Capital Markets
Canaccord Genuity

25 October 2022

Raising Target Price

Cameco Corporation
Specialty Minerals and Metals

Rating	Price Target
BUY *unchanged*	**C$44.00↑** *from C$43.00*
CCO-TSX CCJ-NYSE	Price **C$32.73**

Katie Lachapelle, CPA | Analyst | Canaccord Genuity Corp. (Canada) | klachapelle@cgf.com | 1.416.869.7294
Meaghan Charlebois | Associate | Canaccord Genuity Corp. (Canada) | mcharlebois@cgf.com | 1.416.687.5270

Q3/22 preview; all eyes on Westinghouse

Cameco will report its third-quarter results on October 27, before market open. We view the financial results as largely irrelevant, with a number of performance metrics having already been pre-released (production, sales, etc.). A summary of our Q3 estimates is presented in Figure 2. Instead, **we expect investors to be keenly focused on any incremental colour Cameco might provide on its recent proposed acquisition of Westinghouse Electric** (see our first look note here) and the broader uranium market.

Based on our discussions with investors post-deal, there was a general frustration around the lack of disclosure, Cameco's decision to reduce its leverage to rising uranium prices, and the significant capital outlay required, as well as the considerable debt carried by WEC. Despite this, we still believe there is strong long-term rationale for the transaction and opportunities for Cameco to surface value. After taking some time to digest the deal, we highlight what we view as the key rationale for the transaction and the implications for our valuation below.

A "one-stop shop" for utilities: By combining Cameco's upstream uranium production with Westinghouse's downstream capabilities, CCO will effectively become a "one-stop shop" for utilities. With the exception of enrichment (which could be addressed via CCO's GLE process by the late 2020s), Cameco could provide end-to-end solutions throughout the nuclear fuel cycle. We view this as particularly relevant in the current geopolitical environment as utilities look to diversify their supply chain away from Rosatom (Russia).

Steady revenue stream could be bolstered by new business from countries traditionally serviced by Russia: Based on Brookfield Business Partners' (BBU) September 2022 investor day, WEC is expected to generate run-rate forward EBITDA of ~US$800 million per year (Figure 3). This is before considering incremental opportunities to win business for new reactor builds and services in Eastern Europe (Bulgaria, Slovakia, etc.), which could add another +$50 million in revenue in the year following the closing of the acquisition (CCO guidance). For context, Westinghouse already won a contract with Ukraine's Energoatom for the supply of nuclear fuel and new builds, and could potentially be a front-runner in the bid to build Poland's first nuclear reactor (Bloomberg link, FP link).

Increased access to conversion; potential implications for U_3O_8 contracting: By acquiring a 49% stake in WEC, Cameco will have exposure to another 6.0m kgU of UF_6 conversion capacity at Springfields (currently on care & maintenance), in addition to the 12.5m kgU of capacity the company currently has at Port Hope. This translates to ~50% market share for Western conversion and, in our view, represents a competitive advantage as conversion presents the biggest bottleneck in the Western fuel cycle.

While we acknowledge that the plant will need refurbishment, we believe there are opportunities for Cameco to leverage this uncontracted conversion capacity and increase its success in uranium contracting by pairing U_3O_8 pounds with conversion services. It is our understanding that CCO/WEC will not restart Springfields until firm LT contracts are in place at favourable prices. Operating decisions are expected to be co-managed, despite CCO's minority position.

But balance sheet leverage will be higher... One of the biggest push backs from investors was WEC's existing debt load and the big hit to Cameco's balance sheet given the substantial US$2.2 billion dollar funding requirement. On a pro forma basis, we estimate a net debt/EBITDA ratio of ~2.1x. While higher than historical levels, Cameco should be well placed to quickly reduce debt given our expectation of higher uranium prices, rising production, and a steady stream of revenue from Westinghouse.

Market Data

52-Week Range (C$) :	23.03 - 41.05
Avg Daily Vol (000s) :	1,718
Market Cap (C$M) :	13,040.8
Shares Out. (M) :	398.4
Net Debt (Cash) (C$M) :	(467.2)
Enterprise Value (C$M) :	12,672
NAV /Shr (C$) :	29.47
P/NAV (x) (C$) :	1.11

FYE Dec	2022E	2023E	2024E	2025E
Production	10	16	18	18
Revenue (C$M)	1,841.1↓	2,017.4↓	2,031.7↑	2,135.7↑
Previous	*1,870.4*	*2,017.6*	*1,974.0*	*2,065.3*
EBITDA (C$M)	452.3↓	797.1↓	1,415↑	1,810↑
Previous	*482.5*	*959.9*	*1,049*	*1,132*
FCF /Shr (C$)	0.64↓	1.43↓	2.87↑	4.17↑
Previous	*1.20*	*1.90*	*2.08*	*2.57*
Capex (C$M)	153.6	132.0	126.7	85.2

Source: FactSet

Priced as of close of business 24 October 2022

Cameco Corporation is one of the world's largest producers of uranium, with tier-one operations in North America and Kazakhstan. The company operates two key business segments: uranium and fuel services.

Furthermore, while this analysis assumes that Cameco proportionally consolidates its 49% of Westinghouse's existing US$3.4 billion of debt, Cameco did note that Westinghouse will be an equity accounted JV (like Inkai), and therefore, WEC's debt won't hit CCO's financial metrics or investment grade rating.

...and Cameco will have reduced its exposure to uranium: Historically, Cameco has been the go-to "pure-play" large cap equity for uranium exposure. In our view, this has led to premium valuation multiples, with Cameco having historically traded at an average of ~1.5x NAV and ~20x EV/EBITDA our estimates. While we believe this transaction could dilute Cameco's multiples, we note that Westinghouse's closest comp — BMX Technologies — has traded at an average of ~14x EV/EBITDA over the last three years (min 11x, max 17x).

Updating our estimates for Westinghouse:

- Based on commentary from BBU, we see opportunities for Westinghouse to increase annual EBITDA to ~US$800m per year (on a 100% basis). However, to be conservative, we currently model run-rate EBITDA of US$700m from 2024 onwards (based on LTM) for WEC's standalone operations and do not assume any incremental revenues realized by CCO as a result of synergies with WEC. Given minimal disclosure available to date, we have decided to be conservative but anticipate further revisions to these estimates as company disclosure improves following closing of the transaction (expected H2 2023).
- We assume run-rate capex of ~US$150m per year, based on historical results.
- To fund the acquisition, we currently assume CCO draws the full US$600m (~C $820m) term loan facility as outlined in the deal prospectus as well as an additional C$500m in short-term debt (to keep cash on hand at ~C$1B). Additional funding will come from the recently completed ~US$750m bought deal.

Outside of Westinghouse, we look forward to updates on:

- **Long-term contracting:** In its October 11 pre-release, Cameco stated that interest in long-term contracting remains strong with >50mlbs of uranium and 7m kgU UF6 conversion added to its portfolio YTD. This represents a +5mlb U_3O_8 increase since Q3 and, while volumes have slowed compared to the beginning of the year (40mlbs signed in January alone), our channel checks suggest higher volumes into year-end. Some utilities that moved fast to secure enrichment and conversion are now making their way back upstream. We highlight PDN's recent success in building its contract book (see note here) and look forward to incremental colour from CCO.
- **Spot market activity:** We expect management to highlight the recent run-up in prices, with spot up ~10% over the last two weeks (Figure 4). During this time, SPUT was only active on two days and purchased a mere 300,000lbs. We've heard that traders are struggling to source material.
- **Transportation out of Kazakhstan:** Cameco continues to experience delays in shipping JV Inkai material out of Kazakhstan via the Trans-Caspian route. We are curious as to what the current issues are, and how these may be addressed going forward. Recent industry conferences continue to highlight transportation as a large risk to supply, especially if Russian rail/port is disrupted.
- **Production:** Pre-released production results were largely below our estimates, and management flagged first production at McArthur River later in the fourth quarter. We look forward to further colour on ramp-up expectations.

Maintain BUY rating, upgrade to C$44.00/sh target price: We have updated our estimates to incorporate Q3 preliminary results, as well as the Westinghouse projections detailed above. As a result, our NAVPS has increased modestly to C$29.90/sh (+4%) and we are increasing our target price to C$44.00/sh. Our revised target price is based on an equal weighting of 1.5x NAV and 15x ntm EBITDA, measured as at October 1, 2023.

Figure 1: Financial and operating summary

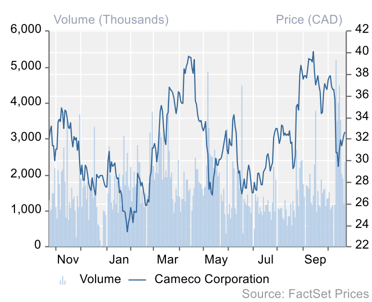
Cameco

Tickers:	**CCO-TSX | CCJ-NYSE**
Shares Outstanding:	**432.5**
Share Price:	**C$32.73**
Target Price:	**C$44.00**
Rating:	**BUY**

TP Methodology:
50% 1.5x P/NAV, 50% 15.0x NTM EBITDA
*As at October 1, 2023

NAV Breakdown	C$	C$/sh	%
McArthur River / Key Lake	5,898	$13.64	40%
Cigar Lake	1,973	$4.56	13%
Inkai	1,938	$4.48	13%
US ISR + Rabbit Lake	440	$1.02	3%
Westnghouse	3,169	$7.33	21%
Total Uranium	**13,418**	**$31.03**	**90%**
Fuel Services	1,508	$3.49	10%
Total Asset Level	**14,926**	**$34.51**	**100%**
Advanced uranium project	879	$2.03	
Cash & Working Capital	1,733	$4.01	
Total Debt	-2,316	($5.36)	
Total Provisions	-903	($2.09)	
CRA Cash Refund	303	$0.70	
Corporate SG&A	-1,875	($4.33)	
Net Asset Value	**12,747**	**$29.47**	

*As at October 1, 2022



Katie Lachapelle, CPA | Analyst klachapelle@cgf.com

		2017a	2018a	2019a	2020a	2021a	2022e	2023e	2024e	2025e
Commodity Prices										
Exchange rate	C$:US$	0.77	0.77	0.75	0.75	0.80	0.77	0.73	0.74	0.74
Uranium Segment										
Spot Market Price	US$/lb	$ 21.78	$ 24.59	$ 25.64	$ 29.96	$ 35.28	$ 52.46	$ 56.88	$ 60.00	$ 65.00
Realized Price	US$/lb	$ 36.13	$ 37.01	$ 33.77	$ 34.39	$ 34.53	$ 44.45	$ 47.94	$ 49.00	$ 52.50
Realized Price	C$/lb	$ 46.80	$ 47.96	$ 44.85	$ 46.14	$ 43.34	$ 58.00	$ 65.54	$ 66.32	$ 70.74
Fuel Services Segment										
Realized Price	C$/kgU	$ 27.20	$ 26.78	$ 26.21	$ 27.89	$ 29.72	$ 37.48	$ 35.55	$ 35.19	$ 35.03
Production, Purchases and Sales										
Uranium Segment										
Production	mlb	23.8	9.2	9.0	5.0	6.1	10.2	15.6	17.9	17.9
Purchases	mlb	6.1	14.0	19.0	33.5	11.1	14.8	12.0	4.0	4.0
Sales	mlb	33.6	35.1	31.5	30.6	24.2	24.7	24.0	24.0	24.0
Fuel Services Segment										
Production	mkgU	7.9	10.5	13.3	11.7	12.1	12.5	12.5	12.5	12.5
Sales	mkgU	11.5	11.7	14.1	13.5	13.6	10.5	12.5	12.5	12.5
Operating Costs										
Uranium Segment										
Cash Cost - Produced	C$/lb	$ 15.11	$ 15.31	$ 15.70	$ 16.24	$ 16.17	$ 18.16	$ 17.84	$ 17.12	$ 17.19
Cash Cost - Purchased	C$/lb	$ 37.19	$ 36.01	$ 34.14	$ 40.41	$ 42.30	$ 49.63	$ 58.99	$ 49.74	$ 53.06
Avg Unit Cost of Sales (incl D&A)	C$/lb	$ 35.04	$ 40.33	$ 39.99	$ 45.71	$ 47.80	$ 53.26	$ 54.11	$ 36.27	$ 37.40
Fuel Services Segment										
Avg Unit Cost of Sales (incl D&A)	C$/kgU	$ 21.66	$ 21.76	$ 19.84	$ 20.76	$ 21.02	$ 21.66	$ 20.75	$ 20.75	$ 20.75
Income Statement										
Revenue	$MMs	2,156.9	2,091.7	1,862.9	1,800.1	1,475.0	1,841.1	2,017.4	2,031.7	2,135.7
Cost of Sales	$MMs	1,720.6	1,795.9	1,621.3	1,693.6	1,473.1	1,555.0	1,558.1	1,129.8	1,157.0
Gross Margin	$MMs	436.3	295.7	241.6	106.4	1.9	286.2	459.3	901.9	978.8
Admin and Other	$MMs	564.0	225.5	149.2	185.1	138.1	128.9	202.0	207.0	207.0
Earnings (loss) from Operations	$MMs	(127.7)	70.2	92.4	(78.7)	(136.2)	157.3	257.3	694.9	771.8
Other Expenses	$MMs	79.5	30.3	(42.6)	(39.2)	(32.4)	(84.8)	(315.2)	(498.1)	(836.8)
Earnings (loss) before income tax	$MMs	(207.2)	39.9	135.0	(39.5)	(103.9)	242.1	572.6	1,193.0	1,608.6
Net Earnings (loss)	$MMs	(204.7)	166.2	73.9	(53.2)	(102.7)	191.9	418.0	870.9	1,174.3
Adjusted EPS (Diluted)	$/sh	$ 0.15	$ 0.53	$ 0.10	$ (0.17)	$ (0.25)	$ 0.39	$ 0.97	$ 2.01	$ 2.72
EBITDA	$MMs	492.5	502.6	446.6	241.5	151.9	452.3	797.1	1,414.6	1,809.5
Dividends	$/sh	$ 0.40	$ 0.18	$ 0.08	$ 0.08	$ 0.08	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Cash Flow Statement										
CFO before WC	$MMs	509.0	484.5	430.5	249.8	171.0	493.9	797.1	1,414.6	1,809.5
CFO after WC	$MMs	596.1	667.5	527.0	56.9	458.3	411.1	749.8	1,368.4	1,886.7
Additions to PPE (Capex)	$MMs	(114.0)	(55.4)	(75.2)	(77.5)	(98.8)	(153.6)	(132.0)	(126.7)	(85.2)
CFPS (before WC)	$/sh	$ 1.29	$ 1.22	$ 1.09	$ 0.63	$ 0.43	$ 1.23	$ 1.84	$ 3.27	$ 4.18
CFPS (after WC)	$/sh	$ 1.51	$ 1.69	$ 1.33	$ 0.14	$ 1.15	$ 1.02	$ 1.73	$ 3.16	$ 4.36
FCFPS	$/sh	$ 1.22	$ 1.55	$ 1.14	$ (0.05)	$ 0.90	$ 0.64	$ 1.43	$ 2.87	$ 4.17
Balance Sheet and Valuation Metrics										
Cash and Equivalents	$MMs	591.6	711.5	1,062.4	918.4	1,247.4	2,088.0	968.0	1,659.2	2,498.9
Total Debt	$MMs	1,494.5	1,495.7	996.7	995.5	996.3	996.6	2,316.4	1,817.7	907.9
Net Debt	$MMs	902.9	393.1	(65.7)	52.2	(336.1)	(1,453.3)	986.4	(203.4)	(1,952.9)
Net Debt per share	$/sh	$ 2.28	$ 0.99	$ (0.17)	$ 0.13	$ (0.84)	$ (3.36)	$ 2.28	$ (0.47)	$ (4.52)
Net Debt/EBITDA	x	1.8	0.8	(0.1)	0.2	(2.7)	(3.2)	1.2	(0.1)	(1.1)
EV/EBITDA	x	10.9	14.6	18.6	44.8	23.5	14.2	9.7	6.9	6.3

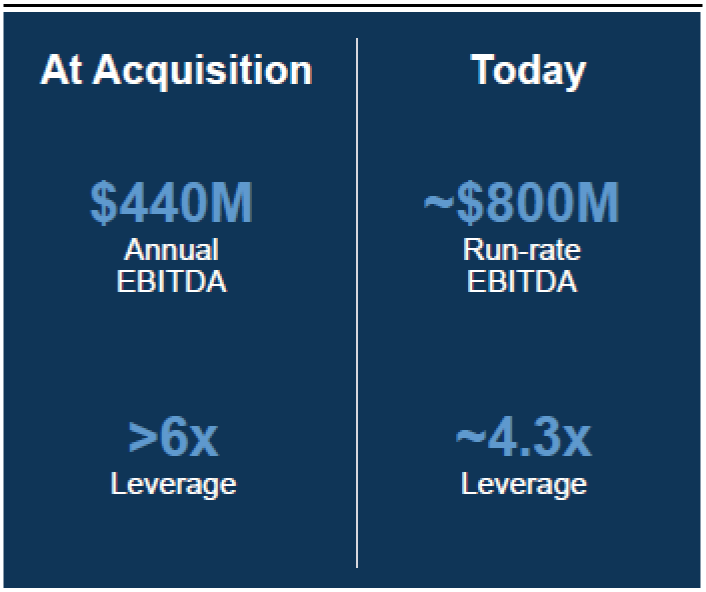
Source: Factset, Company Reports, Canaccord Genuity estimates

Figure 2: Q3 2022 estimates

OVERALL		Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	CG Q3/22e
PRODUCTION														
Uranium	mlbs	1.4	2.7	2.1	0.0	0.2	2.8	0.0	1.3	2.0	2.8	1.9	2.8	2.0
Fuel Services	m kgU	1.7	4.0	3.7	2.7	2.0	3.3	4.0	3.6	1.4	3.1	4.1	3.7	1.5
SALES														
Uranium	mlbs	6.1	14.0	6.0	9.2	6.7	8.6	5.0	6.0	6.7	6.5	5.9	7.6	5.2
Fuel Services	m kgU	1.8	6.2	3.1	3.2	2.8	4.4	2.6	3.1	3.0	4.9	2.2	2.8	2.2
REALIZED PRICES														
Uranium	US$/lb	$30.94	$35.92	$31.39	$32.99	$33.77	$38.43	$32.25	$33.56	$32.20	$39.65	$43.24	$46.30	$43.75
Fuel Services	US$/kgU	$23.90	$18.65	$22.26	$20.89	$20.23	$20.18	$25.21	$26.51	$20.97	$22.85	$27.23	$27.49	$30.00
Uranium	C$/lb	$40.91	$47.50	$41.44	$46.13	$44.85	$50.40	$41.05	$41.70	$40.20	$49.94	$55.05	$58.74	$57.15
Fuel Services	C$/kgU	$31.56	$24.61	$29.91	$28.95	$26.95	$26.29	$31.91	$32.57	$26.42	$28.80	$34.49	$35.09	$39.19
UNIT COST OF SALES														
Uranium	C$/lb	$41.46	$37.80	$40.63	$49.82	$49.90	$41.57	$54.06	$46.03	$46.03	$48.35	$50.91	$51.68	$57.01
Fuel Services	C$/kgU	$29.29	$17.11	$20.47	$21.48	$22.81	$19.12	$21.53	$20.89	$23.26	$19.45	$22.58	$20.75	$21.75
FINANCIAL														
Revenue	$MMs	303.2	874.4	345.6	525.3	378.9	550.4	290.0	359.2	361.2	464.5	398.0	557.6	383.4
EBITDA (not reported)	$MMs	92.4	261.6	103.0	(15.5)	(38.1)	192.0	7.8	14.5	11.5	91.2	73.2	175.6	63.7
EPS (adj. & diluted)	$/sh	-0.01	0.24	0.07	-0.16	-0.20	0.12	-0.07	-0.10	-0.14	0.06	0.04	0.18	0.02
CFPS	$/sh	0.24	0.63	0.17	0.03	-0.05	0.48	0.03	0.19	0.01	0.19	0.08	0.65	0.16
FCFPS	$/sh	0.53	0.64	0.41	-0.84	-0.21	0.58	0.09	0.33	0.43	0.05	0.36	0.16	0.09
Net debt per share	$/sh	0.33	-0.17	-0.60	0.30	0.52	0.13	-0.12	-0.45	-0.91	-0.84	-1.21	-1.08	-1.17

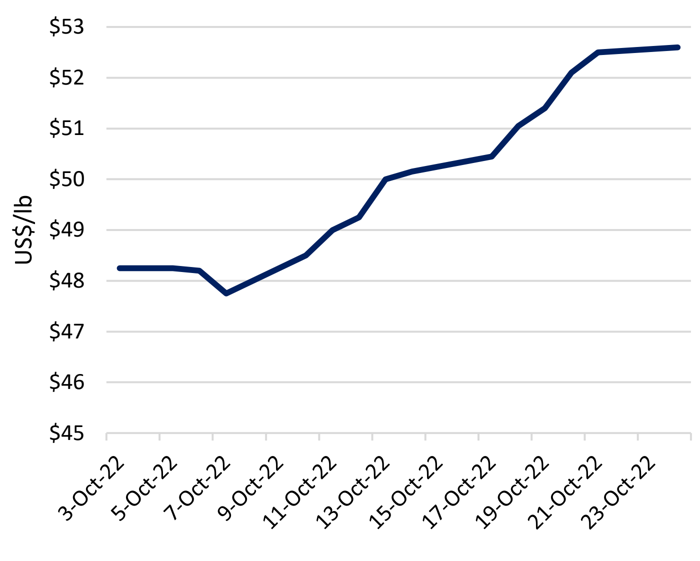
Source: Company reports, Canaccord Genuity estimates

Figure 3: BBU Westinghouse run-rate EBITDA projection



Source: Brookfield Business Partners 2022 investor day presentation

Figure 4: U_3O_8 spot price



Source: UxC, Canaccord Genuity

Figure 7: Target NAV breakdown - as at October 1, 2023

	Disc. Rate	C$ MMs	C$/sh	%
McArthur River / Key Lake	8.0%	6,195	$14.32	40%
Cigar Lake	8.0%	1,953	$4.52	13%
Inkai	8.0%	1,936	$4.48	13%
US ISR - in-situ		196	$0.45	1%
Rabbit Lake - in-situ		244	$0.56	2%
Westinghouse	8.0%	3,333	$7.71	22%
Other	8.0%	0	$0.00	0%
Total Uranium		**13,857**	**$32.04**	**90%**
Fuel Services	8.0%	1,469	$3.40	10%
Total Asset Level Cash Flows		**15,325**	**$35.44**	100%
Advanced uranium projects - in-situ		879	$2.03	
Cash & Equivalents		824	$1.91	
Working Capital (ex. Cash and Debt)		674	$1.56	
Total Debt		-2,316	($5.36)	
Total Provisions		-903	($2.09)	
CRA Cash Refund		303	$0.70	
Corporate SG&A	8.0%	-1,854	($4.29)	
Net Asset Value		**12,933**	**$29.90**	
Net Asset Value per share		**$29.90**		

Share count as at October 1, 2023	432.5
Shares issued from equity raises	0.0
Fully funded share count	432.5

Source: Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

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Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: October 25, 2022, 12:03 ET

Date and time of production: October 25, 2022, 12:03 ET

Target Price / Valuation Methodology:

Cameco Corporation - CCO

Our target price is based on an equal weighting of 15.0x NTM EBITDA and 1.5x NAV, forecast as at October 1, 2023.

Risks to achieving Target Price / Valuation:

Cameco Corporation - CCO

Uranium price and market risk

Our estimates and valuation are extremely sensitive to the price of uranium, and we can make no assurances that the future price trajectory of the metal will be in line with our estimates. A weaker-than-expected uranium price will impact our projected cash flows and assumed production timelines. Downside risks to the uranium market include another nuclear accident, slower-than-expected growth in nuclear demand, and higher than expected available secondary sources of supply.

Operational risk

Cameco's uranium mining operations are extremely complex and therefore subject to operational risk. As extremely high-grade uranium mines, McArthur River and Cigar Lake present challenges that are not typical of most mining operations, such as radiation concerns and challenging ground conditions (i.e. risk of flooding).

Geopolitical risk

Given rising resource nationalism globally, geopolitical risk remains relevant for all mining companies. We note that Cameco's assets are predominantly located in safe jurisdictions, those being Canada, the United States, and Australia. However, exposure to Kazakhstan, through its 40% ownership of the Inkai mine, may give some investors pause. In Kazakhstan, mineral resources belong to the state, therefore, the state has the right to nationalize private property. This right has never been exercised, but the risk still exists.

COVID-19 risk

Uncertainty remains around the timing of a global recovery from the COVID-19 virus. Worsening case counts of COVID-19 in Saskatchewan and/or Kazakhstan could result a further suspension of production which would impact Cameco's financial performance in 2022, and potentially beyond.

Other risks

Like most mining companies, CCO is exposed to various other risks including foreign exchange, input pricing, fuel prices, social license, etc.

Distribution of Ratings:

Global Stock Ratings (as of 10/25/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	637	67.19%	30.14%
Hold	132	13.92%	18.94%
Sell	13	1.37%	7.69%
Speculative Buy	158	16.67%	41.14%
	948*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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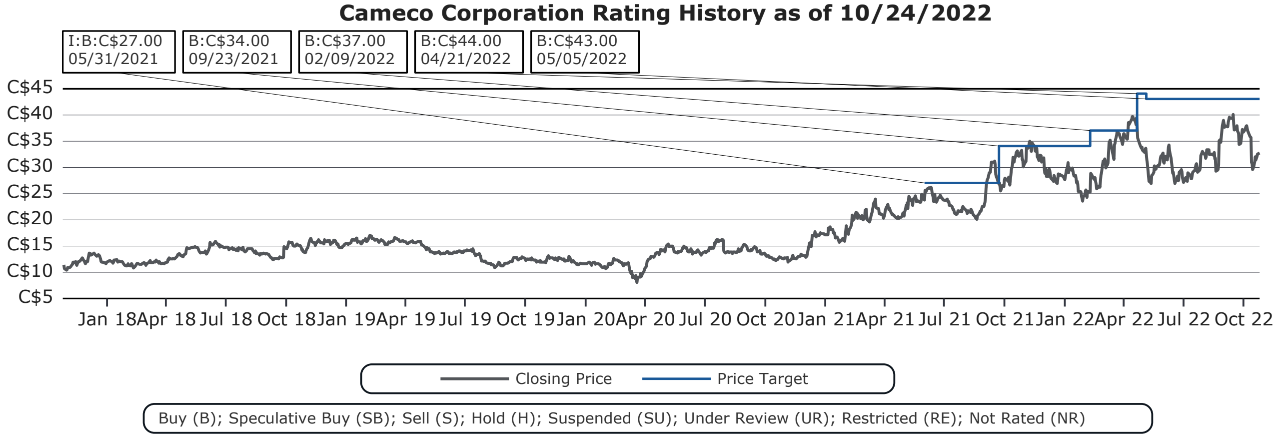

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