EQUITY RESEARCH QUICK TAKE

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Cameco Corporation

Q2/22 results above expectations on fuel services pull-forward, lower costs

TSX: CCO | CAD 29.80 | Outperform | Price Target CAD 45.00

Sentiment: Neutral

Our view: We view the quarter as neutral as the stronger-than-expected earnings were largely due to pull-through fuel services sales and lower uranium purchasing costs while guidance remains largely unchanged. We think Cameco adding 5Mlbs to the contract portfolio could disappoint some investors looking for more term market activity, but we note that contract signings are lumpy and not linear, and we continue to expect stronger volumes over time. Additionally, the delayed ramp-up at McArthur River is not a big surprise given global logistics challenges, and will be offset by higher production at Cigar Lake.

Summary: Q2/22 earnings were above expectations due to higher fuel services sales and lower uranium purchasing costs. Uranium sales were in line with expectations (7.6Mlbs actual vs. 7.4Mlbs RBCe) and realized sales prices were also in line (US$59/lb actual vs. US$59/lb RBCe) while costs were lower (C$52/lb actual vs. C$66/lb RBCe) due to lower purchasing costs as a result of lower uranium market prices. Fuel service sales volumes were higher than expected (3.7M kgU actual vs. 2.8M kgU RBCe) while prices were slightly higher (C$35/kgU actual vs. C$34/kgU RBCe) - we note overall 2022 fuel services sales volumes did not change, so this likely means our H2 sales forecast will need to be adjusted lower.

Cameco slightly raised sales guidance for 2022 with uranium deliveries expected in the range of 24-26Mlbs, from 23-25Mlbs, and maintained fuel services in the range of 10.5-11.5M kgU. Average realized price outlook was maintained at C$59/lb. Expected uranium purchases were increased to 14-16Mlbs, from 12-14Mlbs. SG&A costs were raised to $140-150M, from $125-135M. The ramp-up at McArthur River mine has been delayed and is expected to produce up to 2Mlbs (100% basis) this year, down from 5Mlbs previously. Offsetting this, Cigar Lake will continue to run at 18Mlbs (100% basis), resulting in no significant change to overall annual production.

Cameco signed approximately 5Mlbs in additional contract sales in Q2, raising total pounds added to the contract portfolio in 2022 to 45Mlbs.

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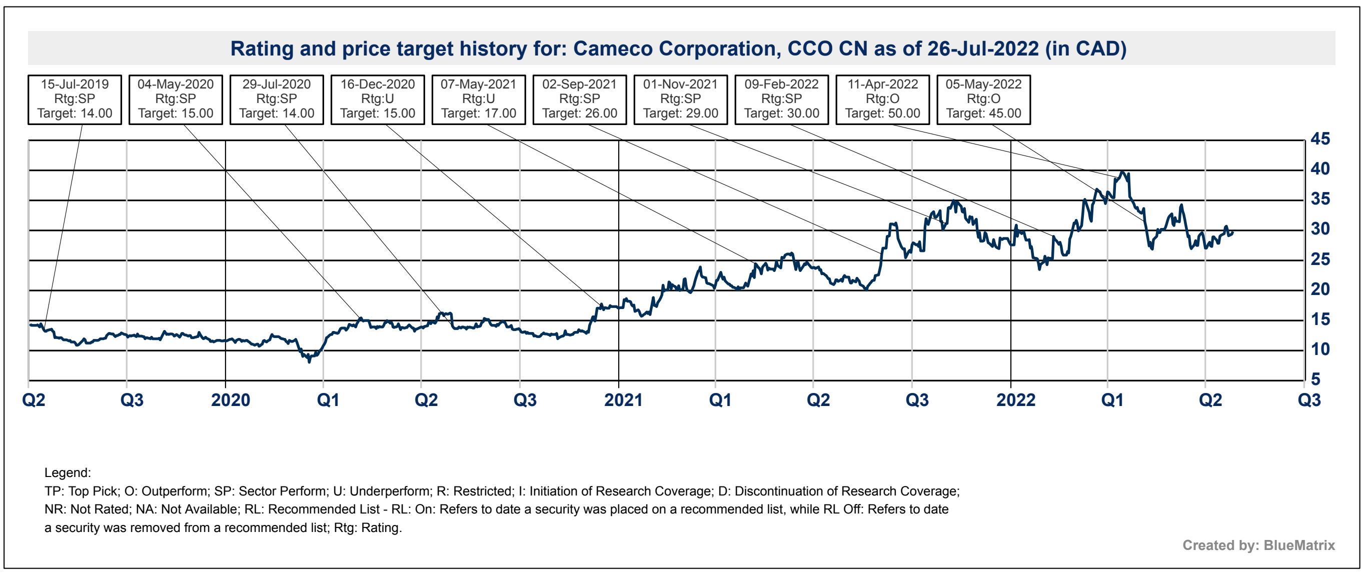

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Cameco Corporation

Valuation

We value the company by applying a 1.5x P/NAV multiple to our NAV estimate. Our target multiple is above the historical average but in line with multiples during periods of strong investor interest and rising uranium prices. Our DCF uses an 8% discount rate. Our $45 price target supports our Outperform rating.

Risks to rating and price target

We highlight several key risks and sensitivities that could be potentially material to our thesis on Cameco including: 1) a negative outcome in the ongoing CRA transfer pricing dispute; 2) contract cancellations; 3) potential production disruptions; 4) weaker-than-expected uranium prices; 5) currency volatility, primarily CAD/USD; and 6) a decline in uranium investor sentiment resulting in lower valuation multiples.

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