted, previously 1.15x).

Key Risks to Target Price

The main risks facing the company include forecast, financial, technical, and political risks. Among other things, these include risks related to uranium prices, input costs, and fuel prices; the governing fiscal and legislative regimes; the timing of key developments; market conditions; capital and operating costs; foreign exchange rates; resources and reserves; operating parameters; permitting; environment; and staffing and key personnel retention. As Cameco is primarily a uranium mining company, it faces heightened environmental risks relative to other mining companies. The transfer pricing tax dispute with CRA, which CRA has sought leave to appeal to the Supreme Court of Canada, is an additional risk. COVID-19-related operational restrictions could affect our forecasts.

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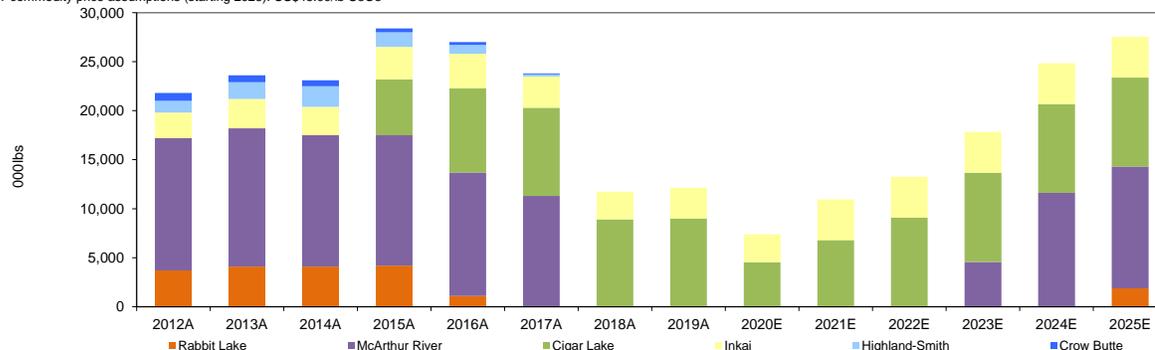
Exhibit 4. Snapshot

Risk Profile:	HIGH												
Stock Rating:	HOLD												
Target Price:	18.00												
NAV Estimate													
McArthur River								2,261.0	5.71	1,815.3	4.58		
Cigar Lake								945.7	2.39	876.3	2.21		
Rabbit Lake								105.0	0.27	80.0	0.20		
Inkai								1,393.2	3.52	1,111.5	2.81		
Highland-Smith								190.2	0.48	190.2	0.48		
Crow Butte								108.6	0.27	108.6	0.27		
Conversion								397.0	1.00	349.7	0.88		
Total Operations								5,400.7	13.63	4,531.5	11.44		
Resources - Existing Mines*								515.2	1.30	515.2	1.30		
Resources - Pipeline projects*								628.2	1.59	628.2	1.59		
Nukem								0.0	0.00	0.0	0.00		
Mining/Project NAV								6,544.1	16.52	5,674.9	14.33		
Working Capital								1,453.3	3.67	1,453.3	3.67		
Corporate G&A								-420.3	-1.06	-386.3	-0.98		
CRA Cash Remittances								207.0	0.52	207.0	0.52		
Debt								-997.2	-2.52	-997.2	-2.52		
Other								-1,106.2	-2.79	-1,106.2	-2.79		
Total balance sheet adj.								-863.4	-2.18	-829.5	-2.09		
Total Net Asset Value								5,680.7	14.34	4,845.5	12.23		

* Existing mines and pipeline projects are based on 50% inferred resources @ C\$8/lb and 50% of total resources @ C\$4/lb, respectively.

Fiscal Yr-End: Dec	2018A	2019A	2020E	Q1/21E	Q2/21E	Q3/21E	Q4/21E	2021E	2022E	2023E	2024E	2025E
CS												
Metal Price Assumptions												
Spot Uranium (US\$/lb)	24.82	25.94	29.49	33.00	34.00	35.00	36.00	34.50	36.00	38.00	40.00	45.00
Realized Uranium Price (US\$/lb)	37.13	33.00	33.29	36.60	36.60	36.60	36.60	36.60	36.40	38.70	40.00	45.00
Realized Uranium Price (C\$/lb)	47.95	44.84	46.01	48.16	48.16	48.16	48.16	48.16	47.89	50.26	50.00	56.25
Production Assumptions												
Uranium (Mlb), attributable	8.9	9.0	4.6	0.0	2.3	2.3	2.3	6.8	9.1	13.7	20.7	23.4
Per Share Estimates (US\$/sh)												
EPS (f.d.) (C\$/sh)	0.38	0.10	(0.30)	(0.26)	(0.17)	(0.08)	(0.07)	(0.58)	(0.06)	0.08	0.55	0.97
CFPS bf WC (C\$/sh)	1.21	1.04	0.14	(0.23)	(0.13)	(0.11)	(0.11)	(0.57)	0.40	0.34	0.93	1.39
EBITDA	1.16	0.97	0.21	(0.11)	(0.03)	0.03	0.05	(0.05)	0.40	0.30	0.99	1.48
Financial Estimates (\$M)												
Total Revenue	2,091.7	1,862.9	1,732.3	394.7	323.4	372.5	437.0	1,527.6	1,433.1	1,545.9	1,521.6	1,810.7
Operating Cost	1,467.9	1,345.6	1,509.3	406.9	302.3	327.5	385.1	1,421.8	1,140.9	1,279.4	949.9	1,042.6
Gross Margin	623.7	517.4	223.0	(12.3)	21.1	45.0	52.0	105.8	292.2	266.5	571.7	768.1
Gross Margin %	30%	28%	13%	-3%	7%	12%	12%	7%	20%	17%	38%	42%
EBITDA	460.0	372.8	81.7	(43.5)	(10.2)	13.8	20.7	(19.2)	157.4	118.9	393.1	586.5
EBITDA Margin %	22%	20%	5%	-11%	-3%	4%	5%	-1%	11%	8%	26%	32%
Operating CF bf. ch. in WC	478.4	413.8	54.4	(89.3)	(51.4)	(43.4)	(42.0)	(226.0)	159.5	133.8	367.6	549.8
Changes in Working Capital	189.0	113.2	(245.7)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CF from operating activities	667.4	527.0	(191.3)	(89.3)	(51.4)	(43.4)	(42.0)	(226.0)	159.5	133.8	367.6	549.8
CF from financing activities	(144.2)	(606.9)	(54.0)	(31.7)	(31.7)	(31.7)	(31.7)	(126.7)	(431.7)	(31.7)	(531.7)	(31.7)
CAPEX	(55.4)	(75.2)	(79.5)	(23.8)	(23.8)	(23.8)	(23.8)	(95.0)	(97.3)	(73.1)	(68.4)	(82.9)
Other	(356)	513	(23)	(4)	(4)	(4)	(4)	(18)	(18)	(18)	0	0
CF from investing activities	(411.6)	437.4	(102.8)	(28.1)	(28.1)	(28.1)	(28.1)	(112.5)	(114.8)	(90.6)	(68.4)	(82.9)
Cash	711.5	1,062.4	715.8	566.7	455.5	352.4	250.6	250.6	(136.3)	(124.8)	(357.2)	78.0
Current portion of LTD	499.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt	996.1	996.7	997.2	997.2	997.2	997.2	997.2	997.2	597.2	597.2	97.2	97.2
Net Debt	393.1	(65.7)	261.5	410.6	521.7	624.9	726.6	726.6	713.6	702.0	434.4	(0.8)
Net Debt/EBITDA	0.62x	-0.18x	3.45x	nm	nm	nm	nm	-38.87x	4.66x	6.07x	1.16x	0.03x
Net Debt/Net Debt + Equity	5.4%	-1.3%	5.5%	8.4%	10.6%	12.5%	14.4%	14.4%	14.3%	14.2%	9.1%	0.4%
FCF	423.1	338.6	(25.1)	(113.1)	(75.1)	(67.1)	(65.7)	(321.0)	62.2	60.7	299.3	466.9
S/O basic (M)	395.8	385.8	395.9	395.9	395.9	395.9	395.9	395.9	395.9	395.9	395.9	395.9

* LT commodity price assumptions (starting 2025): US\$45.00/lb U3O8



Source: TD Securities Inc. estimates



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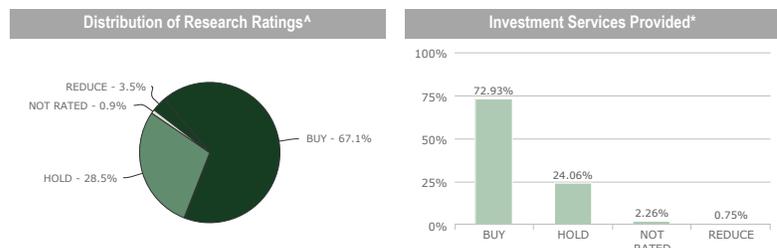
Company	Ticker	Disclosures
Cameco Corp.	CCO-T CCJ-N	2, 4, 9

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Current as of: December 16, 2020

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Action Note

Equity Research

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