

# CAMECO CORPORATION

## Reports Q2/21 Results, Signs New Long-Term Contracts

### EVENT

Cameco reported its Q2/21 before the open and hosted a management call to discuss the results earlier today.

### BOTTOM LINE

**Positive** – While earnings were a modest miss on our numbers and consensus estimates, Cameco added an additional 7 MMlb U<sub>3</sub>O<sub>8</sub> to its long-term contract portfolio in Q2/21 and maintained its 11-13 MMlb U<sub>3</sub>O<sub>8</sub> spot market purchase commitments for the year. The macro set-up for uranium, and for Cameco as one of the largest producers, remains excellent.

### FOCUS POINTS

- **Cigar Lake Restarted, Production Guidance Updated** – Following the wildfire scare, and temporary shut-down earlier this month (note [here](#)), Cameco’s flagship Cigar Lake operation is ramping back up, and 2021 production guidance has been set at “up to” 6.0 MMlb U<sub>3</sub>O<sub>8</sub> net to the Company.
- **7 MMlb U<sub>3</sub>O<sub>8</sub> in New Long-Term Contracts** – Building on the 9 MMlb U<sub>3</sub>O<sub>8</sub> in term contracts it signed in April, over the remainder of the second quarter Cameco added another 7 MMlb U<sub>3</sub>O<sub>8</sub> to its contract portfolio. The Company noted that while at present long-term contracting remains “more discretionary,” the spot market is “getting cleaned up” setting term prices up for structural transition higher.
- **Maintaining Buy Rating and Target Price** – Incorporating the Q2/21 financial results and updated guidance for Cigar Lake, we are maintaining our Buy rating and US\$22.50/\$28.00 price target on Cameco. This is based on a 75/25 blend of 2.0x NAVPS<sub>8.0%</sub> and 20.0x 2022E CFPS.

### Recommendation:

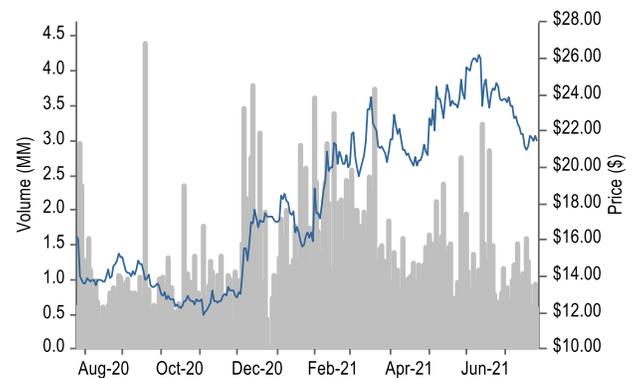
**BUY**

Symbol/Exchange: CCJ-NYSE/CCO-TSX  
Sector: Metals & Mining  
*All dollar values in C\$ unless otherwise noted.*  
Current price: US\$17.04/\$21.46  
One-year target: US\$22.50/\$28.00  
Return to Target: 32.0%  
Cash and Equivalents: \$1,058 MM

### Financial Summary

|                              | 2019A     | 2020A               | 2021E             | 2022E   |
|------------------------------|-----------|---------------------|-------------------|---------|
| Shares O/S (MM)              | 397.8     | 52-week range       | \$11.84 - \$26.62 |         |
| Market cap (MM\$)            | \$8,535.8 | 30D avg. vol. (000) | 5,855.7           |         |
| Market float (MM\$)          | \$8,517.8 | Fiscal year-end     | 31-Dec            |         |
| Uranium Production (MMlb)    | 9.0       | 5.1                 | 5.8               | 9.1     |
| Prod'd & Purch'd (MMlb)      | 28.0      | 38.7                | 16.7              | 19.5    |
| Uranium Sales (MMlb)         | 31.5      | 30.5                | 23.0              | 19.5    |
| Realized U3O8 Price (\$/lb)  | \$43.88   | \$45.71             | \$42.46           | \$50.00 |
| Cash Operating Costs (\$/lb) | \$28.98   | \$37.24             | \$34.75           | \$35.30 |
| EPS, dil., adj.              | \$0.11    | (\$0.17)            | (\$0.15)          | \$0.28  |
| Dividends per share          | \$0.08    | \$0.08              | \$0.08            | \$0.08  |
| CFPS                         | \$1.09    | \$0.63              | \$0.56            | \$0.78  |
| Free CFPS                    | \$1.14    | (\$0.05)            | \$0.54            | \$0.54  |

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.

## Q2/21 FINANCIAL AND OPERATING RESULTS

This morning, Cameco reported Q2/21 operating and financial results, and provided a macroeconomic outlook for the uranium sector. The Company sold 6.0 MMlb U<sub>3</sub>O<sub>8</sub> in the second quarter (directly in-line with our estimate) at an average realized price of US\$33.56/lb U<sub>3</sub>O<sub>8</sub> (up from Q1/21 levels of US\$32.35/lb U<sub>3</sub>O<sub>8</sub>, but below our US\$38.50/lb U<sub>3</sub>O<sub>8</sub> estimate). Combined with sales from the Fuel Services division of 3.1 MMkgU, Q2/21 revenue was reported at \$359 MM, driving headline EPS of \$(0.09). Normalizing for non-cash gains/losses on derivatives, reclamation provisions, and deferred taxes, adjusted EPS was reported at \$(0.10), modestly below our \$(0.08) estimate and a miss on consensus at \$(0.06). The Company maintained a strong balance sheet exiting the quarter with \$1.1 BB in cash and short-term investments, and uranium in inventory of 9.9 MMlb U<sub>3</sub>O<sub>8</sub> equivalent, equating to ~\$405 MM at prevailing spot U<sub>3</sub>O<sub>8</sub> prices and foreign exchange rates. During the quarter, Cameco made uranium purchases totaling 2.4 MMlb U<sub>3</sub>O<sub>8</sub>. The Company's total debt position is unchanged with no short-term debt, and long-term debt of \$1.0 BB comprised of senior unsecured debentures maturing on June 24, 2024 (\$500 MM at 4.19%), Oct 21, 2027 (\$400 MM at 2.95%), 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 2021. The Q2/21 headline results are summarized below:

### Exhibit 1. Quarterly Results Comparison

| <b>Avg. Realized Price:</b>  | <b>Q3/20A</b> | <b>Q4/20A</b> | <b>Q1/21A</b> | <b>Q2/21A</b> | <b>Q2/21E</b> |
|--|---------------|---------------|---------------|---------------|---------------|
| U <sub>3</sub> O <sub>8</sub> (US\$/lb U <sub>3</sub> O <sub>8</sub> )         | \$33.77       | \$38.43       | \$32.35       | \$33.56       | \$38.50       |
| U <sub>3</sub> O <sub>8</sub> (C\$/lb U <sub>3</sub> O <sub>8</sub> )          | \$44.85       | \$50.40       | \$41.05       | \$41.70       | \$50.05       |
| U (C\$/kgU)  | \$26.95       | \$26.29       | \$31.91       | \$32.57       | \$30.00       |
| <b>Uranium Segment:</b>  |               |               |               |               |               |
| U <sub>3</sub> O <sub>8</sub> production (MMlb U <sub>3</sub> O <sub>8</sub> ) | 0.2           | 2.8           | 0.0           | 1.3           | 0.4           |
| U <sub>3</sub> O <sub>8</sub> purchased (MMlb U <sub>3</sub> O <sub>8</sub> )  | 7.0           | 7.3           | 1.5           | 2.4           | 2.5           |
| Produced & purchased (MMlb U <sub>3</sub> O <sub>8</sub> )                     | 7.2           | 10.1          | 1.5           | 3.7           | 2.9           |
| Total uranium sold (MMlb U <sub>3</sub> O <sub>8</sub> )                       | 6.7           | 8.6           | 5.0           | 6.0           | 6.0           |
| Cash costs per pound (US\$)  | \$41.44       | \$30.93       | \$37.13       | \$30.51       | \$49.12       |
| Total costs per pound (US\$)   | \$42.10       | \$34.99       | \$37.13       | \$37.73       | \$49.88       |
| Uranium cash margin  | 8%            | 39%           | 10%           | 27%           | 2%            |
| <b>Fuel Services Segment:</b>  |               |               |               |               |               |
| U production (MM kgU)  | 2.0           | 3.3           | 4.0           | 3.6           | 3.3           |
| Sales volume (MM kgU)  | 2.8           | 4.4           | 2.6           | 3.1           | 3.3           |
| Avg. unit cost of sales incl. D&A (C\$)  | \$22.81       | \$19.12       | \$21.53       | \$20.89       | \$20.75       |
| <b>Financials (C\$MM)</b>  |               |               |               |               |               |
| Revenue  | \$378.9       | \$550.4       | \$290.0       | \$359.2       | \$397.8       |
| Cost of goods sold   | (\$402.5)     | (\$441.6)     | (\$329.8)     | (\$347.2)     | (\$410.2)     |
| Gross profit   | (\$23.6)      | \$108.7       | (\$39.8)      | \$12.0        | (\$12.4)      |
| Operating Income   | (\$63.9)      | \$57.9        | (\$31.0)      | (\$38.2)      | (\$43.6)      |
| Total other income / (expense)   | (\$2.4)       | \$48.7        | \$24.0        | (\$3.6)       | (\$0.1)       |
| Net income (loss)  | (\$60.8)      | \$79.8        | (\$5.0)       | (\$36.8)      | (\$31.9)      |
| EPS, dil. (C\$)  | (\$0.15)      | \$0.20        | (\$0.01)      | (\$0.09)      | (\$0.08)      |
| EPS, dil. adj. (C\$)   | (\$0.20)      | \$0.12        | (\$0.07)      | (\$0.10)      | (\$0.08)      |
| CFPS (before W/C), dil. (C\$)  | (\$0.05)      | \$0.48        | \$0.03        | \$0.19        | \$0.09        |

Source: Cantor Fitzgerald, Cameco Reports

## IMPORTANT TAKEAWAYS FROM Q2 AND INVESTOR CALL

While Cameco's Q2/21 earnings were a modest miss on our numbers and consensus estimates, several positive developments were made in the second quarter and highlighted by management in the conference call earlier this morning. These developments, both Cameco-specific and with the broader industry macroeconomic setup in general, far outweigh the small bottom-line miss in the Company's second quarter financials. These developments include:

▶ **New 7 MMlb U<sub>3</sub>O<sub>8</sub> in Long-Term Contracts Signed:**

Building on the 9 MMlb U<sub>3</sub>O<sub>8</sub> in term contracts it signed in April, over the remainder of the second quarter Cameco added another 7 MMlb U<sub>3</sub>O<sub>8</sub> to its contract portfolio. The Company noted that while at present long-term contracting remains "more discretionary," the spot market is "getting cleaned up" setting term prices up for structural transition higher. While pricing terms were not disclosed on the combined 16 MMlb U<sub>3</sub>O<sub>8</sub> of long-term contracts signed by Cameco in Q2/21, the Company noted that there is an "eagerness to sign long-term contracts" on behalf of *other* large producers, and that this is weighing on price. In our view, Cameco's measured approach to signing new term contracts indicates that it is likely receiving premium terms for its material. Put more simply, Cameco is not an eager participant to sign new long-term contracts at prices currently being quoted by the uranium trade publications.

▶ **"Off-Market" Interest Continues to Grow:**

While "on-market RFP" contract prices continue to be pressured lower, Cameco noted that "off-market" interest continues to grow. This is typically a leading indicator of "on-market" contracting and ultimately higher long-term uranium prices.

▶ **Carry-Trade Slowly Dissipating:**

As demand increases in the spot market from Cameco (a size net buyer) and other financial players (see our Sprott Physical Uranium Trust, U.U/U.UN-TSX, Buy - \$13.00/US\$10.50 target, note [here](#)), the spot market will continue to tighten, significantly limiting the ability of financial intermediaries to implement the carry-trade. When this occurs, utilities will no longer be able to rely on the carry-trade to satisfy their near-term inventory requirements and will be forced to enter the term market on a "less discretionary" basis. In our view, once the at-the-market equity facility is put in place by U.U (Q3/21), the carry-trade will become a far less important factor in the spot and term markets. Once the carry-trade dissipates in earnest, it will allow long-term contract pricing to "break free" from the anchor of the spot market to a price level that is more reflective of the industry's production and incentive cost structure (+\$50/lb U<sub>3</sub>O<sub>8</sub>).

▶ **60 MMlb of Term Contracts Added over the Last Several Years:**

On the conference call Cameco noted that it has signed a total of +60 MMlb U<sub>3</sub>O<sub>8</sub> in long-term contracts over the last several years including the 16 MMlb U<sub>3</sub>O<sub>8</sub> it signed in Q2/21. According to management, the Company's contract book covers ~19 MMlb U<sub>3</sub>O<sub>8</sub>/year of sales commitments over the next several years.

▶ **Cigar Lake Restarted, Production Guidance Updated:**

Following the wildfire scare and temporary shut-down earlier this month (note [here](#)), Cameco's flagship Cigar Lake operation is ramping back up, and 2021 production guidance has been set at "up to" 6.0 MMlb U<sub>3</sub>O<sub>8</sub> net to the Company.

► **Maintaining Spot Market Purchases:**

Cameco maintained its uranium purchase commitment of 11-13 MMlb U<sub>3</sub>O<sub>8</sub> for the year. Excluding the 4.9 MMlb U<sub>3</sub>O<sub>8</sub> to be purchased from Inkai, and the 3.9 MMlb U<sub>3</sub>O<sub>8</sub> purchased in H1/21, leaves Cameco with 2.2-4.2 MMlb U<sub>3</sub>O<sub>8</sub> to be purchased in the spot market over the remainder of the calendar year.

**Exhibit 2. Cameco NAVPS Breakdown**

| <b>Asset</b>                          | <b>Value (\$MM)</b> | <b>\$ Per Share</b> | <b>% of NAV</b> |
|---------------------------------------|---------------------|---------------------|-----------------|
| Cigar Lake                            | \$1,149             | \$2.89              | 18%             |
| McArthur River / Key Lake Mill        | \$2,794             | \$7.02              | 44%             |
| Inkai                                 | \$643               | \$1.62              | 10%             |
| Other mining assets (BV)              | \$133               | \$0.33              | 2%              |
| <b>Total Mining Assets</b>            | <b>\$4,719</b>      | <b>\$11.86</b>      | <b>74%</b>      |
| Fuel Services Division                | \$1,457             | \$3.66              | 23%             |
| Cash + S/T Investments                | \$1,176             | \$2.96              | 18%             |
| Current Debt + S/T Leases             | \$0                 | \$0.00              | 0%              |
| Long Term Debt + L/T Leases           | (\$996)             | (\$2.50)            | -16%            |
| Future Equity Financing               | \$0                 | \$0.00              | 0%              |
| Future Debt Financing                 | \$0                 | \$0.00              | 0%              |
|                                       | <b>\$1,637</b>      | <b>\$4.12</b>       | <b>26%</b>      |
| <b>Net Asset Value, fully diluted</b> | <b>\$6,356</b>      | <b>\$15.98</b>      |                 |
| P/NAV                                 |                     | 1.34x               |                 |

Source: Cantor Fitzgerald

**URANIUM SENTIMENT CONTINUES TO IMPROVE**

Over the last 6-7 months, sentiment in the uranium sector has turned increasingly positive, as we originally highlighted in our recent Macro Report: *A Green Economy and Electric Vehicles Start with Metals* on January 25 (link [here](#)). 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 the United States pledging to do so by 2035. Most recently, the FY2022 U.S. Federal Government Budget has allocated \$14.75 BB over the next 10-years to nuclear, specifically to “procure advanced nuclear power” and “provide allocated credit for electricity generation from existing nuclear power facilities.” With uranium currently generating 80% of carbon-free grid power in the United States, it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future. Cameco has a long-standing history of being a preferred supplier to the U.S. utilities.

**Exhibit 3. Cameco Price Target Methodology**

|                                   | <b>Weight</b> | <b>Multiple</b>         | <b>Target</b>  |
|-----------------------------------|---------------|-------------------------|----------------|
| Target P/NAV, Net Cash, 50% Blend | 75%           | 2.00x                   | \$23.97        |
| Target P/CFPS (2022E), 50% Blend  | 25%           | 20.00x                  | \$3.92         |
|                                   |               | <b>Target, rounded:</b> | <b>\$28.00</b> |
| Upside to Target:                 |               |                         | 32.0%          |

Source: Cantor Fitzgerald

**MAINTAINING BUY RATING AND PRICE TARGET**

Incorporating the Q2/21 financial results and updated guidance for Cigar Lake, we are maintaining our Buy rating and US\$22.50/\$28.00 price target on Cameco. This is based on a 75/25 blend of 2.0x NAVPS<sub>8.0%</sub> and 20.0x 2022E CFPS. As a

global leader in the uranium sector, which has moved closer to the forefront of the “Transitional Energy” movement, 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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**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.

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

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