February 9, 2022
Company Update

CAMECO CORPORATION

Massive Contract Build, McArthur to Re-Start, Uranium Going Higher

Equity Research

EVENT

Cameco reported its Q4/21 before the open and hosted a management call to discuss the results earlier today.

BOTTOM LINE

Very Positive – Cameco added ~50 MMlb to its long-term contract book since Q3/21, supporting a measured McArthur River re-start in 2024 and a 50% increase to its annual dividend.

FOCUS POINTS

- **Massive Long-Term Contract Build** – Building on the 20 MMlb U_3O_8 in term contracts it signed over the Q1-Q3/21 period, post Q3/21 Cameco added a massive 50 MMlb U_3O_8 to its contract portfolio, 40 MMlb of which was added since the beginning of this year. In our view, this officially marks the start of a massive new long-term contracting cycle on behalf of nuclear utilities worldwide.
- **Flexing Production into Long-Term Contracts** – McArthur River will begin the re-start process targeting production of 15 MMlb U_3O_8 in 2024, well below licensed capacity of 25 MMlb. This is being paired with a reduction in output at Cigar Lake, which will flex down from 18 MMlb U_3O_8 to 13.5 MMlb in 2024. This net addition of 10.5 MMlb U_3O_8 "already has a home" in CCJ's contract portfolio according to management and will in no way find its way into the spot market. Cameco will continue with its supply discipline "indefinitely."
- **Maintaining Buy, Raising Price Target** – Incorporating the new McArthur River and Cigar Lake guidance, we are maintaining our Buy rating and increasing our price target on Cameco from US$32.00/$40.00/share to US$32.50/$40.50/share.

Recommendation: **BUY**

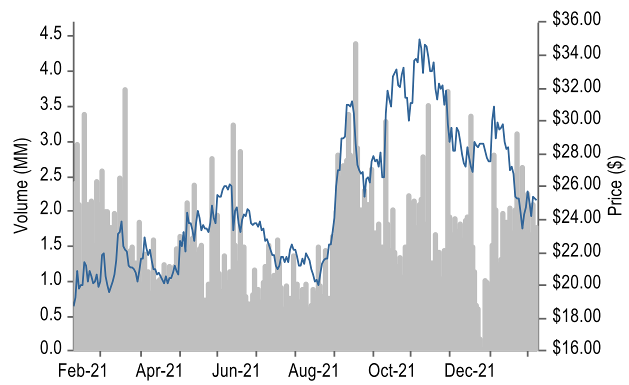
Symbol/Exchange:	CCJ-NYSE/CCO-TSX
Sector:	Metals & Mining
All dollar values in C$ unless otherwise noted.	
Current price:	US$19.84/$25.24
One-year target:	US$32.50/$40.50↑
Return to target:	63.8%
Cash and equivalents:	$1,247 MM

Financial Summary:

Shares O/S (MM)	398.3	52-week range	$18.41 - $35.47
Market cap (MM$)	$10,052.8	30D avg. vol. (000)	7,157.8
Market float (MM$)	$10,031.7	Fiscal year-end	31-Dec

	2019A	2020A	2021A	2022E
Uranium Production (MMlb)	9.0	5.1	6.1	11.0
Prod'd & Purch'd (MMlb)	28.0	38.7	17.1	23.0
Uranium Sales (MMlb)	31.5	30.5	24.2	23.0
Realized U3O8 Price ($/lb)	$43.88	$45.71	$43.22	$54.38
Cash Operating Costs ($/lb)	$28.98	$37.24	$32.98	$34.81
EPS, dil., adj.	$0.11	($0.17)	($0.25)	$0.48
Dividends per share	$0.08	$0.12	$0.08	$0.12
CFPS	$1.09	$0.63	$0.43	$1.10
Free CFPS	$1.14	($0.05)	$0.90	$0.72

Source: Company Reports and Cantor Fitzgerald Estimates.
Note: All figures in millions, unless stated otherwise.



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.

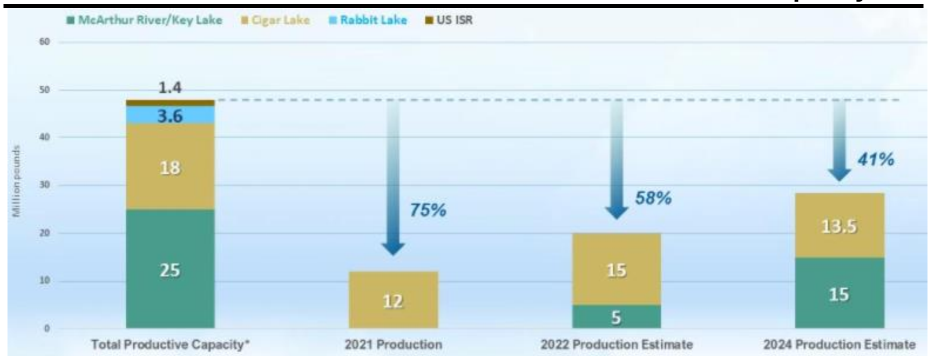
Q4/21 RESULTS POSITIVE ACROSS THE BOARD

Cameco reported its Q4/21 before the open and hosted a management call to discuss the results earlier today. The quarter was a clear positive across the board highlighted by a massive new long-term contract build, a clean beat on EPS and CFPS, a masterfully articulated plan to re-start McArthur River on a measured basis, and a 50% dividend hike to top things off.

MASSIVE LONG-TERM CONTRACT BUILD

Building on the 20 MMlb U_3O_8 in term contracts it signed over the Q1-Q3/21 period, post Q3/21 Cameco added a massive 50 MMlb U_3O_8 to its contract portfolio, 40 MMlb of which was added since the beginning of this year. In our view, this officially marks the start of a massive new long-term contracting cycle on behalf of nuclear utilities worldwide. The entire sector, and certainly the uranium equities, have been waiting on this development for years.

Exhibit 1. Cameco Medium-Term Guidance Well Below Full Capacity



Source: Cameco

FLEXING PRODUCTION INTO LONG-TERM CONTRACTS

Given the magnitude of Cameco's contract build over the last three months, a production re-start at McArthur River is now supported. Cameco will transition the mine from care-and-maintenance to a state of "operational readiness" with production of potentially ~5 MMlb U_3O_8 this year ultimately targeting a steady state run rate of 15 MMlb U_3O_8 in 2024 (100%-basis), well below licensed capacity of 25 MMlb. This is being paired with a reduction in output at Cigar Lake, which will flex down from 18 MMlb U_3O_8 to 13.5 MMlb in 2024. This net addition of 10.5 MMlb U_3O_8 (15 MMlb at McArthur River less: 4.5 MMlb reduction at Cigar Lake) "already has a home" in Cameco's contract portfolio according to management and will in no way find its way into the spot market. On the conference call Cameco noted it will continue with its supply discipline "indefinitely." We note that consolidated production over the medium-term (2024) of 28.5 MMlb U_3O_8 on a 100%-basis is ~41% below Cameco's licensed capacity (Exhibit 1).

Q4/21 FINANCIAL AND OPERATING RESULTS

The Company sold 6.5 MMlb U_3O_8 in the fourth quarter (ahead of our 5.3 MMlb U_3O_8 estimate) at an average realized price of US$39.65/lb U_3O_8 (up 23% from Q3/21 levels of US$32.20/lb U_3O_8, and well above our US$35.00/lb U_3O_8 estimate). Combined with fourth quarter sales from the Fuel Services division of 4.9 MMkgU (up 63% from Q3/21 levels of 3.0 MMkgU, and well above our 3.3 MMkgU estimate), Q4/21 revenue was reported at $465 MM, driving headline

EPS of $0.03. Normalizing for non-cash gains/losses on derivatives, reclamation provisions, and deferred taxes, adjusted EPS was reported at $0.06, a sizeable beat on our $(0.00) estimate and consensus at $0.01. Q4/21 CFPS, before changes in non-cash working capital, came in at $0.19, also well ahead of consensus at $0.06 and our estimate at $0.14. The Company maintained a strong balance sheet exiting the quarter with $1.3 BB in cash and short-term investments, and uranium in inventory of 8.0 MMlb U_3O_8 equivalent, equating to ~$430 MM at prevailing spot U_3O_8 prices and foreign exchange rates. During the quarter, Cameco made spot market purchases totaling 1.1 MMlb U_3O_8 and purchases from JV-Inkai totaling 2.2 MMlb U_3O_8. 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. The Q4/21 headline results are summarized below:

Exhibit 2. Quarterly Results Comparison

Avg. Realized Price:	Q1/21A	Q2/21A	Q3/21A	Q4/21A	Q4/21E
U3O8 (US$/lb U3O8)	$32.35	$33.56	$32.20	$39.65	$35.00
U3O8 (C$/lb U3O8)	$41.05	$41.70	$40.20	$49.94	$44.30
U (C$/kgU)	$31.91	$32.57	$26.42	$28.80	$30.00
Uranium Segment:					
U3O8 production (MMlb U3O8)	0.0	1.3	2.0	2.8	2.6
U3O8 purchased (MMlb U3O8)	1.5	2.4	3.8	3.3	2.0
Produced & purchased (MMlb U3O8)	1.5	3.7	5.8	6.1	4.6
Total uranium sold (MMlb U3O8)	5.0	6.0	6.7	6.5	5.3
Cash costs per pound (US$)	$37.13	$30.51	$31.41	$34.95	$38.18
Total costs per pound (US$)	$37.13	$37.73	$36.64	$42.81	$41.91
Uranium cash margin	10%	27%	22%	30%	14%
Fuel Services Segment:					
U production (MM kgU)	4.0	3.6	1.4	3.1	3.3
Sales volume (MM kgU)	2.6	3.1	3.0	4.9	3.3
Avg. unit cost of sales incl. D&A (C$)	$21.53	$20.89	$23.26	$19.45	$20.75
Financials (C$MM)					
Revenue	$290.0	$359.2	$361.2	$464.5	$332.3
Cost of goods sold	($329.8)	($347.2)	($387.3)	($408.7)	($307.7)
Gross profit	($39.8)	$12.0	($26.1)	$55.8	$24.6
Operating Income	($31.0)	($38.2)	($64.9)	($2.2)	($2.6)
Total other income / (expense)	$24.0	($3.6)	($9.7)	$21.6	$0.4
Net income (loss)	($5.0)	($36.8)	($72.1)	$11.2	($1.6)
EPS, dil. (C$)	($0.01)	($0.09)	($0.18)	$0.03	($0.00)
EPS, dil. adj. (C$)	($0.07)	($0.10)	($0.14)	$0.06	($0.00)
CFPS (before W/C), dil. (C$)	$0.03	$0.19	$0.01	$0.19	$0.14

Source: Cantor Fitzgerald, Cameco Reports

50% DIVIDEND HIKE

Cameco now has a long-term contract portfolio in-place that supports a McArthur River re-start, and by extension, the Company has a far clearer outlook on its level of profitability and free cash flow generation in the coming years. This improved level of confidence drove a Board decision to increase Cameco's dividend by 50% from $0.08/share to $0.12/share that will be paid in December of this year.

TERM MARKET COMMENTARY

On the conference call, Cameco management provided several important insights into the current state of the uranium term market. In the Company's view, and one that is shared by Cantor, the transition away from the spot market and carry trade to a renewed long-term contracting cycle is clearly underway. Term contracting is resuming in size, with an increasing sense of urgency and focus on security of supply. According to Cameco, "we are in the early innings of a market recovery." This view is fully shared by Cantor. Cameco management addressed four interesting dynamics in the term market, presently:

- **Contract Tenors Are Stretching Out:**
  Over the last several years, tenors in a typical term contract ranged from 2-5 years, as utilities were relying on the spot market and carry trade for additional supply. Contract tenors are now stretching out to a more classic term structure of 5-10 years.
- **Contract Volumes Are Increasing:**
  The size of and interest in on-market and off-market contracting is increasing, with typical contracts and request for proposals (RFPs) now in the "multi-million-pound range" as opposed to "multi-thousand-pound range" in previous years.
- **Contract Time Frames Are Extending:**
  The years in which deliveries are being called for is extending. Cameco notes that it is now seeing contracts spanning the 2030-2040 period, the window in which uranium demand is expected to expand considerably while supply is less certain.
- **Buyers and Sellers Still Somewhat Misaligned in Term Market:**
  Nuclear fuel buyers, fully aware of the supply-demand dynamic that points to higher uranium prices, are generally trying to lock-in fixed price contracts today. This is in misalignment with some producers, including Cameco, who are looking at the same bullish supply-demand uranium fundamentals and preferring to sign market-price related long-term contracts. This is an interesting dynamic that further underpins our bullish uranium macro thesis. Cameco notes that this current misalignment is one of the reasons it has been so active in off-market contracting.

Exhibit 3. Cameco Updated NAVPS Breakdown

Asset	Value ($MM)	$ Per Share	% of NAV
Cigar Lake	$1,630	$4.09	18%
McArthur River / Key Lake Mill	$4,874	$12.24	53%
Inkai	$706	$1.77	8%
Other mining assets (BV)	$133	$0.33	1%
Total Mining Assets	**$7,343**	**$18.44**	**79%**
Fuel Services Division	$1,593	$4.00	17%
Cash + S/T Investments	$1,332	$3.35	14%
Current Debt + S/T Leases	$0	$0.00	0%
Long Term Debt + L/T Leases	($996)	($2.50)	-11%
Future Equity Financing	$0	$0.00	0%
Future Debt Financing	$0	$0.00	0%
	$1,929	**$4.84**	**21%**
Net Asset Value, fully diluted	**$9,272**	**$23.28**	
P/NAV		1.08x	

Source: Cantor Fitzgerald

URANIUM SENTIMENT CONTINUES TO IMPROVE

Over the last eighteen months, sentiment in the uranium sector has turned increasingly positive. The narrative has clearly shifted as it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future. We point to a number of positive developments in the last month alone:

- **February 9:** France to Help Finance New Nuclear Reactors (source: Bloomberg, link here).
- **February 9:** France de Construie Jusqu'à 14 Nouveaux Réacteurs de type EPR (source: Les Echos link here).
- **February 1:** EU to Propose Green Investment Label for Gas and Nuclear (source: Reuters, link here).
- **January 27:** Kazatomprom (KAP-LON, Not Covered) Q4/21 Operations and Trading Update and Lowered 2022 Production Guidance (source: Kazatomprom, link here).
- **January 24:** Going Green Must Include Nuclear for EU's Largest Copper Plant (source: Bloomberg, link here).
- **January 11:** Kazakh President Says Mining Companies Must Pay Higher Taxes (source: Reuters, link here).

Exhibit 4. Cameco Price Target Methodology

	Weight	Multiple	Target
Target P/NAV, Net Cash, 75% Blend	75%	2.00x	$34.92
Target P/CFPS (2022E), 25% Blend	25%	20.00x	$5.50
		Target, rounded:	**$40.50**
Upside to Target:			63.8%

Source: Cantor Fitzgerald

MAINTAINING BUY RATING, RAISING PRICE TARGET

Incorporating the new McArthur River and Cigar Lake guidance, we are maintaining our Buy rating and increasing our price target on Cameco from US$32.00/$40.00/share to US$32.50/$40.50/share. This is based on a 75/25 blend of 2.0x $\text{NAVPS}_{8.0\%}$ and 20.0x 2022E CFPS (unchanged). 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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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.

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

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