

# Cameco Corp.

(CCO-T: C\$14.62), (CCJ-N: US\$11.14)

**BUY**

Target: C\$18.00

November 5, 2018

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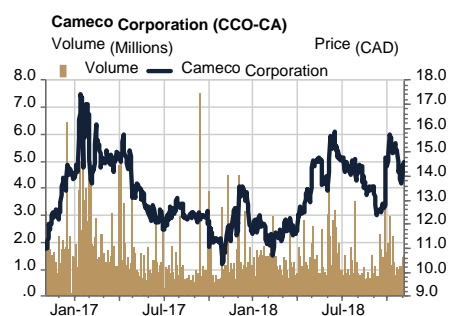
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## Q3 Results Mixed; Equity-Implied Uranium Price \$50/lb

	New	Last		
Rating:		BUY		
Target:		18.00		
<b>Company Data</b>				
Last Price (TSX)		\$14.62		
52-Week Range:	\$10.50 -	\$16.00		
Market Capitalization (C\$Mn):		5,786		
Enterprise Value (C\$Mn):		6,673		
Shares Outstanding - Basic (Mn):		396		
Shares Outstanding - Diluted (Mn):		396		
Dividend Yield:		0.5%		
Avg Daily Volume (3 Mos) (000s):		1,050		
Cash		609		
Net Debt		886		
Fiscal Year End		Dec 31		
<b>Sales Summary</b>				
	2017A	2018E	2019E	2020E
Uranium (Mn lbs)	34	36	28	26
Fuel Services (mm kgU)	11	11	12	12
NUKEM (mm lbs)	10	6	8	8
<b>Financial Summary</b>				
	2017A	2018E	2019E	2020E
EPS	0.15	0.28	0.14	0.16
P/E	97.5x	53.1x	101.1x	89.0x
EBITDA (C\$mm)	568	377	376	311
EV/EBITDA	11.8x	17.2x	16.7x	19.6x
CFPS	1.29	1.13	0.67	0.61
P/CF	11.4x	12.9x	21.8x	24.0x
Net Debt/ EBITDA	1.6x	1.8x	1.3x	1.0x
<b>Quarterly EPS</b>				
	2017A	2018E	2019E	2020E
Q1	-0.07 A	0.06 A	-0.06 E	0.03 E
Q2	-0.11 A	-0.07 A	-0.04 E	0.03 E
Q3	-0.13 A	0.04 A	0.09 E	0.04 E
Q4	0.46 A	0.25 E	0.15 E	0.07 E
FY New	0.15 A	0.28 E	0.14 E	0.16 E
FY Old		0.29 E	-0.13 E	0.95 E

Source: Company reports, FactSet, Eight Capital

### CCO: Price/Volume Chart



Source: Factset

### 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 (NUKEM).

- **CCO pricing in \$50/lb.** Our reverse-DCF analysis values CCO at an equity-implied uranium price of US\$50/lb vs. the range of floor prices based on sensitivity disclosures (2019-2022) of \$27-30/lb and our long-term incentive price of \$60/lb.
- **Next catalysts:** We believe the next several months provide significant re-rating catalysts to drive uranium markets and CCO, including: (i) tightening uranium fundamentals (supply-demand, Section 232); (ii) the increased role of enrichment in uranium pricing; (iii) continued release of working capital as CCO inventories are drawn down; (iv) CCO's own activity in the spot and term market as a buyer; and (v) CCO's US\$682Mln claim against TEPCO (Not Rated), which goes to arbitration 1Q19.
- **Premium valuation is part of the investment narrative.** Rising earnings power on the expectations of stronger uranium prices over the long-term, together with a unique market position and business profile, with high industry barriers to entry and lack of investment alternatives, has kept CCO valuation at a premium. **Post the financial crisis/uranium inventory liquidation period of July 2010 - March 2011, CCO's equity-implied uranium price rose +64% to \$94/lb (from \$57/lb) vs. spot price +71% to \$69.75/lb and LT price +26% to \$73/lb.**

### Summary of 3Q18 Results

	3Q18 Actual	Eight Capital estimates	Variance (Act - Est)	
			(Units)	(%)
<b>Uranium</b>				
Average realized price (US\$/lb)	30.18	35.00	(4.82)	-14%
Average realized price (C\$/lb)	39.49	45.74	(6.25)	-14%
Production ('000s lbs)	1,500	1,707	(207)	-12%
Sales ('000s lbs)	10,600	10,050	550	5%
Unit operating costs (C\$/lb sold)	40.36	41.29	(0.93)	-2%
<b>Revenue</b>	<b>418</b>	<b>460</b>	<b>(42)</b>	<b>-9%</b>
<b>Gross profit</b>	<b>(9)</b>	<b>45</b>	<b>(54)</b>	<b>-120%</b>
<b>Financial Summary</b>				
Revenue	488	581	(93)	-16%
Adjusted EBITDA	50	110	(60)	-55%
Adjusted EPS	0.04	0.04	(0.00)	0%
CFPS (before WC)	0.11	0.24	(0.12)	-52%

Source: Company data, Eight Capital estimates

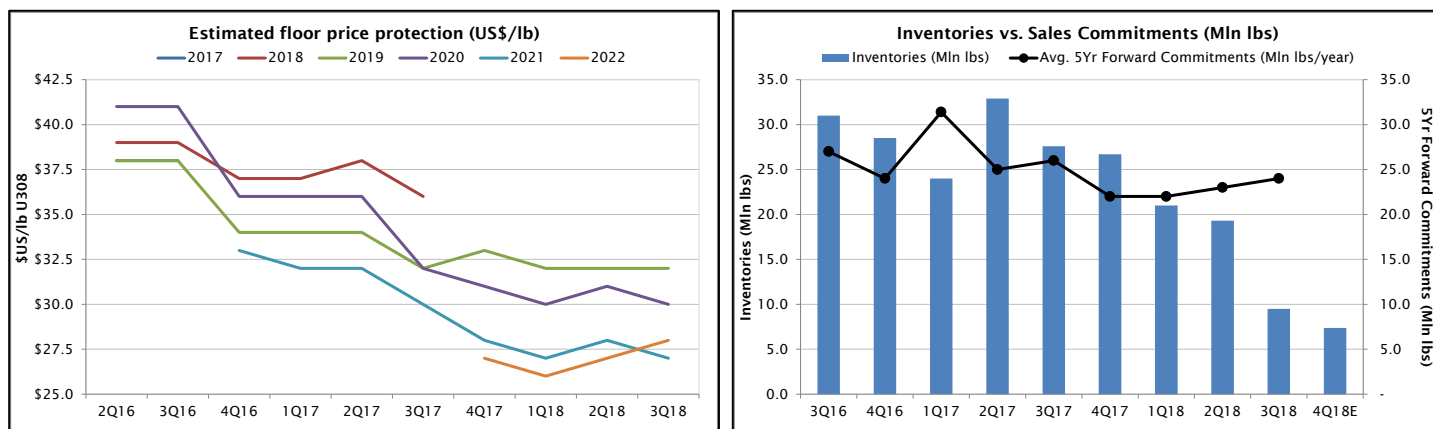
- **Q3 results mixed; maintain BUY rating and TP C\$18.** CCO reported adjusted 3Q18 EPS of \$0.04 - in-line vs. our \$0.04; however, EBITDA of \$50Mln was below our \$104Mln, primarily on 14% lower realized price, with EPS in-line, primarily on offsetting income tax recoveries.
- Our C\$18 TP is unchanged and based on a P/NAV multiple of 1.2x, including a 75% probability of a positive outcome of TEPCO arbitration (C\$1.21/share). In our view, the biggest risk to our call on uranium markets and CCO valuation remains the greater role of enrichment (tails assays) and broader inventories, in providing nuclear fuel supply, which to us, seems to have structurally changed buying behaviour in the market.

3Q18 uranium sales were slightly higher (10.6Mln lbs vs. our 10.1Mln lbs), realized prices were 14% lower (US\$30.18/lb vs. our US\$35/lb) while unit operating costs were in-line (C\$40.36/lb vs. our C\$41.29).

Inventory levels continued to drawdown with 9.5Mln lbs reported at 3Q18 compared to 19.3Mln lbs at 2Q18 and peak of 32.9Mln lbs at 2Q17.

Over the next 5Yrs (2018-2022), average sales commitments total 24Mln lbs/year, with 35-36Mln lbs in 2018, 27-29Mln lbs in 2019, and lower commitments 2020-2022.

**Long-Term Uranium Contract Portfolio**



Source: Company data, Eight Capital estimates

**Model and estimate changes reflect net positive guidance.** FY18 sales volume was revised up to 35-36Mln lbs (vs. 34-35Mln lbs); FY18 total revenue revised up to \$1.99-2.19Bln (from \$1.89-2.14Bln), average realized price to \$47.80/lb (vs. \$46.10/lb), and uranium revenue guidance revised up to \$1.63-1.72Bln (from \$1.55-1.64Bln), all partly due to increased US Dollar exchange rate assumption to C\$1.30 (from C\$1.25); tax recovery revised up to \$80-90Mln (from \$40-50Mln). Additionally, FY19 sales commitments have increased to 27-29Mln lbs (25-27Mln lbs, previously).

**Long-Term Uranium Contract Portfolio**

2018 Sales Commitments				
	High	Low	Mid	%
Sales commitments	35.0	36.0	35.5	
Mine production	9.2	9.2	9.2	26%
Purchase commitments	11.0	12.0	11.5	32%
Spot market purchases	1.0	3.0	2.0	6%
Implied sales from inventory			12.8	36%
<b>Total sales</b>			35.5	100%

2019 Sales Commitments				
	High	Low	Mid	%
Sales commitments	27.0	29.0	28.0	
Mine production	9.0	9.0	9.0	32%
Purchase commitments	5.0	6.0	5.5	20%
Spot market purchases	10.0	12.0	11.0	39%
Implied sales from inventory			2.5	9%
<b>Total sales</b>			28.0	100%

Source: Company data, Eight Capital estimates

Following the Tax Court of Canada ruling "unequivocally" in favour of CCO ([see link here](#)) on September 26th, the CRA has expectedly appealed the decision to the Federal Court of Appeal. CCO estimates that the Federal Court decision will take ~2yrs. The Federal Court's decision can be appealed again to the Supreme Court, which could take an additional two years to resolve. We no longer apply a probability-weighted CRA tax adjustment to our valuation model.

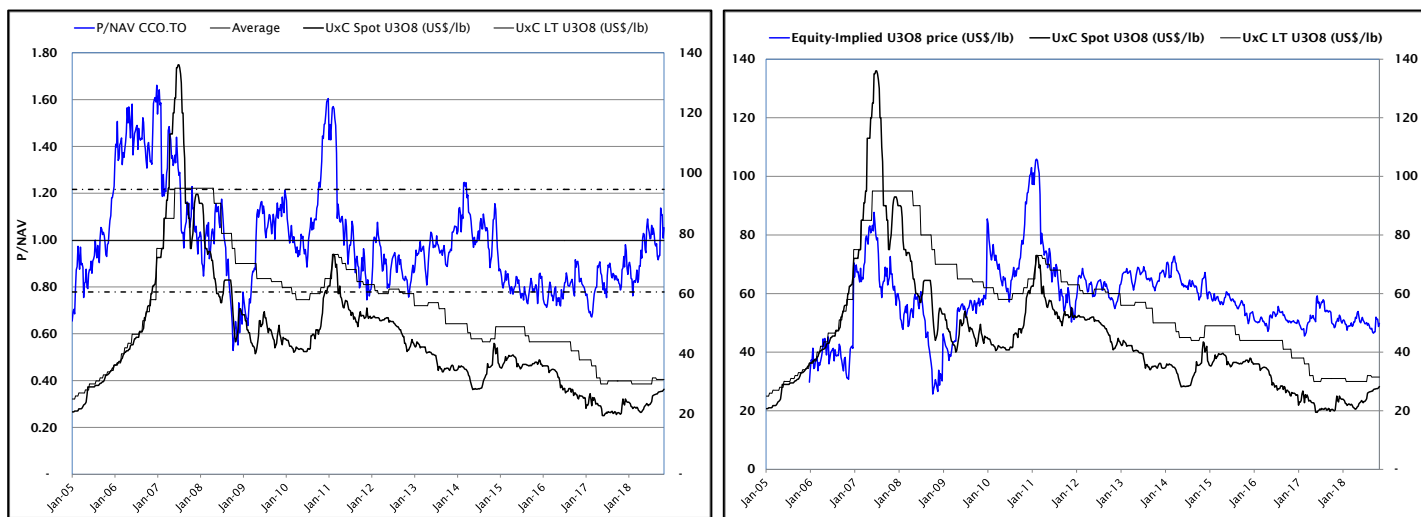
CCO's previously announced US\$682Mln claim against TEPCO will still have arbitration hearings during 1Q19. The TEPCO contract impacts 9.3Mln lbs of uranium deliveries through 2028, implying ~C\$1.3Bln in revenue (estimated average price: ~US\$108/lb U3O8) to which Cameco has rejected the notice of termination. Cameco remains confident in its position. We assume a 75% probability of a positive outcome on the TEPCO arbitration (C\$1.21/share).

**Net Asset Value Summary**

<b>Cameco Corp. - Valuation Summary</b>				
Current share price		14.62		
Shares outstanding		396		
<b>Market capitalization (C\$Mln)</b>		<b>5,786</b>		
Net debt (C\$Mln)		886		
Minority interests (C\$Mln)		0		
Adjustments (C\$Mln)		480		
<b>Adjusted Enterprise value (C\$Mln)</b>		<b>7,153</b>		
<b>Net asset value summary</b>				
		Discount rate 8%		
Operation	Ownership	NPV	(%)	NVP/share
McArthur River	69.8%	2,268	37%	5.73
Cigar Lake	50.0%	1,027	17%	2.60
Inkai (10%)	60.0%	1,127	18%	2.85
Rabbit Lake	100%	173	3%	0.44
Crow Butte	100%	47	1%	0.12
Smith Ranch/Highland	100%	75	1%	0.19
<b>Uranium Mining</b>		<b>4,716</b>	<b>77%</b>	<b>11.92</b>
Fuel Services		599	10%	1.51
NUKEM		180	3%	0.45
Equity Investments		50	1%	0.13
Exploration & Development		553	9%	1.40
<b>Gross Asset Value</b>		<b>6,098</b>	<b>100%</b>	<b>15.41</b>
Long-term Debt		(995)		(2.51)
Working Capital		1,239		3.13
Net Debt		244		0.62
CRA tax risk		-		-
TEPCO arbitration		480		1.21
Corporate SG&A		(625)		(1.58)
Reclamation liabilities		(949)		(2.40)
<b>Net Assets Value (C\$Mln)</b>		<b>5,248</b>		
<i>Shares outstanding</i>		<i>395.8</i>		
<b>Net Assets Value (C\$/share)</b>		<b>13.26</b>		

Source: Company data, Eight Capital estimates

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



Source: Company data, Eight Capital estimates

While CCO appears expensive measured against historical equity-implied uranium price and EV/EBITDA, rising earnings power on the expectations of strong uranium prices in the long-term, CCO's unique market position and business profile, with high barriers to entry and lack of investment alternatives, premium valuations are to remain part of the valuation narrative. Post the financial crisis/uranium inventory liquidation period of July 2010 - March 2011, CCO's equity-implied uranium price rose +64% to \$94/lb (from \$57/lb) vs. spot price +71% and LT price +26%.

**Cameco Historical Valuation by Uranium Period**

<b>Post-Financial Crisis/Pre-Fukushima (Jul-2010 - Mar-2011)</b>										
	Cameco share price	UxC Uranium Price (US\$/lb)			Cameco Average Forward Multiples				Equity-Implied Ux Price	
		Spot	LT	CCO/LT	P/NAV	EV/EBITDA	P/E	P/CF	(US\$/lb)	(% Prem)
Jul-2010	22.35	40.75	58.00	0.39	0.88	10.5	17.3	12.4	57.13	-2%
Mar-2011	36.32	69.75	73.00	0.50	1.37	15.7	21.9	16.1	93.85	29%
Change	63%	71%	26%	29%	55%	49%	27%	29%	64%	30%
<b>First McArthur River Production Cut (Nov-2017)</b>										
	Cameco share price	UxC Uranium Price (US\$/lb)			Cameco Average Forward Multiples				Equity-Implied Ux Price	
		Spot	LT	CCO/LT	P/NAV	EV/EBITDA	P/E	P/CF	(US\$/lb)	(% Prem)
Average	33.09	54.99	63.38	0.52	1.30	15.2	24.7	17.8	84.04	32%
Peak	41.55	73.00	73.00	0.62	1.60	18.2	29.7	21.9	105.88	58%
Trough	22.35	40.75	58.00	0.39	0.88	10.5	17.3	12.4	57.13	-2%
Current	14.50	28.25	31.50	0.46	1.05	15.7	61.1	13.8	49.87	58%
<b>First McArthur River Production Cut (Nov-2017)</b>										
	Cameco share price	UxC Uranium Price (US\$/lb)			Cameco Average Forward Multiples				Equity-Implied Ux Price	
		Spot	LT	CCO/LT	P/NAV	EV/EBITDA	P/E	P/CF	(US\$/lb)	(% Prem)
Nov-2017	10.84	20.30	31.00	0.35	0.80	10.0	28.7	9.1	48.66	57%
Current	14.50	28.25	31.50	0.46	1.05	15.7	61.1	13.8	49.87	58%
Change	34%	39%	2%	32%	31%	57%	113%	51%	2%	1%

Source: Company data, Eight Capital estimates

**Cameco Historical Valuation by Uranium Period**

<b>Cameco Corp: Historical Valuation Periods</b>						
	Uranium price trend (US\$/lb per week)		CCO Average Forward Multiples			
	Spot	LT	P/NAV	EV/EBITDA	P/E	P/CF
Pre-Cigar Lake flood (pre Oct-06)	0.23	0.22	1.16	15.5	25.8	16.3
Peak Uranium (Oct-06 - Apr-08)	0.15	0.52	1.21	11.6	19.0	13.2
Financial Crisis-Inventory Liquidation (Apr-08 - Jul-10)	(0.20)	(0.27)	0.96	10.1	15.7	10.9
Post-Financial Crisis/Pre-Fukushima (Jul-2010 - Mar-2011)	0.85	0.39	1.34	15.7	25.5	18.4
Post-Fukushima (Mar-11 - present)	(0.17)	(0.18)	0.90	10.7	21.0	11.9
Current			1.05	15.7	61.1	13.8

Source: Company data, Eight Capital estimates

Industrial Metals

**Cameco Corporation**

Rating: BUY  
Target price: C\$18

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Price assumptions		2016	2017	2018	2019	2020	2021	2022
Uranium Spot	(US\$/lb)	26.48	26.73	24.70	35.00	40.00	45.00	50.00
Uranium Term	(US\$/lb)	37.88	32.38	32.20	37.50	45.00	50.00	50.00
Cameco Realized Price	(US\$/lb)	41.04	36.14	36.95	37.41	43.50	48.50	50.00
USD\$/CAD\$	(US\$)	0.753	0.767	0.780	0.800	0.800	0.825	0.850

Summary income statement (C\$Mln)		2016	2017	2018	2019	2020	2021	2022
Sales		2,431	2,157	2,153	1,963	2,143	2,366	2,621
Operating costs		1,596	1,390	1,568	1,419	1,634	1,460	1,561
DD&A		372	330	366	298	282	293	330
EBITDA		581	568	377	376	311	684	811
EBIT		209	238	11	79	30	391	481
EBT		(154)	(207)	(38)	(13)	(40)	321	415
Net income		(60)	(205)	105	57	65	358	408
EPS - FD		(0.15)	(0.52)	0.27	0.14	0.16	0.91	1.03
Adjusted EPS - FD		0.37	0.15	0.28	0.14	0.16	0.91	1.03
Shares outstanding - FD (Mln)		396	396	396	396	396	396	396

Summary cash flow statement (C\$Mln)		2016	2017	2018	2019	2020	2021	2022
Net income		(60)	(205)	105	57	65	358	408
Non-cash items		441	714	343	209	176	135	151
Working capital changes		(79)	76	450	79	71	-	-
Cash from operations		312	596	876	345	312	494	558
Net change in total debt		-	-	-	(499)	-	-	(399)
Net change in common equity		-	-	-	-	-	-	-
Dividends		(158)	(158)	(71)	(32)	(32)	(32)	(32)
Cash from financing activities		(229)	(228)	(120)	(531)	(32)	(32)	(430)
Property and equipment		(217)	(114)	(86)	(123)	(87)	(240)	(275)
Other investing activities		(1)	21	(459)	-	-	-	-
Cash from investing activities		(218)	(93)	(545)	(123)	(87)	(240)	(275)
Free cash flow		95	482	790	223	226	253	283
Net change in cash		(134)	275	211	(308)	194	222	(147)

Summary balance sheet (C\$Mln)		2016	2017	2018	2019	2020	2021	2022
Cash & equivalents		320	592	803	495	689	911	764
Total current assets		2,042	2,136	2,196	1,809	1,932	2,154	2,007
Fixed assets		4,656	4,192	3,786	3,611	3,416	3,363	3,308
Total assets		8,249	7,779	7,940	7,378	7,306	7,475	7,273
STD		-	-	499	499	499	499	499
Total current liabilities		469	411	957	957	957	957	957
LTD		1,493	1,494	995	496	496	496	97
Minority Interest		0	0	0	0	0	0	0
Shareholder equity		5,258	4,859	4,901	4,926	4,960	5,287	5,662
Total liabilities & equity		8,249	7,779	7,939	7,377	7,305	7,474	7,272

Valuation Analysis		2016	2017	2018	2019	2020	2021	2022
NAVPS	per share			13.26				
EPS	per share	0.37	0.15	0.28	0.14	0.16	0.91	1.03
CFPS	per share	0.96	1.29	1.13	0.67	0.61	1.25	1.41
P/NAV	(x)			1.10				
P/E	(x)	39.9	97.5	53.1	101.1	89.0	16.1	14.2
P/CF	(x)	15.2	11.4	12.9	21.8	24.0	11.7	10.4
Enterprise Value	(Mln)	6,960	6,690	6,478	6,287	6,093	5,871	5,620
EV/EBITDA	(x)	12.0	11.8	17.2	16.7	19.6	8.6	6.9
FCF Yield	(%)	1.6%	8.3%	13.7%	3.9%	3.9%	4.4%	4.9%
P/BV	(x)	1.1	1.2	1.2	1.2	1.2	1.1	1.0

Profitability Metrics		2016	2017	2018	2019	2020	2021	2022
EBITDA Margin	(%)	24%	26%	18%	19%	15%	29%	31%
Return on Equity	(%)	-1%	-4%	2%	1%	1%	7%	7%
Return on Invested Capital	(%)	-1%	-3%	2%	1%	1%	0%	0%

Balance Sheet Analysis		2016	2017	2018	2019	2020	2021	2022
Debt/Equity	(%)	28%	31%	30%	20%	20%	19%	11%
Debt/Debt + Equity	(%)	18%	19%	19%	13%	14%	13%	8%
Net Debt/Equity	(%)	22%	19%	14%	10%	6%	2%	-3%
Net Debt/TTM EBITDA	(x)	2.0	1.6	1.8	1.3	1.0	0.1	(0.2)
Net Debt/NTM EBITDA	(x)	2.1	2.4	1.8	1.6	0.4	0.1	(0.1)
EBIT Interest Coverage	(x)	3.9	2.2	6.0	0.8	6.0	10.3	-

Production Profile (CCO - Share)		2016	2017	2018	2019	2020	2021	2022
McArthur River (69.8%)	mlbs	12,600	11,300	100	(0)	(0)	12,521	14,429
Cigar Lake (50.0%)	mlbs	8,700	9,000	9,000	9,105	9,105	9,105	9,105
Inkai (40.0%)	mlbs	3,500	3,200	5,641	3,366	3,366	3,366	3,366
US ISR	mlbs	1,125	300	50	0	0	0	0

Revenue by Segment		2016	2017	2018	2019	2020	2021	2022
Uranium Mining	(%)	71%	71%	78%	67%	66%	68%	71%
Fuel Services	(%)	13%	14%	15%	15%	15%	13%	11%
NUKEM	(%)	16%	15%	7%	18%	19%	19%	18%
Other	(%)	0%	0%	0%	0%	0%	0%	0%

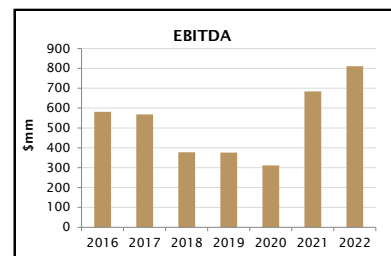
Cash Cost		2016	2017	2018	2019	2020	2021	2022
McArthur River	(C\$/lb)	18.52	17.20	15.01	15.37	15.28	15.28	15.91
Cigar Lake	(C\$/lb)	20.28	18.34	13.74	14.49	14.42	14.67	14.72
Inkai	(C\$/lb)	13.31	11.66	-	-	-	-	-
Purchased Uranium	(C\$/lb)	36.29	28.71	27.17	25.00	30.02	39.60	40.24
Total	(C\$/lb)	17.01	17.01	15.01	14.49	14.42	15.55	17.18

Source: Eight Capital estimates, Company data

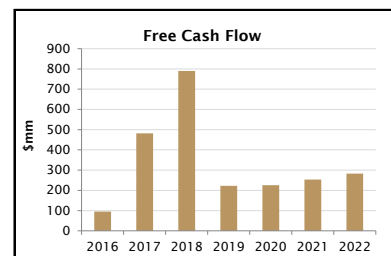
Industrial Metals		
Uranium		
CANADA		
Primary ticker		CCO.TO
Price		14.62
Target price		18.00
Exchange rate (US\$/C\$)		0.76
Shares outstanding - FD (Mln)		395.8
Market Capitalization (C\$Mln)		5,786
Enterprise Value (C\$Mln)		6,673
Year end		Dec.31
Pricing currency		CAD\$
Accounting currency		CAD\$

Balance Sheet - (C\$ MM)	Most recent quarter
Cash and cash equivalents	609
Net working capital	1,590
Net PP&E	3,881
Total assets	7,887
Short term debt	499
Long term debt	996
Total shareholders' equity	4,834
Total liabilities & shareholder equity	7,887
Shares outstanding (Mln)	396
Book value per share	12.21
Net debt/net debt + equity (%)	14.0%

Net Asset Value Summary		
	C\$Mln	\$/share
McArthur River	2,268	5.73
Cigar Lake	1,027	2.60
Inkai (10%)	1,127	2.85
Rabbit Lake	173	0.44
Crow Butte	47	0.12
Smith Ranch/Highland	75	0.19
<b>Uranium Mining</b>	<b>4,716</b>	<b>11.92</b>
Fuel Services	599	1.51
NUKEM	180	0.45
Equity Investments	50	0.13
Exploration & Development	553	1.40
<b>Gross Asset Value</b>	<b>6,098</b>	<b>15.41</b>
Long-term Debt	(995)	(2.51)
Working Capital	1,239	3.13
Net Debt	244	0.62
CRA tax risk	-	-
Corporate SG&A	(625)	(1.58)
Reclamation liabilities	(949)	(2.40)
<b>Net asset value</b>	<b>5,248</b>	
Shares outstanding	396	
<b>Net asset value per share (C\$)</b>	<b>13.25</b>	



Source: Eight Capital estimates, Company data



Source: Eight Capital estimates, Company data

## Disclosures and Disclaimers

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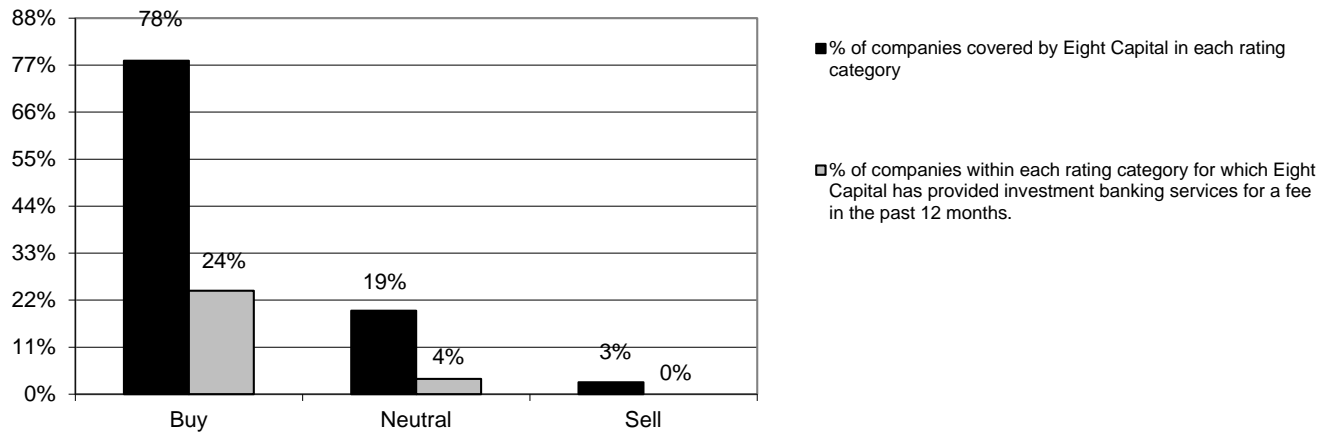
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*As at October 1, 2018*

*Source: Eight Capital*