

# Action Note

Equity Research

November 1, 2021

## Metals & Minerals

### Cameco Corp.

(CCO-T, CCJ-N) C\$30.07 | US\$24.30

#### Term Contracting Cycle in "Early Innings"

**Greg Barnes**

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#### Event

We have updated our forecasts following the release of CCO's Q3/21 results.

#### Impact: NEUTRAL

CCO reported that it added 4mmlbs of uranium to its long-term contract portfolio in Q3/21, bringing the total contracted material added this year to 20mmlbs; no details were provided about the contract terms (pricing or duration). Sales volumes under contract through 2025 average 20mmlbs/year (up from 19mmlbs/year previously).

Cameco management noted that its discussions with utilities continue on an off-market basis for additional term contracts. The contract discussion pipeline remains highly active, with contract terms under discussion for delivery of material starting within the next several years and stretching out as far as 20 years into the future. Management also noted that it is seeing a slight preference from utilities seeking market-related pricing.

Management characterized the uranium contracting being only in the "early innings" of the cycle. Term contracting is a long way from being at replacement rate (e.g. equivalent to annual consumption of ~180mmlbs). So far in 2021, ~53mmlbs of term contracting activity has been completed. Over the past decade, ~1.6bln pounds of uranium have been consumed by utilities, whereas only ~800mmlbs has been placed under long-term contracts. Management continues to expect that the coming contracting cycle will follow previous cycles and evolve into a full-blown security-of-supply contracting cycle that will see utilities competing for material (e.g. a demand-driven cycle).

CCO continues to indicate that a restart decision for MacArthur River will be dependent on production being committed to offtake contracts. That being said, management has the ability to flex production levels at the operation based on demand and its contract portfolio. We currently model a restart by late-2023, which would be the earliest possible time frame.

Through late-October this year, more than an estimated US\$2 billion has been announced for uranium purchases via junior uranium companies and financial funds including the Sprott Physical Uranium Trust. We estimate that ~35mmlbs U3O8 have been purchased with the proceeds.

#### TD Investment Conclusion

We are maintaining our BUY recommendation. Our target price has moved down slightly to \$39.00 (from \$40.00).



#### 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.

<b>Recommendation:</b>	<b>BUY</b>
<b>Risk:</b>	<b>HIGH</b>
<b>12-Month Target Price:</b>	<b>C\$39.00↓</b> Prior: C\$40.00
<b>12-Month Dividend (Est.):</b>	<b>C\$0.08</b>
<b>12-Month Total Return:</b>	<b>30.0%</b>

#### Market Data (C\$)

Current Price	C\$30.07
52-Week Range	\$11.84 - \$33.95
Mkt Cap (f.d.) (\$mm)	\$11,961.8
EV (\$mm)	\$11,611.6
Current Dividend	\$0.08
Dividend Yield	0.3%
Avg. Daily Trading Vol.	2,654,303

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	397.8
Float Shares (mm)	397.8
Net Debt/Total Cap	3.1%
NAVPS	\$18.80
Working Cap (\$mm)	\$1,737.5

#### Estimates (C\$)

Year	2019A	2020A	2021E	2022E
EBITDA (\$mm)	372.8	154.9	(20.5)	97.7
EBITDA (\$mm) (old)	-	-	56.1	118.9
EPS (f.d.)	0.10	(0.17)	(0.49)	(0.07)
EPS (f.d.) (old)	-	-	(0.28)	(0.02)
CFPS (f.d)	1.04	0.65	0.22	0.35
CFPS (f.d) (old)	-	-	0.35	0.39

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

Year	2019A	2020A	2021E	2022E
Q1	(0.08)	0.07	(0.17)	-
Q2	(0.04)	(0.16)	(0.09)	-
Q3	(0.01)	(0.20)	(0.18)	-
Q4	0.23	0.12	(0.05)	-

#### Valuations

Year	2019A	2020A	2021E	2022E
EV/EBITDA	31.1x	75.0x	nmf	118.8x
P/E (f.d.)	nmf	nmf	nmf	nmf
P/CFPS (f.d)	28.9x	46.3x	nmf	85.9x

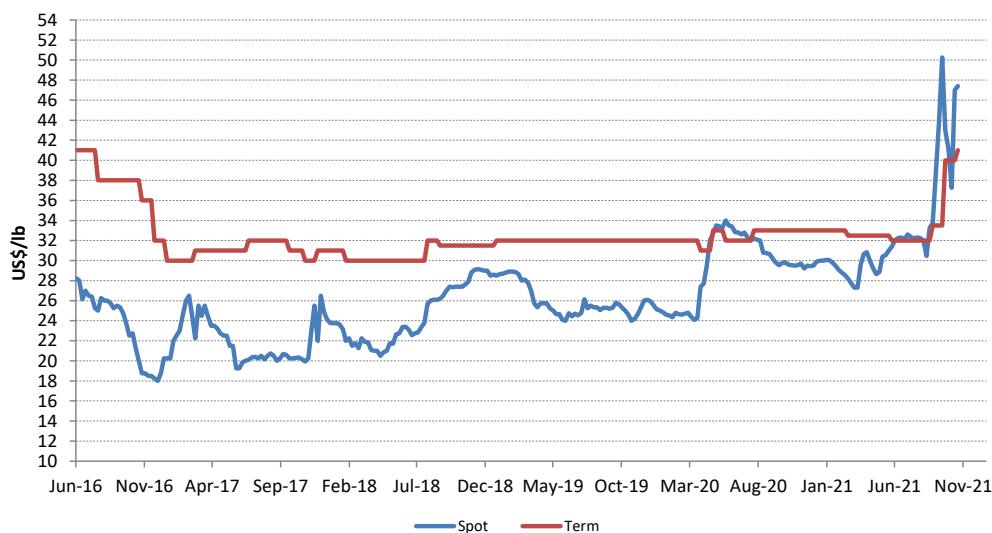
#### Supplemental Data

Year	2019A	2020A	2021E	2022E
U3O8 (US\$/lb)	26	30	35	50
U3O8 Prod. Mlb	9	5	6	9

All figures in C\$, unless otherwise specified

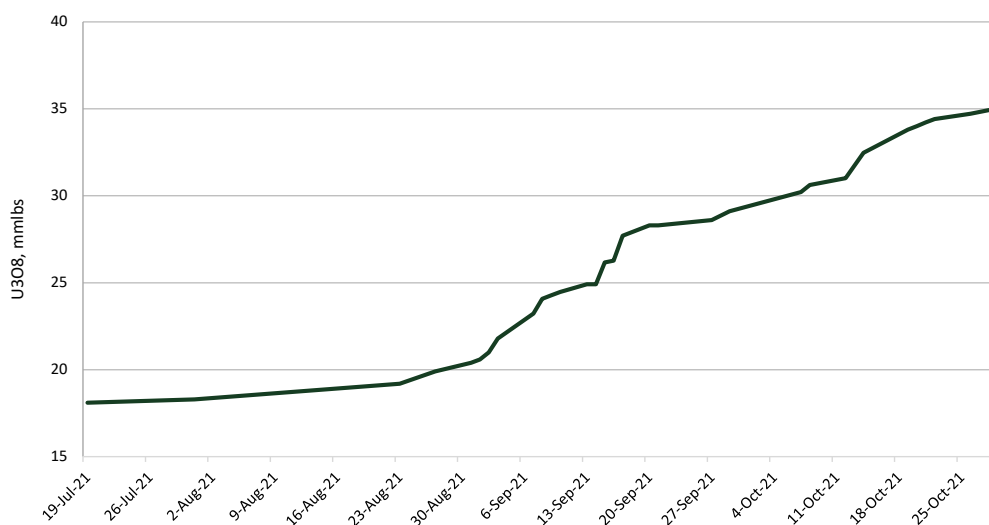
## Details

**Exhibit 1. Spot and Term Uranium Prices**



Source: Ux Consulting, TD Securities Inc. estimates

**Exhibit 2. Sprott Physical Uranium Trust (SPUT) Uranium Purchases Since Inception**



Source: SPUT, TD Securities Inc. estimates

**Exhibit 3. Secondary Uranium Purchasing Activity YTD 2021 (Excluding SPUT)**

Company	Date Equity Offering and/or Uranium Purchase Announced		Uranium Purchased or Planned to Purchase (million pounds)	Estimated Average Price of Uranium Purchases (Planned or Actual) (US\$/lb)
	Uranium Purchase Announced	Equity Offering (US\$ millions)		
Yellow Cake	25-Feb-21	140.0	3.90	28.78
Denison Mines	15-Mar-21	86.3	2.50	29.61
Uranium Energy	17-Mar-21	30.5	1.40	29.00
Boss Energy	29-Mar-21	46.0	1.25	30.15
Uranium Energy	6-Apr-21	12.0	0.71	31.70
Uranium Participation Corp. <sup>1</sup>	3-May-21	66.4	1.78	30.50
Uranium Energy	20-May-21	n/a	0.20	30.00
Yellow Cake	11-May-21	n/a	0.34	29.15
Western Uranium & Vanadium	2-Jun-21	n/a	0.13	31.50
Yellow Cake	16-Jun-21	88.0	2.00	32.23
Uranium Royalty Corp.	15-Sep-21	n/a	0.30	38.17
Uranium Royalty Corp.	19-Oct-21	n/a	0.40	45.00
Yellow Cake	26-Oct-21	150.0	3.00	46.74
<b>Total/Average</b>		<b>619.2</b>	<b>17.90</b>	<b>33.25</b>

1. TD estimate for pounds purchased and average price

Source: Company reports, TD Securities Inc. estimates

**Outlook**

We have adjusted our forecasts to reflect the Q3/21 results and updated guidance. Our 2021 estimates have declined due to the weaker-than-expected Q3/21 results versus our forecasts. Our 2022 estimates have declined on our assumption of higher uranium purchases next year to meet contractual commitments. We note that Cameco's earnings and cash-flow performance on a quarterly and annual basis is heavily influenced by the timing, pricing, and volume of deliveries and we have limited insight into the company's uranium contract portfolio.

**Exhibit 4. Cameco Net Asset Value**

Cameco Net Asset Value		8%		10%	
		C\$000	C\$/sh	C\$000	C\$/sh
<b>Nuclear Operations</b>					
McArthur River	69.8% MRJV, 83.33% KLJV	2,973,921	7.48	2,399,370	6.03
Cigar Lake	50.3% JV	1,119,692	2.81	1,032,913	2.60
Rabbit Lake	100%	209,427	0.53	173,877	0.44
Inkai	40%	1,805,462	4.54	1,428,175	3.59
Highland-Smith	100%	190,200	0.48	190,200	0.48
Crow Butte	100%	108,600	0.27	108,600	0.27
Conversion	100%	636,467	1.60	560,169	1.41
Total Operations		7,043,768	17.71	5,893,304	14.82
Existing Mines (50% inferred resources @ C\$10/lb)		384,500	0.97	384,500	0.97
Pipeline projects (50% total resources @ C\$5/lb) *		652,000	1.64	652,000	1.64
<b>Mining/Project NAV</b>		<b>8,080,268</b>	<b>20.31</b>	<b>6,929,804</b>	<b>17.42</b>
<b>Plus:</b>					
Working Capital		1,737,508	4.37	1,737,508	4.37
Equity Investments		0	0.00	0	0.00
<b>Minus:</b>					
Corporate G&A		(513,652)	(1.29)	(472,597)	(1.19)
CRA Cash Remittances		206,953	0.52	206,953	0.52
Debt		(996,070)	(2.50)	(996,070)	(2.50)
Reclamation		(1,038,000)	(2.61)	(1,038,000)	(2.61)
Plus/(Minus) balance sheet items		(603,261)	(1.52)	(562,206)	(1.41)
<b>Total NAV</b>		<b>7,477,007</b>	<b>18.80</b>	<b>6,367,598</b>	<b>16.01</b>

Source: TD Securities Inc. estimates

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## Valuation

CCO is currently trading at a P/NAV multiple of ~1.6x, compared with its larger-cap Canadian mining peers at an average of ~0.9x.

## Justification of Target Price

Our target price is based on a 50/50 blend of 2.2x our NAV and 18x our forecast EV/2025 EBITDA (discounted back to 2022 at 5%). We have used 2025 as our base year for EBITDA because that is when we expect all of Cameco's uranium mines to return to full production.

### Exhibit 5. Cameco Target Price Calculation

<b>NAV</b>	Weighting	50%
NAV-8%	C\$/sh	18.80
2.20x	C\$/sh	41.35
<b>Per share - C\$</b>		<b>41.35</b>
<b>Average</b>		<b>20.68</b>
<b>EV/2025 EBITDA</b>	Weighting	50%
<b>18.00</b>	C\$M	16,618
YE 2025 Cash	C\$M	1,580
YE 2025 LT Debt	C\$M	(496)
Total	C\$M	17,702
<b>per share - C\$</b>		<b>44.50</b>
<b>Discounted at 5% to 2022 - C\$</b>		<b>\$36.63</b>
<b>Weighted Target Price - C\$/sh</b>		<b>\$38.99</b>

Source: TD Securities Inc. estimates

## 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. COVID-19-related operational restrictions could affect our forecasts.



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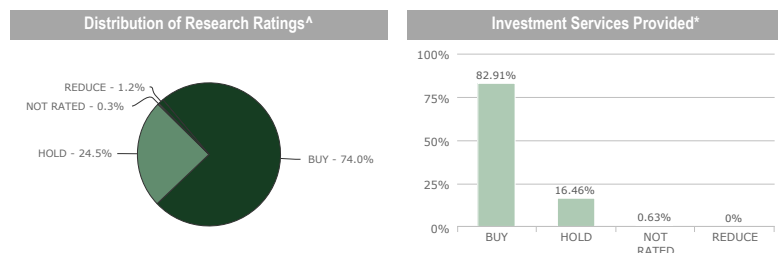
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Cameco Corp.	CCO-T   CCJ-N	2, 4, 9

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