

CAMECO CORPORATION

Cameco to provide India with 7.1M lbs. of U₃O₈ under contract through 2020

EVENT

Cameco has announced a landmark deal with India in which it will supply uranium to the country through 2020.

BOTTOM LINE

Positive – This is a landmark deal for Cameco as it gives the company access to the second fastest growing uranium consumer in the world. The long-term supply agreement will provide revenue security at profitable prices for the company that could underpin its financial position, possible acquisitions, or even a dividend increase. We are maintaining our BUY recommendation and target price of \$26.15/share.

FOCUS POINTS

- **First of possibly many** – The contract is Cameco's first with India, which is the world's second fastest growing market for nuclear fuels behind China
- **Term contract** – A long-term supply agreement is positive for Cameco as there has been a notable decline in activity on this end of the spectrum. While this agreement is market related pricing, reference pricing from industry sources suggests a price around US\$49/lb. This is notably higher than the US\$39/lb. spot price for uranium and our estimated average cash cost per pound of US\$30.62/lb. from 2016-20.
- **Customer/Revenue security** – As India is a sovereign country on solid economic footing, it provides Cameco with enhanced revenue security over a long-term contract with a corporate entity.
- **Impact** – This and future deals could perhaps underpin acquisitions of current and up-and-coming world-class projects or perhaps lead to a dividend increase if uranium prices rise.

Recommendation:

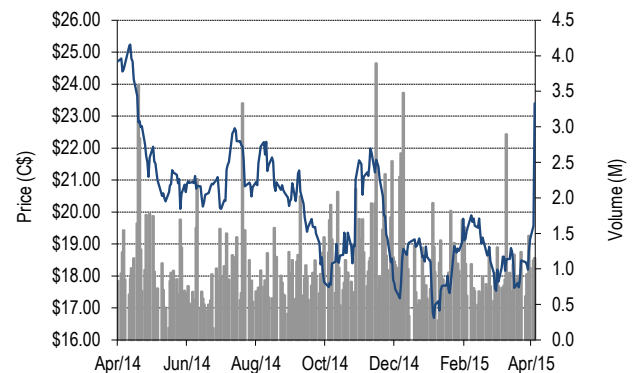
BUY

Symbol/Exchange:	CCO/TSX; CCJ/NYSE
Sector:	Metals and Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current price	\$20.25; US\$16.48
One year target:	\$26.15
Return target	29%
Market Capitalization	\$7.8B
Cash on hand	\$566.5M
Yield	1.97%

Company Summary

Shares O/S (M)	396.6	52-week range	\$16.69- 25.35	
Market cap (\$M)	\$8,035.9	Avg. weekly vol. (000)	5.197	
Market float (\$M)	\$8,027.9	Fiscal year-end	31-Dec	
	2013A	2014A	2015E	2016E
Uranium Production (M lbs)	23.6	23.3	25.3	30.5
Revenue (\$M)	2,438.7	2,397.5	2,813.8	3,093.3
Operating Cost (\$M)	1,832.0	1,759.8	2,291.0	2,186.9
Cash Cost (US\$/lb)	\$21.81	\$30.34	\$33.20	\$27.24
EBITDA (\$M)	611.1	748.8	605.4	1,013.4
EPS	\$1.12	\$1.04	\$0.91	\$1.23
CFPS	\$1.55	\$1.44	\$1.57	\$2.60

Source: Company Reports and Cantor Fitzgerald Estimates



Company profile: Cameco Corporation is a world leader in uranium mining and processing, with additional exposure to fuel trading. Cameco's uranium mines and projects are situated predominantly in Canada, the U.S., Kazakhstan and Australia.

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See disclosure and a description of our recommendation structure at the end of this report.

AGREEMENT SIGNED WITH INDIA

Cameco has announced that it has signed a supply agreement with India's Department of Atomic Energy to provide 7.1M lbs. of uranium concentrate through 2020 under long term contract.

The contract is Cameco's first with India, which is the world's second fastest growing market for nuclear fuels behind China. India currently has 21 reactors that provide 3% of the country's electricity needs. The country has a goal to increase the contribution of nuclear energy to 25% by 2050.

Current U₃O₈ demand in India is approximately 4.1M lbs. annually and the country currently has six reactors under construction. Cantor Fitzgerald Canada Research estimates that uranium demand could grow to 6 M lbs. once these reactors go online.

Additionally, based on information on reactors planned and proposed in India, the number of reactors could grow to a total of 53 by 2023 and India could demand about 20M lbs. of U₃O₈ annually in the scenario.

IMPACT TO CAMECO

For Cameco the impact of this deal is the capturing of a long-term supply agreement. There have been fewer transactions of this variety over the past few years as utilities have opted for shorter contracts or spot market purchases to take advantage of the lower prices in the current excess inventory environment. The deal with India will utilize market-related pricing, which typically is the prevailing price at the time of the transaction subject to the addition (or subtraction) of a preset amount as well as subject to price ceilings and floors.

We recall that during Cameco's investor day late last year, management noted that it was open to giving up a floor price in exchange for higher price ceilings (or no ceiling at all).

The reference long-term price as reported by several industry publications is currently US\$49/lb. This is notably higher than the US\$39/lb. spot price for uranium and our estimated average cash cost per pound of US\$30.62/lb. from 2016-2020.

The deal also places Cameco in the position of a preferred supplier of uranium to the second fastest growing uranium consumer in the world. As India is a sovereign country on solid economic footing, it provides Cameco with enhanced revenue security relative to a long-term contract with a corporate entity.

POSSIBLE OUTCOMES FROM THE DEAL

This and future deals could perhaps underpin acquisitions of current and up-and-coming world-class projects held in the hands of Denison Mines' (DML-TSX, DNN-NYSE, Buy, \$1.80) Wheeler River project, Fission Uranium's (FCU-TSX, Buy, \$1.95) Patterson Lake South project, and NexGen Energy's (NXE-TSXV, Buy Speculative) Rook I project.

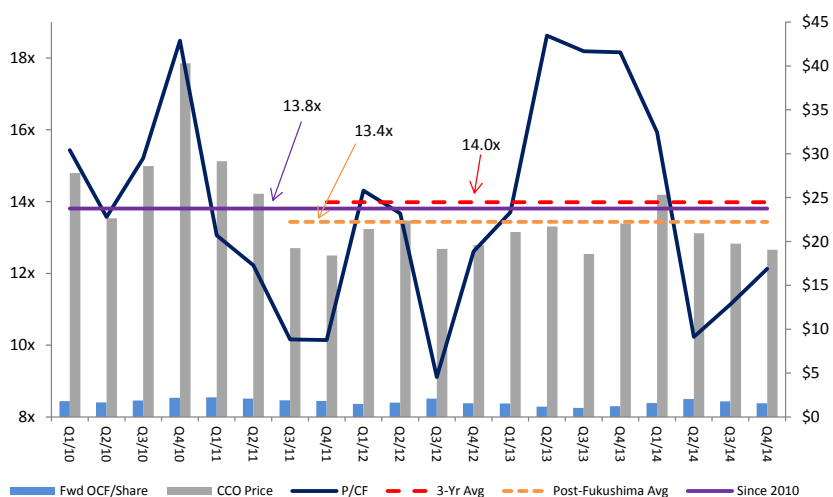
The enhanced revenue security of having a contract with a state instead of a corporate entity may also pave the way for a dividend increase once uranium prices move higher. However we acknowledge that it is too early to expect that from Cameco with uranium prices at current levels.

RECOMMENDATION

We are maintaining our Buy recommendation and our target price of \$26.15 per share. Our target price is based on a 50/50 blend between a 13x forward cash flow multiple (\$20.42/share) and our NAV of \$31.90/share.

Note that historically, Cameco has traded at an average multiple of 13.4x-14.0x with 13.4x being the average in its post-Fukushima life. As of the end of the 2014, CCO traded at a 12.1x multiple to our forward NAV estimate. As of last trade (\$20.25 per share) it traded at 12.9x multiple.

Exhibit 1. Historical Price to Forward Cash Flow



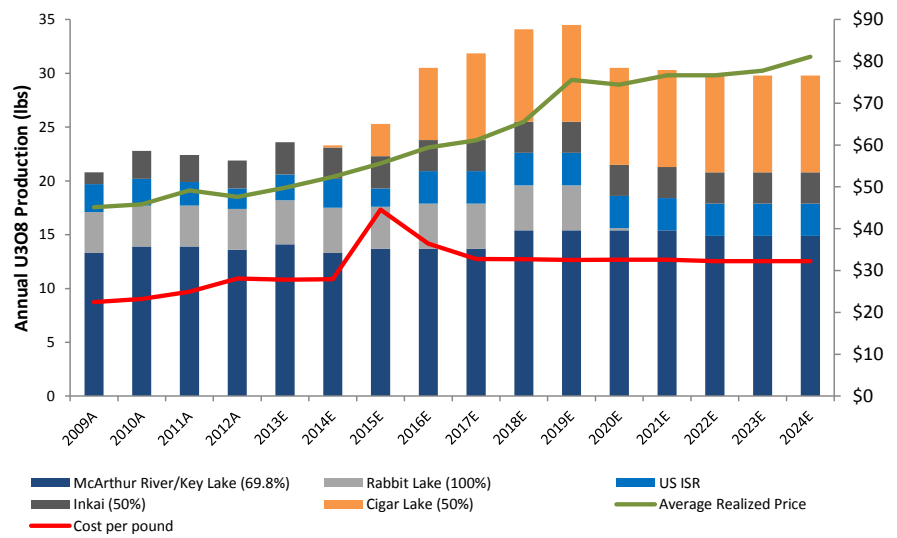
Source: Cantor Fitzgerald Canada Research

Exhibit 2. Cameco NAV

Projects	Cameco Corporation		Comment
	NAV	Per Share	
Uranium, Fuel Services, Electricity and Nukem Divisions	10,266.7	\$25.95	2015 DCF @ 8% Discount Rate
Wheeler River/Millennium/Kintyre	797.4	\$2.02	In-Situ Valuations
UEX Corp.	11.7	\$0.03	22.58% Ownership at a 20% discount
Working Capital	1,551.9	\$3.91	Q4/14 Financials
Total	12,627.6	\$31.90	

Source: Cantor Fitzgerald Canada Research

Exhibit 3. Uranium Production, Realized Price and Cost Profile



Source: Cantor Fitzgerald Canada Research

APPENDIX A: FINANCIAL STATEMENT ANALYSIS

Exhibit 4. Cash Flow Analysis

*In 000s	2010A	2011A	2012A	2013A	2014A	2015E
Cash Flows from Operations						
Net Income	506,039	449,844	264,583	317,687	183,413	361,617
Adjustments	15,223	295,018	379,329	212,197	296,769	259,586
	521,262	744,862	643,912	529,884	480,182	621,203
Cash Flows from Investments						
Additions to property, plant & equipment	-430,582	-647,137	-1,310,056	-779,575	-480,108	-370,000
Other	-669,456	119,180	731,455	-74,839	459,366	0
	-1,100,038	-527,957	-578,601	-854,414	-20,742	-370,000
Cash Flows from Financings						
Change in Debt	-9,733	-2,608	491,977	-18,459	145,430	0
Issuance of Shares/Stock Option Plan	9,811	7,339	7,033	2,475	6,228	0
Other	-141,882	-206,550	-212,022	-182,847	-235,550	-158,280
	-141,804	-201,819	286,988	-198,831	-83,892	-158,280
Net Change in Cash	-720,580	15,086	352,299	-523,361	375,548	92,923

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

Exhibit 5. Balance Sheet Analysis

*In 000s	2010A	2011A	2012A	2013A	2014A	2015E
Current Assets						
Cash & Equivalents	376,621	398,084	749,824	229,135	566,583	659,506
Other	2,192,141	2,185,689	1,418,097	1,528,695	1,501,123	1,501,123
	2,568,762	2,583,773	2,167,921	1,757,830	2,067,706	2,160,629
Fixed Assets						
Property, Plant and Equipment	3,954,647	4,349,492	5,249,099	5,040,993	5,291,021	5,343,983
Other	679,145	683,085	798,000	1,240,494	1,113,940	1,113,940
	4,633,792	5,032,577	6,047,099	6,281,487	6,404,961	6,457,923
Total Assets	7,202,554	7,616,350	8,215,020	8,039,317	8,472,667	8,618,552
Current Liabilities						
Accounts Payable	389,959	455,499	468,776	437,941	316,258	316,258
Other	209,034	256,839	239,036	266,610	199,556	199,556
	598,993	712,338	707,812	704,551	515,814	515,814
Non-Current Liabilities						
Long Term Debt	794,483	795,145	1,292,440	1,293,383	1,491,198	1,491,198
Other	940,626	1,185,731	1,270,501	691,989	1,021,851	1,021,851
	1,735,109	1,980,876	2,562,941	1,985,372	2,513,049	2,513,049
Shareholders' Equity						
Share Capital	1,833,257	1,842,289	1,851,507	1,854,671	1,862,646	1,862,646
Other	3,035,195	3,080,847	3,092,760	3,494,723	3,581,158	3,727,043
	4,868,452	4,923,136	4,944,267	5,349,394	5,443,804	5,589,689
Total Liabilities and Equity	7,202,554	7,616,350	8,215,020	8,039,317	8,472,667	8,618,552

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

Exhibit 6. Profit and Loss Analysis

*In 000s	2010A	2011A	2012A	2013A	2014A	2015E
Revenue	2,123,655	2,384,404	2,321,471	2,438,723	2,397,532	2,813,811
Operating Expenses	1,113,963	1,333,449	1,304,778	1,549,238	1,420,768	1,973,931
Depreciation	238,308	274,663	293,429	282,756	338,983	317,038
Gross Profit	771,384	776,292	723,264	606,729	637,781	522,842
Exploration	95,796	84,875	97,169	72,833	46,565	44,237
Other	176,232	169,603	356,889	269,203	552,884	190,248
Earnings from Operations	499,356	521,814	269,206	264,693	38,332	288,357
Finance Cost	-86,179	-73,668	-80,349	-62,121	-77,122	-68,013
Interest	76,069	133,883	131,348	98,885	234,552	130,359
EBT	509,466	461,599	218,207	227,929	-119,098	226,011
Tax	3,427	11,755	-46,376	-89,758	-175,268	-135,606
Net Income	506,039	449,844	264,583	317,687	56,170	361,617
EPS	1.31	1.14	1.13	1.12	1.04	0.91

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

APPENDIX B: RESOURCE INVENTORY

Exhibit 7. Cameco Global Resource & Reserve Inventory

Property	Mining Method	Proven & Probable			Measured & Indicated			Inferred			Totals Global lbs (M) Attributable
		Tonnes (x1000)	% U3O8	lbs (M) U3O8 Attributable	Tonnes (x1000)	% U3O8	lbs (M) U3O8 Attributable	Tonnes (x1000)	% U3O8	lbs (M) U3O8 Attributable	
McArthur River	underground	1,050.60	16.36	264.50	97.20	5.65	8.50	329.40	7.78	39.50	312.50
Cigar Lake	underground	537.10	18.30	108.40	44.40	2.27	1.10	373.40	12.01	49.50	159.00
Rabbit Lake	underground	1,467.90	0.70	22.80	485.60	0.60	6.40	375.00	1.24	10.30	39.50
Key Lake	open pit	61.90	0.52	0.60							0.60
Dawn Lake	open pit				347.00	1.69	7.40				7.40
Millennium	underground				742.70	4.16	47.70	191.50	5.29	15.60	63.30
Phoenix	underground				152.40	15.60	15.70	11.60	29.80	2.28	17.98
Tamarack	underground				183.80	4.42	10.30	45.60	1.02	0.60	10.90
Athabasca Basin				396.30			97.10			117.78	611.18
Inkai	ISR	63,805.40	0.07	53.90	28,992.70	0.08	27.90	245,606.10	0.05	146.70	228.50
Gas Hills-Peach	ISR	999.20	0.11	2.40	8,822.10	0.11	22.20	861.50	0.07	1.30	25.90
North Butte-Brown Ranch	ISR	1,839.30	0.08	3.30	7,248.90	0.08	12.30	594.30	0.06	0.80	16.40
Smith Ranch-Highland	ISR	3,154.70	0.09	6.20	16,942.60	0.06	23.00	6,404.00	0.05	6.60	35.80
Crow Butte	ISR	1,134.90	0.12	3.00	2,595.10	0.21	12.20	2,114.60	0.12	5.40	20.60
Ruby Ranch	ISR				2,215.30	0.08	4.10	56.20	0.14	0.20	4.30
Ruth	ISR				1,080.50	0.09	2.10	210.90	0.08	0.40	2.50
Shirley Basin	ISR				1,727.40	0.12	4.40	508.00	0.10	1.10	5.50
US ISR				14.90			80.30			15.80	111.00
Kintyre	open pit				4,315.40	0.58	38.70	950.20	0.46	6.70	45.40
Total		63,805.40		465.10	33,308.10		244.00	246,556.30		286.98	996.08

Source: Cameco Corporation

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