

Action Note

Equity Research

April 9, 2020

Metals & Minerals

Cameco Corp.

(CCO-T, CCJ-N) C\$12.63 | US\$9.00

Mine Suspensions Tighten Uranium Market

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Event

We have increased our spot uranium price forecast to reflect the impact of recent COVID-19-driven mine closures.

Impact: POSITIVE

- We have increased our uranium price deck on the back of higher spot prices (currently, US\$29.18/lb) and tightening supply.** We are now forecasting U3O8 spot prices of US\$28.94/lb for 2020 (previously US\$25.13); US\$31/lb for 2021 (previously US\$27/lb); and US\$33/lb for 2022 (previously US\$30/lb). See our uranium market note "Uranium Mine Supply Contracts on COVID-19 Restrictions", published today.
- We estimate that ~12.8mmlbs of U3O8 primary mine production has been removed from the market so far, or ~9.5% of the mine supply forecast we had at the start of this year.** We believe that the supply cuts announced so far (Cigar Lake, Namibia, and Kazakhstan) will result in the 2020 uranium market moving into a supply deficit of ~24mmlbs U3O8, assuming that uranium demand remains relatively unchanged. We expect that demand should remain mostly inelastic despite weaker global electricity demand because of the base-load nature of nuclear power generation.
- We have adjusted our estimates to reflect a four-week suspension at Cigar Lake and reduced purchases from Cameco's share of production from Inkai.**
- Our corporate NAV-10% estimate has increased slightly to \$11.50/share (from \$11.47/share previously).** The relatively muted impact of our increased uranium price deck on our NAV is due to the company's sales contract portfolio and our expectation that Cameco will need to source additional material in a higher-priced spot market to meet its 2020 sales commitments.
- As a reminder, Cameco drew down its uranium inventory to just 6.1mmlbs at YE2019.** Before the shutdown of its operations, Cameco was planning to purchase 20-22mmlbs of uranium in 2020 — including 4.9mmlbs from the Inkai JV.

TD Investment Conclusion

We are maintaining our HOLD recommendation and increasing our target price to \$14.00 (from \$10.50). Our target price is based on an NAV-10% multiple of 1.2x (100% weighting, previously 0.9x). Our increased NAV target multiple reflects improving spot market conditions and the potentially positive impact that the recent supply adjustments could have on the term market, in our view.



Company Profile

Cameco is one of the world's largest uranium producers. The company's flagship McArthur River and Cigar Lake mines are located in the Athabasca Basin in Saskatchewan, Canada.

Recommendation:	HOLD
Risk:	HIGH
12-Month Target Price:	C\$14.00↑ Prior: C\$10.50
12-Month Dividend (Est.):	C\$0.08
12-Month Total Return:	11.5%

Market Data (C\$)

Current Price	C\$12.63
52-Week Range	\$7.69 - \$16.15
Mkt Cap (f.d.) (\$mm)	\$4,999.0
EV (\$mm)	\$5,004.4
Current Dividend	\$0.08
Dividend Yield	0.6%
Avg. Daily Trading Vol.	2,215,004

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	395.8
Float Shares (mm)	395.8
Net Debt/Total Cap	3.5%
NAVPS	\$11.50
Working Cap (\$mm)	\$1,529.6

Estimates (C\$)

Year	2018A	2019A	2020E	2021E
EBITDA (\$mm)	460.0	372.8	182.5	81.2
EBITDA (\$mm) (old)	-	-	150.9	75.7
EPS (f.d.)	0.38	0.10	(0.17)	(0.21)
EPS (f.d.) (old)	-	-	(0.21)	(0.25)
CFPS (f.d)	1.21	1.04	0.01	0.20
CFPS (f.d) (old)	-	-	(0.11)	0.16

EPS (f.d.) Quarterly Estimates (C\$)

Year	2018A	2019A	2020E	2021E
Q1	0.06	(0.08)	(0.09)	-
Q2	(0.07)	(0.04)	(0.10)	-
Q3	(0.12)	(0.01)	(0.07)	-
Q4	0.52	0.23	0.09	-

Valuations

Year	2018A	2019A	2020E	2021E
EV/EBITDA	10.9x	13.4x	27.4x	61.6x
P/E (f.d.)	33.2x	nmf	nmf	nmf
P/CFPS (f.d)	10.4x	12.1x	nmf	63.2x

Supplemental Data

Year	2018A	2019A	2020E	2021E
U3O8 (US\$/lb)	25	26	29	31
U3O8 Prod. Mlb	9	9	8	9

All figures in C\$, unless otherwise specified

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Details

Ample liquidity. The company ended Q4/19 with \$1.06bln in cash and with \$1bln available on its revolving credit facility. The company has \$1bln of outstanding debentures, including \$400mm maturing on November 14, 2022 and \$500mm maturing on June 24, 2024. In our view, Cameco has more than sufficient cash on-hand to meet its 2022 debt.

Exhibit 1. Revised Uranium Price Deck

	Q1/20A	Q2/20E	Q3/20E	Q4/20E	2020E	2021E	2022E	2023E	2024E	2025/LT
Old	25.00	24.50	25.00	26.00	25.13	27.00	30.00	35.00	40.00	45.00
New	24.77	31.00	30.00	30.00	28.94	31.00	33.00	35.00	40.00	45.00
% Change	-0.9%	26.5%	20.0%	15.4%	15.2%	14.8%	10.0%	0.0%	0.0%	0.0%

Source: TD Securities estimates

Exhibit 2. Uranium Mine Suspension Tracker

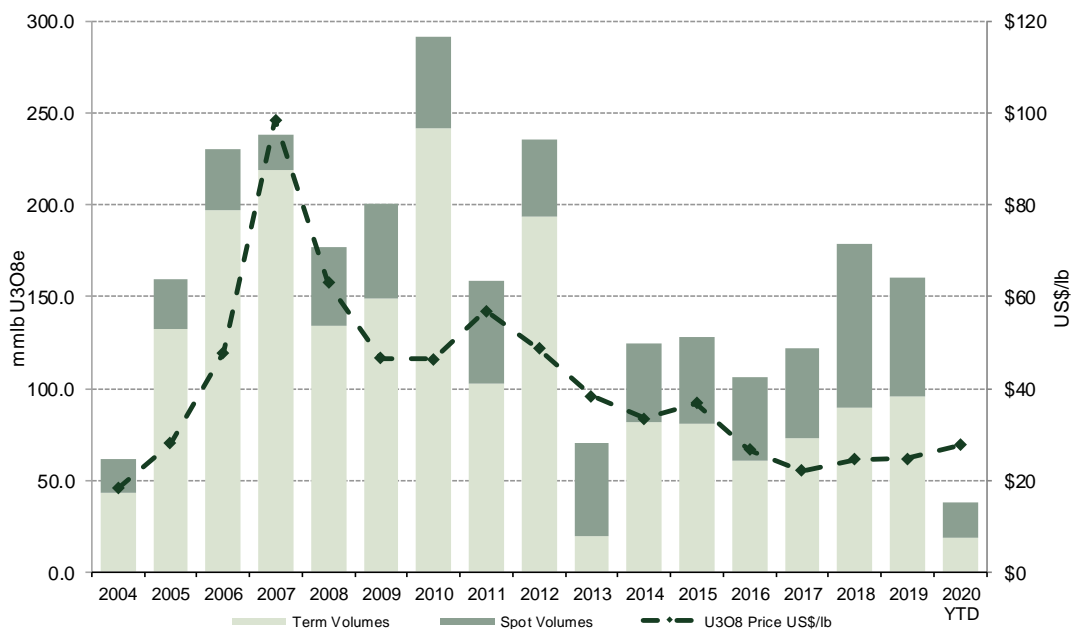
Operation	Company	Location	Annual Production (mm lbs)	Percent of Global Annual Mine Production	Suspension	Potential Lost Production (mm lbs)
Cigar Lake	Cameco/Orano	Canada	18	12.5%	28 days	1.5
Rossing	CNNC/CGN	Namibia	4	2.8%	21 days	0.25
Husab	CNNC/CGN	Namibia	10	6.9%	21 days	0.6
Ranger (1)	ERA	Australia	3.1	2.2%	n/a	n/a
Kazakh ISR (2)	Kazatomprom	Kazakhstan	59	41.0%	3 months	10.4

Notes:

(1) ERA has maintained 2020 production guidance at 2.65-3.53 mm lbs U3O8, but travel restriction could impact production

Source: Company reports, UxC, TD Securities Inc. estimates

Exhibit 3. Term Contracting Hit Record Levels Following 2006 Cigar Lake Floods



Source: UxC, TD Securities Inc.

Exhibit 4. TD Securities Uranium Supply/Demand Model

	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Mine Supply - Western World (mm lbs U3O8)													
Total Mine Supply - Western World	90	93	85	106	104	100	83	85	80	82	82	86	88
Net Eastern Mine Supply (lbs U3O8)	59	60	60	57	62	54	54	55	44	55	60	60	66
Total World Mine Supply (mmlb U3O8)	150	153	145	163	166	154	138	140	124	137	142	146	154
YoY % change	5.9%	2.4%	-5.3%	12.2%	2.1%	-7.6%	-10.2%	1.7%	-11.6%	10.4%	3.8%	2.6%	5.9%
Secondary Supply													
Global underfeeding and tails re-enrichment*	5	15	20	20	18	19	18	18	16	16	15	15	14
Mixed Oxide Fuel (MOX)*	10	8	8	4	5	5	5	6	6	6	6	6	7
US government sales (DOE Proposed)*	5	8	8	7	4	3	2	2	1	0	0	0	0
Additional Russian secondary supply*	24	24	5	2	2	0	0	0	0	0	0	0	0
Other			0	0	0	0	0	0	0	0	0	0	0
Total Secondary Supply (mmlb)	43	55	41	34	29	27	24	26	24	22	21	21	21
Secondary supply as % of global reactor demand	28%	32%	26%	21%	17%	16%	14%	15%	13%	12%	12%	12%	11%
Mobilization of Commercial Inventory			4	8	7	7	7	7	7	7	7	7	7
Total Supply	193	208	190	205	202	187	169	173	155	166	170	174	183
Total World Demand													
Total World Nuclear Generating Capacity (MWe) *				345,377	351,271	358,819	368,571	372,978	379,182	384,508	385,211	389,242	394,906
Uranium requirements per MWe				464	474	472	472	472	472	472	472	472	472
Uranium demand (mmlb)				160	167	169	174	176	179	181	182	184	186
First Core Requirement (2 year lead)				-	-	-	-	-	-	-	-	-	-
Total World Demand (mmlbs U3O8)	155	170	155	160	167	169	174	176	179	181	182	184	186
YoY % change	0.0%	9.7%	-8.8%	3.4%	3.9%	1.7%	2.7%	1.2%	1.7%	1.4%	0.2%	1.0%	1.5%
Supply / Demand Balance (mmlb)	38	38	35	44	35	18	-5	-3	-24	-16	-11	-10	-4
Spot Uranium Price (US\$/lb U3O8)	\$48.73	\$38.57	\$33.60	\$36.89	\$26.57	\$22.12	\$24.82	\$25.94	\$28.94	\$31.00	\$33.00	\$35.00	\$40.00

* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case

Note - TD LT price assumption starts in 2025; a flat US\$45/lb price is assumed for 2025 and beyond.

Source: UxC, Bloomberg, TD Securities Inc.

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Outlook

We have updated our uranium estimates to reflect our revised price deck.

We have also adjusted our operational estimates to reflect a four-week suspension at Cigar Lake and reduced purchases from Cameco's share in Inkai. At this time, we have not made any revisions to our fuel services estimates.

Valuation

CCO is currently trading at a P/NAV multiple of 1.1x, compared with its large-cap producer group average of 0.72x. Over the past five years, CCO has traded at an average P/NAV multiple of 1.1x, which compares with 0.99x for First Quantum, 0.95x for Teck Resources, 0.93x for Lundin Mining, and 0.72x for Hudbay Minerals.

Justification of Target Price

Our \$14.00 target price is based on an NAV-10% multiple of 1.2x (100% weighted, previously 0.9x). Our increased NAV target multiple reflects improving market conditions and the potentially positive impacts that the recent supply tightening could have on the term market, in our view.

Key Risks to Target Price

The main risks facing the company include forecast, financial, technical, and political risks. Among other things, these include risks related to uranium prices, input costs, and fuel prices; the governing fiscal and legislative regimes; the timing of key developments; market conditions; capital and operating costs; foreign exchange rates; resources and reserves; operating parameters; permitting; environment; and staffing and key personnel retention. As Cameco is primarily a uranium mining company, it faces heightened environmental risks relative to other mining companies. The tax dispute with the CRA, which is now undergoing an appeals process, and COVID-19-driven operational closures are additional risk factors.

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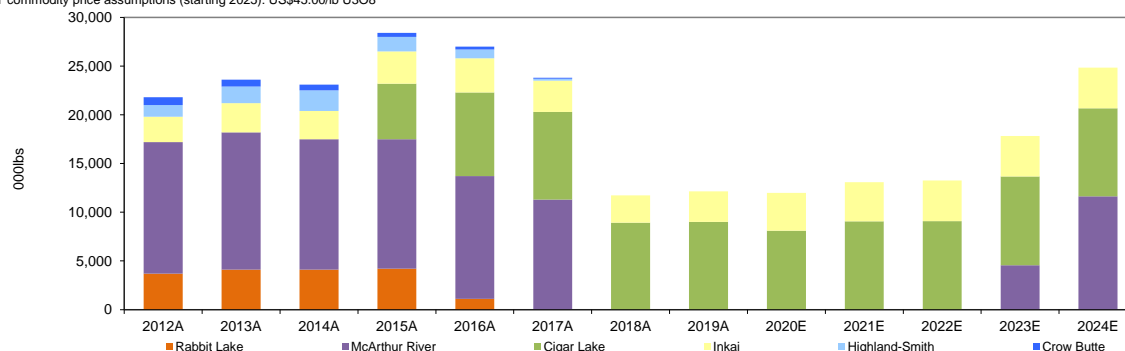
Exhibit 5. Snapshot

Risk Profile:	HIGH													
Stock Rating:	HOLD													
Target Price:	14.00													
NAV Estimate														
McArthur River								1,903.3	4.81	1,477.0	3.73			
Cigar Lake								1,027.2	2.60	946.8	2.39			
Rabbit Lake								59.3	0.15	36.6	0.09			
Inkai								1,272.0	3.21	1,003.3	2.53			
Highland-Smith								190.2	0.48	190.2	0.48			
Crow Butte								108.6	0.27	108.6	0.27			
Conversion								334.7	0.85	291.8	0.74			
Total Operations								4,895.2	12.37	4,054.3	10.24			
Resources - Existing Mines*								515.2	1.30	515.2	1.30			
Resources - Pipeline projects*								628.2	1.59	628.2	1.59			
Nukem								0.0	0.00	0.0	0.00			
Mining/Project NAV								6,038.6	15.26	5,197.7	13.13			
Working Capital								1,529.6	3.86	1,529.6	3.86			
Corporate G&A								-445.2	-1.12	-406.2	-1.03			
CRA Cash Remittances								207.0	0.52	207.0	0.52			
Debt								-996.7	-2.52	-996.7	-2.52			
Other								-979.8	-2.48	-979.8	-2.48			
Total balance sheet adj.								-685.2	-1.73	-646.2	-1.63			
Total Net Asset Value								5,353.4	13.53	4,551.5	11.50			

* Existing mines and pipeline projects are based on 50% inferred resources @ C\$8/lb and 50% of total resources @ C\$4/lb, respectively.

Fiscal Yr-End: Dec	2017A	2018A	2019A	Q1/20E	Q2/20E	Q3/20E	Q4/20E	2020E	2021E	2022E	2023E	2024E
Metal Price Assumptions												
Spot Uranium (US\$/lb)	22.12	24.82	25.90	24.77	31.00	30.00	30.00	28.94	31.00	33.00	35.00	40.00
Realized Uranium Price (US\$/lb)	35.70	37.13	33.00	32.00	31.00	30.00	34.00	31.75	34.15	35.45	37.75	40.00
Realized Uranium Price (C\$/lb)	46.06	47.95	44.84	42.67	41.89	40.00	45.33	42.80	44.93	46.04	46.04	48.78
Production Assumptions												
Uranium (mmlb), attributable	23.8	8.9	9.0	2.3	1.4	2.3	2.3	8.1	9.1	9.1	13.7	20.7
Per Share Estimates (US\$/sh)												
EPS (f.d.) (C\$/sh)	0.15	0.38	0.10	(0.09)	(0.10)	(0.07)	0.09	(0.17)	(0.21)	0.04	(0.05)	0.50
CFPS bf WC (C\$/sh)	1.31	1.21	1.04	(0.06)	(0.03)	(0.04)	0.14	0.01	0.20	0.36	0.21	0.88
EBITDA	1.43	1.16	0.97	0.04	0.06	0.08	0.29	0.47	0.21	0.38	0.16	0.94
Financial Estimates (\$mm)												
Total Revenue	2,156.9	2,091.7	1,862.9	270.0	340.0	354.7	560.6	1,525.4	1,225.2	1,016.2	969.5	1,485.4
Operating Cost	1,390.2	1,467.9	1,345.6	224.2	285.5	291.5	416.7	1,217.9	1,017.0	736.5	758.5	942.4
Gross Margin	766.6	623.7	517.4	45.8	54.5	63.2	143.9	307.5	208.2	279.7	211.1	542.9
Gross Margin %	36%	30%	28%	17%	16%	18%	26%	20%	17%	28%	22%	37%
EBITDA	567.9	460.0	372.8	14.6	23.2	32.0	112.7	182.5	81.2	144.9	63.4	364.3
EBITDA Margin %	26%	22%	20%	5%	7%	9%	20%	12%	7%	14%	7%	25%
Operating CF bf. ch. in WC	519.9	478.4	413.8	(25.3)	(12.5)	(13.9)	57.4	5.7	80.1	144.2	84.3	349.1
Changes in Working Capital	76.1	189.0	113.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CF from operating activities	596.1	667.4	527.0	(25.3)	(12.5)	(13.9)	57.4	5.7	80.1	144.2	84.3	349.1
CF from financing activities	(227.8)	(144.2)	(606.9)	0.0	0.0	0.0	(31.7)	(31.7)	(30.9)	(430.9)	(30.9)	(530.9)
CAPEX	(114.0)	(55.4)	(75.2)	(30.0)	(30.0)	(30.0)	(30.0)	(120.0)	(95.0)	(97.3)	(73.1)	(68.4)
Other	21	(356)	513	(4)	(4)	(4)	(4)	(18)	(18)	(18)	(18)	0
CF from investing activities	(93.1)	(411.6)	437.4	(34.4)	(34.4)	(34.4)	(34.4)	(137.5)	(112.5)	(114.8)	(90.6)	(68.4)
Cash	591.6	711.5	1,062.4	1,002.8	955.9	907.6	899.0	899.0	835.7	434.2	397.1	147.0
Current portion of LTD	0.0	499.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term debt	1,494.5	996.1	996.7	996.7	996.7	996.7	996.7	996.7	996.7	596.7	596.7	96.7
Net Debt	902.9	393.1	(65.7)	(6.1)	40.8	89.1	97.7	97.7	161.0	162.5	199.6	(50.2)
Net Debt/EBITDA	1.59x	0.62x	-0.18x	nm	nm	nm	nm	0.54x	1.98x	1.12x	3.15x	-0.14x
Net Debt/Net Debt + Equity	15.7%	5.4%	-1.3%	-0.1%	0.8%	1.8%	2.0%	2.0%	3.3%	3.3%	4.1%	-1.1%
FCF	405.9	423.1	338.6	(55.3)	(42.5)	(43.9)	27.4	(114.3)	(14.9)	46.9	11.2	280.7
S/O basic (mm)	395.8	395.8	385.8	385.8	385.8	385.8	385.8	385.8	385.8	385.8	385.8	385.8

* LT commodity price assumptions (starting 2025): US\$45.00/lb U3O8



Source: TD Securities Inc. estimates



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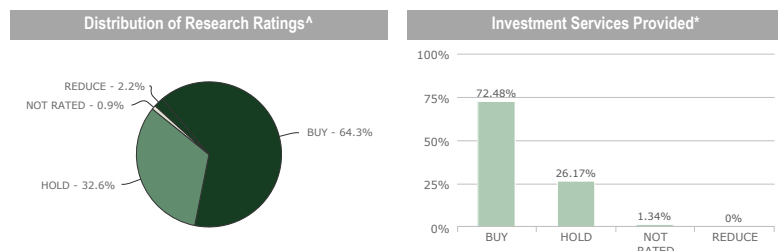
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Cameco Corp.	CCO-T CCJ-N	2, 4, 9

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Current as of: April 9, 2020

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