

# Cameco Corp.

CCO-T: C\$29.02

**NEUTRAL**

Target: C\$28.00 (from C\$22.00)

September 10, 2021

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## Spot Uranium Through \$40/lb: A Look at Utility Positioning and Cameco Valuation

	Previous	Current
Rating:		NEUTRAL
Target:	C\$22.00	C\$28.00

Company Data	
Last Price (TSX)	\$29.02
52-Week Range:	\$11.84 - \$29.37
Market Capitalization (C\$Mln):	11,543
Enterprise Value (C\$Mln):	11,481
Shares Outstanding - Diluted (Mln):	398
Dividend Yield:	0.3%
Cash	1,058
Net Debt	-62
Fiscal Year End	Dec 31

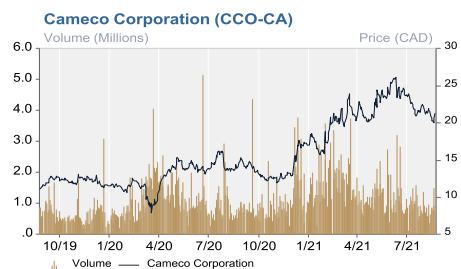
Sales Summary				
	2020 A	2021 E	2022 E	2023 E
Uranium (Mln lbs)	35	32	30	24
Fuel Services (mm kgU)	12	14	14	12
NUKEM (mm lbs)	6	2	1	1

Financial Summary				
	2020 A	2021 E	2022 E	2023 E
P/E	-167.2x	n.m.	n.m.	-385.4x
EV/EBITDA	31.2x	104.4x	100.4x	54.4x
CFPS	1.05	0.49	0.42	0.36
P/CF	27.6x	58.8x	69.5x	81.7x
Net Debt/ EBITDA	n/a	0.7x	n/a	n/a

Quarterly EBITDA				
	2020 A	2021 E	2022 E	2023 E
Q1	51 A	18 A	38 E	46 E
Q2	-4 A	2 A	47 E	52 E
Q3	-10 A	40 E	45 E	49 E
Q4	71 A	55 E	81 E	81 E
FY	110 A	114 E	211 E	227 E

Quarterly EPS				
	2020 A	2021 E	2022 E	2023 E
Q1	0.07 A	-0.08 A	-0.03 E	-0.01 E
Q2	-0.16 A	-0.10 A	-0.03 E	-0.01 E
Q3	-0.20 A	-0.04 E	-0.04 E	-0.03 E
Q4	0.12 A	-0.04 E	-0.02 E	-0.02 E
FY	-0.17 A	-0.27 E	-0.12 E	-0.08 E

Note: All values are in C\$, unless otherwise stated  
Source: Company Reports, FactSet, Eight Capital Estimates



Source: Company Reports, Factset, Eight Capital estimates

### Company Description

Cameco is one of the world's largest uranium producers with mines in Canada, the U.S. and Kazakhstan, and is also a leading provider of nuclear fuel processing services and uranium trading.

**Spot uranium through \$40/lb.** In our view, success of the Sprott Physical Uranium Trust (U.UT-T, not rated) has been the primary driver of the +33% uranium price surge since August 16, 2021 to \$40.25/lb (from \$30.25/lb). UxC estimates U.UT holdings have grown by approx. 5.7Mln lbs to 25Mln lbs (from 19Mln lbs) primarily through the raising of \$200+Mln over the last three weeks through its At-the-Market (ATM) offering. According to UxC, there still seems to be relatively ample supplies available for sale in the spot market; however, relatively higher bidding pressure may be required to dislodge current holder accounts (*Ux Weekly, September 6, 2021*). We believe utilities will take notice of spot prices >\$40/lb to consider contracting requirements as well as potential supply responses from uranium producers - both of which are key catalysts to the next phase of uranium prices, in our view.

We still expect a normalized price recovery driven by fresh utility contracting to exhibit similar trends to the post financial crisis/uranium inventory liquidation period that began July-2010 and ran until the Fukushima Daichii nuclear incident in March 2011, when the spot uranium price rose +\$0.85/lb per week and the long-term uranium price rose +\$0.39/lb per week for a period of 33 weeks. During that period, the uranium price rose to \$69.75/lb (from \$22.35/lb) and the LT uranium price to \$73/lb (from \$40.75/lb).



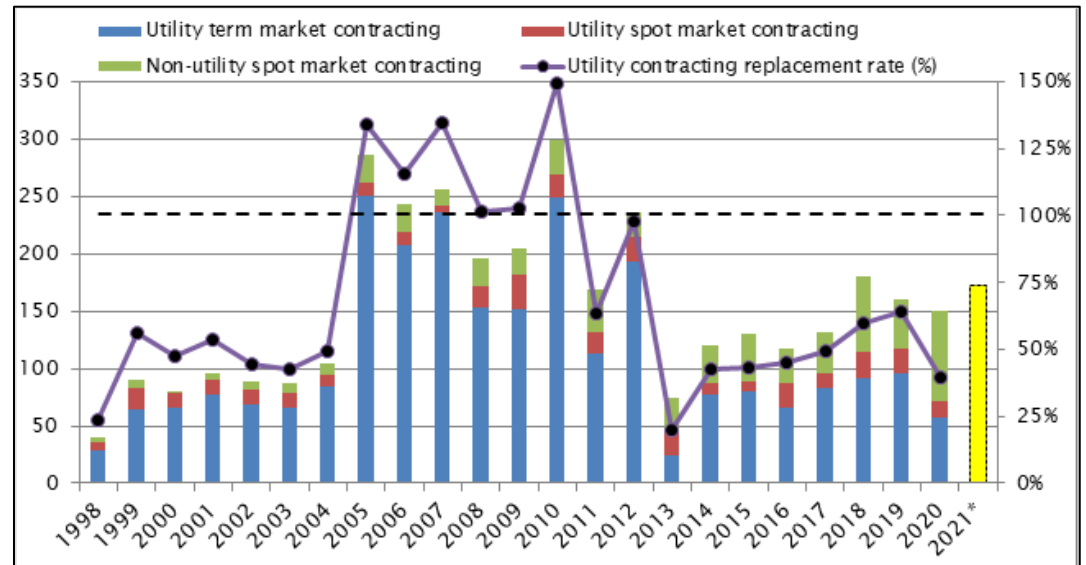
**We believe a new contracting phase could absorb a disciplined supply response.** Tighter supply-demand conditions and prices sustainably above \$40/lb does provide the incentive for an idle McArthur River restart (22-25Mln lbs/year) and KazAtomProm ramp-up (13Mln lbs/year) - which together remain the largest potential sources of incremental supply. However, we would expect Cameco and KAZ would let the price run considerably higher (perhaps >\$50/lb) before making a restart decision, with KAZ already guiding to maintaining 2023 production at similar levels to 2022, extending a 20% production curtailment relative to planned volumes under Subsoil Use Agreements - essentially keeping approx. 13Mln lbs of supply out of the market until 2023.

**Maintain NEUTRAL, Raising TP to C\$28.** Rising free cash flow potential on expectations of tightening uranium markets in the long-term, accretive uranium contract book, market leadership position, high industry barriers to entry, and lack of investment alternatives, has kept Cameco valuation at a premium. **We estimate Cameco shares are currently pricing in a \$66/lb uranium price at 1x P/NAV and \$60/lb at 1.2x P/NAV - which compares to the UxC LT price of \$33.50/lb.** Our revised TP of \$28 (from C\$22) is based on 1.6x (from 1.5x) P/NAV (\$15.65/share) and is in-line with historical peak P/NAV during uranium "bull markets" of 1.6x.

**Security of supply can be a fragile distraction.** History has demonstrated a positive correlation between uranium buying behavior and prices. In general, rising prices and the perception of scarcity has coincided with an increase in contracting activity. Such was the case in 2006 and 2008 after Cameco’s Cigar Lake flooding incidents, as well as a substantial increase in uranium contracting by China coming out of the Global Financial Crisis (around 2010). This time around, we estimate YTD 2021 contracting through August (annualized) is set to match or exceed 2018 levels of 180Mln lbs and represents the highest levels in the past eight years (since 2012).

Accelerated spot and term contracting during historical price runs has also tended to drive investment in higher-cost sources of production. Once these higher cost sources of production come to market, we tend to see supply inelastic relative to price, creating the perception that uranium supply is abundant, which we think is still within the current mindset of utilities. When prices are relatively low, we see a lack of perceived urgency to contract, and contracting activity and investment in new supply remains subdued.

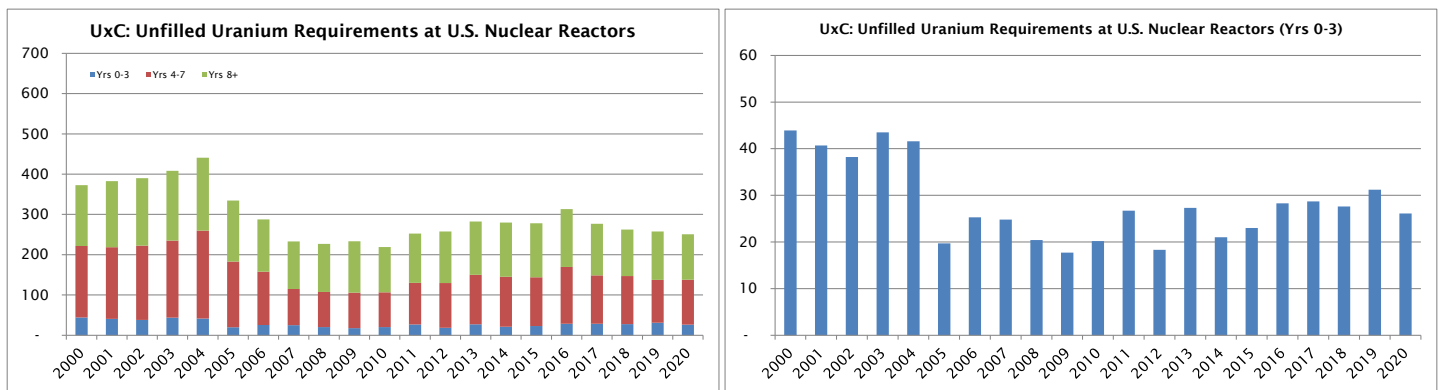
**Visible Commercial Uranium Inventories**



Source: UxC LLC, Eight Capital estimates

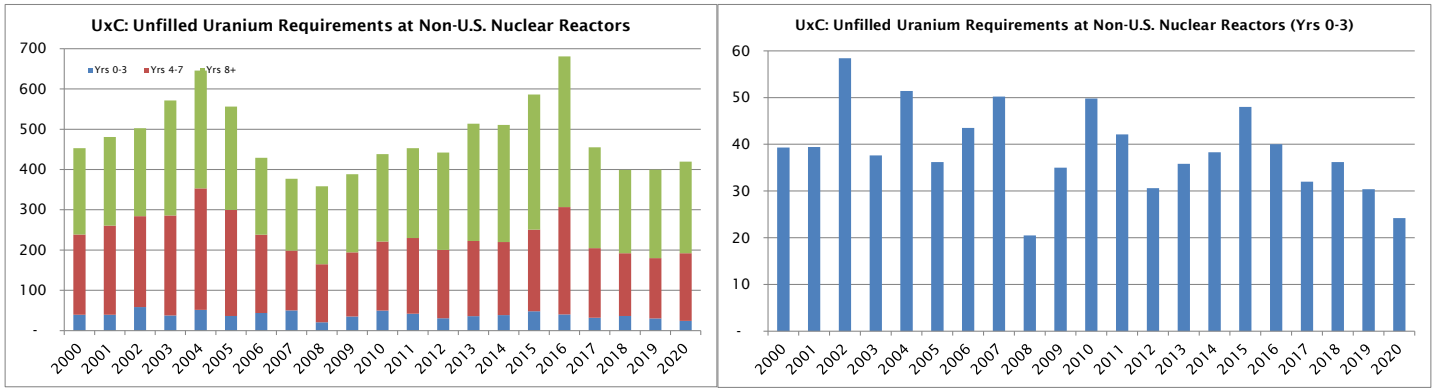
While success of the Sprott Physical Uranium Trust has been a clear catalyst, utility spot purchases have been noticeably absent over the past several weeks and term contracting has been limited as well. In our view, this is largely due to unfilled uranium requirements at U.S. and non-U.S. nuclear reactors at relatively low in the near-term (Yrs 0-3) according to US EIA and Euratom Supply Agency data. UxC reports that over the last five years, approx. 390Mln lbs of uranium has been locked-up in the long-term market compared to approx. 815Mln lbs consumed in reactors and further estimates cumulative uncovered requirements of about 1.4Bln lbs to the end of 2035 (Cameco MD&A: February 10, 2021).

**Unfilled Uranium Requirements at U.S. Nuclear Reactors**



Source: UxC LLC, U.S. EIA, Eight Capital estimates

**Unfilled Uranium Requirements at Non-U.S. Nuclear Reactors**

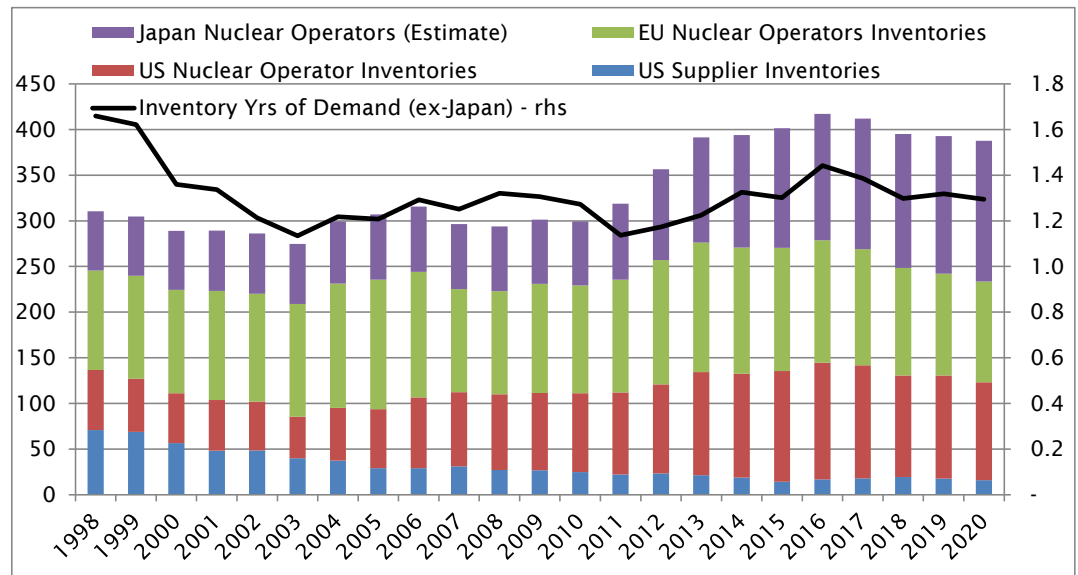


Source: UxC LLC, Euratom Supply Agency, Eight Capital estimates

**We believe a new contracting phase could absorb a disciplined supply response.** Tighter supply-demand conditions and prices sustainably above \$40/lb does provide the incentive for an idle McArthur River restart (22-25Mln lbs/year) and KazAtomProm ramp-up (13Mln lbs/year) – which together remain the largest potential sources of incremental supply. However, we would expect Cameco and KAZ would let the price run considerably higher (perhaps >\$50/lb) before making a restart decision, with KAZ already guiding to maintaining 2023 production at similar levels to 2022, extending a 20% production curtailment relative to planned volumes under Subsoil Use Agreements – essentially keeping approx. 13Mln lbs of supply out of the market until 2023.

**Uranium inventories relative level to demand is a key indicator of the future health.** We estimate U.S. and European commercial inventories (including inventories owned by civilian nuclear power reactors) totaled and 233Mln lbs at the end of 2020, or roughly 1.3 years of total global demand – which has been on a declining trend since the most recent peak in 2016 of 2.2 years. For illustrative purposes, we include our estimate of Japan inventories of uranium of approx. 150Mln lbs We include our were 123.1 million pounds U3O8e at the end of 2020, down 6% from 130.7 million pounds at the end of 2019.

**Selected Commercial Uranium Inventories**



Source: U.S. EIA, Euratom Supply Agency, WNA, Eight Capital estimates

**We estimate a transition to market deficits is occurring in 2021.** We estimate the uranium market was in a 6.5Mln lbs surplus in 2020 driven by 123Mln lbs of primary mine supply, 63.6Mln lbs of secondary sources, and uranium demand of 180Mln lbs. Our expectations of a partial rebound in primary mine supply of +3.9% in 2021 to 128Mln lbs (COVID-19 restarts offset by the planned shutdown of Energy Resources of Australia’s (ERA-AX, not rated) Ranger mine and Orano’s (private) COMINAK mine in Niger) combined with lower contribution from secondary supplies as commercial destocking declines materially (which incorporates strategic purchases by junior miners and investment funds, including U.UT) is expected to result in an 11.7Mln lbs market deficit when factoring in flat uranium demand of 180.3Mln lbs.

**Eight Capital Uranium Supply/Demand Model**

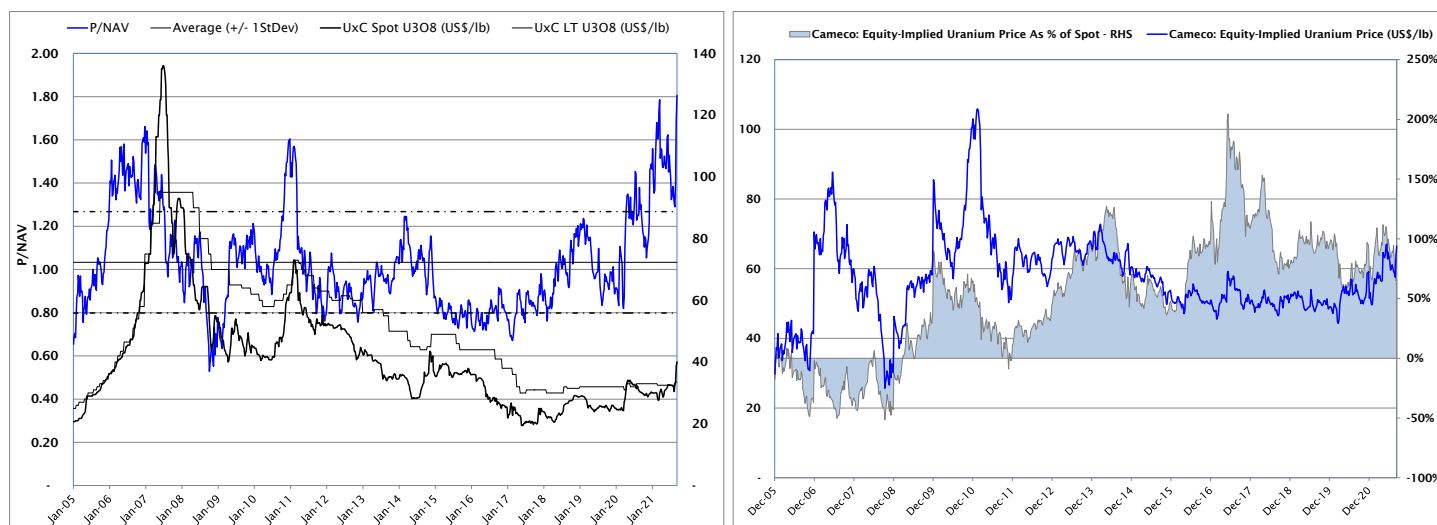
*all figures in Mln lbs U3O8, unless noted*

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
<b>Uranium Supply (Mln lbs)</b>														
Africa	20.0	22.9	22.9	22.0	20.2	20.2	20.7	21.2	20.9	17.8	17.8	17.8	17.8	16.4
Australia	15.2	16.6	16.5	15.3	12.5	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Canada	34.1	18.2	18.0	10.6	10.2	21.4	21.4	31.8	41.9	41.9	40.4	37.3	40.3	43.3
Kazakhstan	60.6	56.3	59.0	50.0	58.9	58.9	58.9	62.2	66.2	64.8	61.7	61.1	58.1	59.3
China	4.9	4.9	4.9	4.9	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Russia	7.6	7.6	7.6	7.6	8.0	8.0	8.3	8.6	9.0	9.4	9.4	9.4	9.4	9.4
United States	2.5	1.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	2.7	5.2	5.0	5.0
Other Countries	12.1	12.2	12.7	12.8	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
<b>Primary Supply</b>	<b>156.9</b>	<b>140.1</b>	<b>141.8</b>	<b>123.2</b>	<b>128.0</b>	<b>139.7</b>	<b>140.6</b>	<b>155.0</b>	<b>169.2</b>	<b>165.2</b>	<b>163.1</b>	<b>161.9</b>	<b>161.7</b>	<b>164.4</b>
<i>growth rate</i>	<i>-4.5%</i>	<i>-10.7%</i>	<i>1.2%</i>	<i>-13.1%</i>	<i>3.9%</i>	<i>9.1%</i>	<i>0.6%</i>	<i>10.3%</i>	<i>9.1%</i>	<i>-2.3%</i>	<i>-1.3%</i>	<i>-0.8%</i>	<i>-0.1%</i>	<i>1.7%</i>
<b>Secondary supply</b>	<b>56.0</b>	<b>70.1</b>	<b>60.2</b>	<b>63.6</b>	<b>40.6</b>	<b>39.3</b>	<b>38.3</b>	<b>35.7</b>	<b>34.9</b>	<b>30.8</b>	<b>27.9</b>	<b>26.3</b>	<b>25.2</b>	<b>19.8</b>
<b>Total supply</b>	<b>212.9</b>	<b>210.2</b>	<b>202.0</b>	<b>186.8</b>	<b>168.6</b>	<b>178.9</b>	<b>178.9</b>	<b>190.8</b>	<b>204.1</b>	<b>196.0</b>	<b>191.0</b>	<b>188.1</b>	<b>186.9</b>	<b>184.3</b>
<i>growth rate</i>	<i>0.7%</i>	<i>-1.3%</i>	<i>-3.9%</i>	<i>-7.5%</i>	<i>-9.7%</i>	<i>6.1%</i>	<i>0.0%</i>	<i>6.6%</i>	<i>7.0%</i>	<i>-3.9%</i>	<i>-2.5%</i>	<i>-1.5%</i>	<i>-0.6%</i>	<i>-1.4%</i>
<b>World Nuclear Generating Capacity (GWe)</b>														
China	39.4	46.6	49.2	47.5	51.5	55.5	59.5	63.5	67.5	72.5	77.5	82.5	87.5	92.5
India	6.3	6.3	6.3	6.3	6.3	7.3	7.3	7.3	8.3	8.3	8.3	8.3	8.3	10.3
Japan	4.2	6.9	8.7	8.7	8.7	10.7	12.7	14.7	16.7	18.7	20.7	22.7	24.7	24.7
Russia	26.1	27.3	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4
USA	100.0	99.3	98.2	98.2	98.2	99.4	99.4	100.7	100.7	100.7	100.7	100.7	100.7	100.7
Other	182.5	186.2	188.6	185.5	185.4	190.9	193.2	197.0	199.4	200.6	200.4	200.2	200.0	200.8
<b>Total</b>	<b>358.5</b>	<b>372.5</b>	<b>379.3</b>	<b>374.6</b>	<b>378.4</b>	<b>392.2</b>	<b>400.5</b>	<b>411.6</b>	<b>421.0</b>	<b>429.2</b>	<b>436.0</b>	<b>442.8</b>	<b>449.6</b>	<b>457.4</b>
<i>growth rate</i>	<i>0.6%</i>	<i>3.9%</i>	<i>1.8%</i>	<i>-1.2%</i>	<i>1.0%</i>	<i>3.6%</i>	<i>2.1%</i>	<i>2.8%</i>	<i>2.3%</i>	<i>1.9%</i>	<i>1.6%</i>	<i>1.6%</i>	<i>1.5%</i>	<i>1.7%</i>
<b>Uranium demand analysis</b>														
Operating reactors	194.2	191.4	183.8	180.3	180.3	186.5	190.2	195.1	199.2	202.7	205.5	208.3	211.1	214.4
Strategic inventory build	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total demand</b>	<b>194.2</b>	<b>191.4</b>	<b>183.8</b>	<b>180.3</b>	<b>180.3</b>	<b>186.5</b>	<b>190.2</b>	<b>195.1</b>	<b>199.2</b>	<b>202.7</b>	<b>205.5</b>	<b>208.3</b>	<b>211.1</b>	<b>214.4</b>
<i>growth rate</i>	<i>0.5%</i>	<i>-1.4%</i>	<i>-4.0%</i>	<i>-1.9%</i>	<i>0.0%</i>	<i>3.4%</i>	<i>1.9%</i>	<i>2.6%</i>	<i>2.1%</i>	<i>1.8%</i>	<i>1.4%</i>	<i>1.4%</i>	<i>1.3%</i>	<i>1.5%</i>
<b>Market surplus (deficit)</b>														
<b>Surplus (deficit) as % of global demand</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>4%</b>	<b>(-6%)</b>	<b>(-4%)</b>	<b>(-6%)</b>	<b>(-2%)</b>	<b>2%</b>	<b>(-3%)</b>	<b>(-7%)</b>	<b>(-10%)</b>	<b>(-11%)</b>	<b>(-14%)</b>
<b>Change in market surplus (deficit)</b>	<b>0.5</b>	<b>0.1</b>	<b>(0.6)</b>	<b>(11.7)</b>	<b>(18.2)</b>	<b>4.1</b>	<b>(3.7)</b>	<b>7.0</b>	<b>9.2</b>	<b>(11.5)</b>	<b>(7.8)</b>	<b>(5.7)</b>	<b>(4.0)</b>	<b>(5.9)</b>
<i>Net contribution - Primary mine supply</i>	<i>(7.4)</i>	<i>(16.8)</i>	<i>1.7</i>	<i>(18.5)</i>	<i>4.8</i>	<i>11.6</i>	<i>0.9</i>	<i>14.5</i>	<i>14.2</i>	<i>(4.0)</i>	<i>(2.1)</i>	<i>(1.3)</i>	<i>(0.1)</i>	<i>2.7</i>
<i>Net contribution - Secondary supply</i>	<i>8.8</i>	<i>14.1</i>	<i>(9.9)</i>	<i>3.4</i>	<i>(23.0)</i>	<i>(1.4)</i>	<i>(0.9)</i>	<i>(2.6)</i>	<i>(0.9)</i>	<i>(4.1)</i>	<i>(2.9)</i>	<i>(1.6)</i>	<i>(1.1)</i>	<i>(5.4)</i>
<i>Net contribution - Uranium demand</i>	<i>(0.9)</i>	<i>2.8</i>	<i>7.6</i>	<i>3.4</i>	<i>(0.0)</i>	<i>(6.2)</i>	<i>(3.6)</i>	<i>(4.9)</i>	<i>(4.1)</i>	<i>(3.5)</i>	<i>(2.8)</i>	<i>(2.8)</i>	<i>(2.8)</i>	<i>(3.3)</i>
<b>Uranium Price Forecast (US\$/lb) - Spot</b>	<b>22.20</b>	<b>24.70</b>	<b>26.00</b>	<b>29.60</b>	<b>32.60</b>	<b>36.00</b>	<b>39.00</b>	<b>42.00</b>	<b>47.00</b>	<b>50.00</b>	<b>50.00</b>	<b>50.00</b>	<b>50.00</b>	<b>50.00</b>

Source: UxC LLC, World Nuclear Association, Eight Capital estimates

A premium valuation has long been part of the Cameco investment narrative. Rising free cash flow potential on expectations of tightening uranium markets in the long-term, accretive uranium contract book, market leadership position (based on production, market share and reserves), high industry barriers to entry, and lack of investment alternatives, has kept Cameco valuation at a premium. We estimate Cameco shares are currently pricing in a \$66/lb uranium price at 1x P/NAV and \$60/lb at 1.2x P/NAV - which compares to the UxC LT price of \$33.50/lb.

**Cameco Historical Valuation: P/NAV (Left) and Equity-Implied Uranium Price (Right)**



Source: UxC LLC, Factset, Company data, Eight Capital estimates

**Cameco Historical Valuation Ranges (based on consensus estimates) by Uranium Period**

Cameco Corp: Historical Valuation Ranges	Uranium price trend (US\$/lb per week)		Cameco Peak Multiples		Cameco Average Multiples	
	Spot	LT	P/NAV	EV/EBITDA	P/NAV	EV/EBITDA
	Pre-Cigar Lake flood (pre Oct-06)	0.23	0.22	1.58	24.7	1.16
Peak Uranium (Oct-06 - Apr-08)	0.15	0.52	1.66	15.8	1.21	11.6
Financial Crisis-Inventory Liquidation (Apr-08 - Jul-10)	(0.20)	(0.27)	1.21	13.6	0.96	10.1
Post-Financial Crisis/Pre-Fukushima (Jul-2010 - Mar-2011)	0.85	0.39	1.60	18.2	1.34	15.7
Post-Fukushima/Supply Response (Mar-2011 - July-2018)	(0.11)	(0.11)	1.25	17.1	0.90	10.6
Post-McArthur River Shutdown (Jul-2018 - Aug-2021)	0.04	0.00	1.79	60.5	1.18	24.6
Sprott Physical Uranium Trust ATM Offering (Aug-2021 - )	1.96	0.20	1.81	52.2	1.50	44.5
Current			1.81	52.2	1.81	52.2

Source: Factset, Company data, Eight Capital estimates

Cameco’s financial position remains strong with Q2/21 cash & investments of \$1,176Mln, total debt of \$1Bln (no maturities until 2024+), and \$1,000Mln of undrawn RCF. At Q2/21, Cameco had executed 16Mln lbs in long-term sales contracts (including 9Mln lbs in April-2021) bringing total commitments to deliver an average of 19Mln lbs/year from 2021-2025, with commitment levels higher in 2021-2022 vs. 2023-2025.

**Cameco 2026 FCF yield sensitivities, including McArthur River at full production**

2026 Normalized FCF yield (i.e. CFO less sustaining capital)		Total sales volume (Mln lbs)						
Realized uranium price (US\$/lb)		24.0	26.0	28.0	30.0	32.0	34.0	36.0
		100.00	10.9%	11.9%	12.9%	13.9%	14.9%	15.9%
90.00	9.4%	10.2%	11.0%	11.8%	12.7%	13.5%	14.3%	
80.00	7.8%	8.4%	9.1%	9.8%	10.4%	11.1%	11.7%	
70.00	6.2%	6.7%	7.2%	7.7%	8.2%	8.7%	9.2%	
60.00	4.6%	5.0%	5.3%	5.6%	5.9%	6.3%	6.6%	
50.00	3.1%	3.2%	3.4%	3.5%	3.7%	3.9%	4.0%	
40.00	1.5%	1.5%	1.5%	1.5%	1.5%	1.4%	1.3%	
30.00	-0.4%	-0.9%	-1.4%	-1.9%	-2.4%	-2.9%	-3.4%	

Source: Company data, Eight Capital estimates

Our revised TP of \$28 (from C\$22) is based on 1.6x (from 1.5x) P/NAV (\$15.65/share) and is in-line with historical peak P/NAV during uranium “bull markets” of 1.6x.

**Cameco Net Asset Value Summary**

Net asset value summary		Discount rate		
Operation	Ownership	NPV	8% (%)	NVP/share
McArthur River	69.8%	2,435	35%	6.12
Cigar Lake	50.0%	1,005	14%	2.53
Inkai (10%)	60.0%	1,081	15%	2.72
Rabbit Lake	100%	289	4%	0.73
Crow Butte	100%	62	1%	0.16
Smith Ranch/Highland	100%	92	1%	0.23
<b>Uranium Mining</b>		<b>4,964</b>	<b>71%</b>	<b>12.48</b>
Uranium Contract Book		256	4%	0.64
Fuel Services		646	9%	1.62
NUKEM		75	1%	0.19
Exploration & Development		1,073	15%	2.70
<b>Gross Asset Value</b>		<b>7,014</b>	<b>100%</b>	<b>17.63</b>
Long-term Debt		(996)		(2.50)
Working Capital		1,744		4.38
Net Debt		748		1.88
CRA tax remittance		281		0.71
Corporate SG&A		(755)		(1.90)
Reclamation liabilities		(1,065)		(2.68)
<b>Net Assets Value (C\$Mln)</b>		<b>6,223</b>		
Shares outstanding		397.8		
<b>Net Assets Value (C\$/share)</b>		<b>15.65</b>		

Source: UxC LLC, Factset, Company data, Eight Capital estimates



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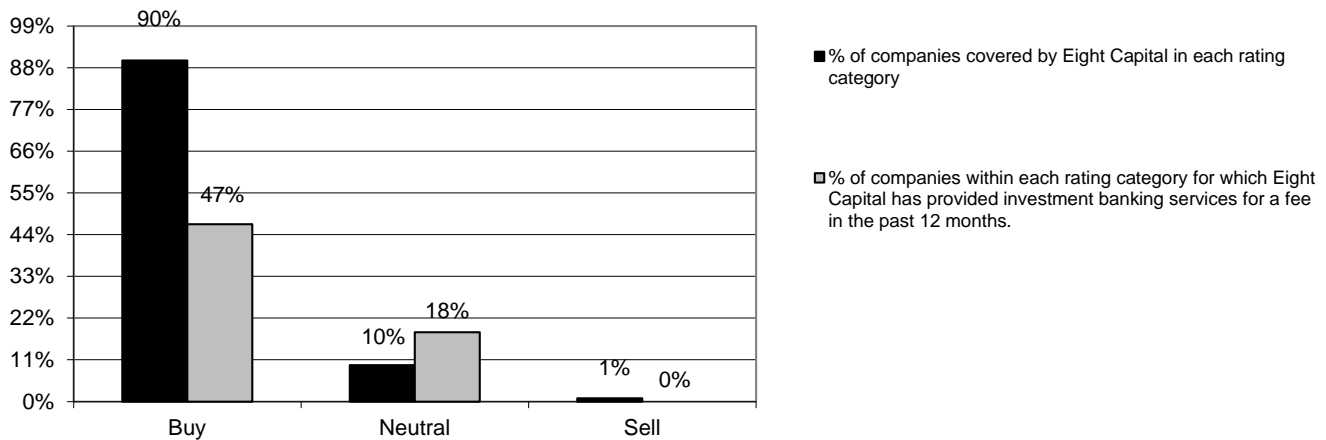
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