

CAMECO CORPORATION

Lighting up the Cigar

EVENT

On Friday after the market close, Cameco announced plans to restart its Cigar Lake mine.

BOTTOM LINE

Modest Positive – Production at Cameco’s flagship operation was temporarily suspended in December of last year after several employees tested positive for COVID-19. Following enhanced safety measures implemented at the mine along with the provincial vaccine rollout in Saskatchewan, Cameco has committed to restarting production at the mine later this month.

FOCUS POINTS

- **A Slow but Steady Ramp-up** – Production guidance for 2021 related to the ramp-up at Cigar Lake was not provided, but we expect Cameco to take a “slow and steady” approach. At nameplate capacity, Cigar Lake is capable of producing 18 MMlb U₃O₈ per annum (on a 100%-basis), but we do not expect the mine to achieve this production rate until Q1/22.
- **Still a Spot Market Buyer** – The restart of Cigar Lake should come as expected as the production suspension in December of last year was always temporary in nature (COVID-related) and vaccines are beginning to roll-out across the province. Importantly, despite the production restart, Cameco *will also continue to purchase material, as needed, to meet committed deliveries.*
- **Increasing Price Target, Upgrading to Buy** – We are increasing our price target to US\$18.50/\$24.00, up from US\$15.75/\$20.50, based on a 75/25 blend of 1.75x NAVPS_{8.0%} and 17.5x 2022E CFPS, up from 1.50x NAVPS_{8.0%} and 15.0x 2022E CFPS, previously. We are upgrading our rating to Buy from Hold.

Recommendation:

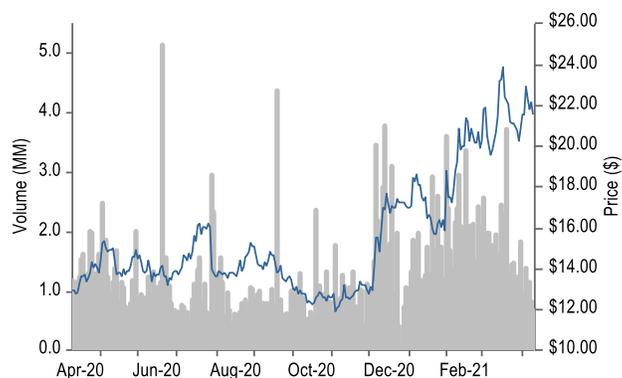
Buy↑

Symbol/Exchange: CCJ-NYSE, CCO-TSX
Sector: Metals & Mining
All dollar values in C\$ unless otherwise noted.
Current price: US\$17.21/\$21.58
One-year target: US\$18.50/\$24.00↑
Return to Target: 7.5%
Cash and Equivalents: \$918.4 MM

Financial summary

	2019A	2020A	2021E	2022E
Shares O/S (MM)	397.2	52-week range	\$11.84 - \$24.57	
Market cap (MM\$)	\$8,571.6	30D avg. vol. (000)	8,290.2	
Market float (MM\$)	\$8,553.6	Fiscal year-end	31-Dec	
Uranium Production (MMlb)	9.0	5.1	2.6	9.1
Prod'd & Purch'd (MMlb)	28.0	38.7	12.6	19.5
Uranium Sales (MMlb)	31.5	30.5	24.0	19.5
Realized U3O8 Price (\$/lb)	\$43.88	\$45.71	\$51.03	\$61.75
Cash Operating Costs (\$/lb)	\$28.98	\$37.24	\$43.64	\$36.53
EPS, dil., adj.	\$0.11	(\$0.17)	(\$0.04)	\$0.48
Dividends per share	\$0.08	\$0.08	\$0.08	\$0.08
CFPS	\$1.09	\$0.63	\$0.64	\$1.05
Free CFPS	\$1.14	(\$0.05)	\$0.29	\$0.80

Source: Company Reports and Cantor Fitzgerald Estimates.



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.

CIGAR LAKE RESTARTING LATER THIS MONTH

On Friday after the market close, Cameco announced plans to restart its Cigar Lake mine. Production was temporarily suspended in December of last year after several employees tested positive for COVID-19. Following enhanced safety measures implemented at the mine along with the provincial vaccine rollout in Saskatchewan, Cameco has committed to restarting production at the mine later this month. While 2021 guidance related to the ramp-up at Cigar Lake was not provided, we expect Cameco to take a “slow and steady” approach. We note that in the Friday press release, the Company made it clear that it *will not hesitate to take further action* (another temporary shutdown) *should its ability to operate safely be compromised due to the pandemic*. The timing of production restart and trajectory of the ramp-up will be driven primarily by how quickly Cameco is able to re-mobilize the work force at the mine. At nameplate capacity, Cigar Lake is capable of producing 18 MMlb U₃O₈ per annum (on a 100%-basis), but we do not expect the mine to achieve this steady-state production rate until Q1/22 at the earliest.

IMPACT TO URANIUM MARKET

The restart of Cigar Lake should come as expected as the production suspension in December of last year was always temporary in nature (COVID-related) and vaccines are beginning to roll-out across the province. As one of the largest uranium mines in the world, Cigar Lake is a critical component of the global uranium supply-demand landscape. In the past, production delays or curtailments at Cigar Lake have typically acted as a positive driver of spot uranium prices with operational restarts at the mine having the opposite effect. We do not expect the restart announcement made on Friday to hold this same pattern, as a 2021 restart at Cigar Lake should have already been priced in by investors. In the event of a “knee-jerk” reaction lower in Cameco shares and/or the related uranium equities on Monday, we would be buyers of the dip. Importantly, despite the production restart at Cigar Lake, Cameco will remain active in the uranium spot market as a buyer. According to the Company, Cameco *will also continue to purchase material, as needed, to meet committed deliveries*.

POSITIVE SENTIMENT IN URANIUM ACCELERATING

Over the last 3-4 months, sentiment in the uranium sector has turned increasingly positive, as we originally highlighted in our January 25 Macro Report: *A Green Economy and Electric Vehicles Start with Metals* (link [here](#)). More recently, over the last month, this has been confirmed by a sharp move higher in spot uranium prices, which we expect will continue as indicated by the widening P/NAVPS premiums of Uranium Participation (U-TSX, Buy – \$6.50/share target) and Yellow Cake (YCA-LSE, Buy – £3.25/share target). As a reminder, under the Biden Administration, the United States has rejoined the Paris Climate Agreement that calls for net-zero carbon emissions for most of the developed-world by 2050. With uranium currently generating 80% of carbon-free grid power in the United States, coupled with the aggressive nuclear power expansion plans of China (the world’s second largest economy), it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future.

INCREASING PRICE TARGET, UPGRADING TO BUY

We are increasing our price target on Cameco to US\$18.50/\$24.00, up from US\$15.75/\$20.50, based on a 75/25 blend of 1.75x NAVPS_{8.0%} and 17.5x 2022E CFPS, up from 1.50x NAVPS_{8.0%} and 15.0x 2022E CFPS, previously. We are

upgrading our rating to Buy from Hold following the positive restart decision at Cigar Lake. Cameco should be a core holding for any/all institutional investors with a uranium focus, energy allocation, or Environmental, Social, and Governance (ESG) criteria.

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Definitions of recommendations

BUY: The stock is attractively priced relative to the company's fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

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.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

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

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