

Cameco Corp.

(CCO-T: C\$14.42)

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NEUTRAL

Target: \$15.00 (from C\$14.00)

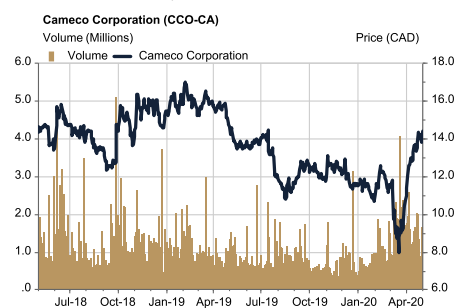
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Signposts Aligning for Uranium Market Recovery

	New	Last		
Rating:	NEUTRAL	NEUTRAL		
Target:	C\$15.00	C\$14.00		
Company Data				
Last Price (TSX)		\$14.42		
52-Week Range:	\$7.69 -	\$14.68		
Market Capitalization (C\$Mln):		5,707		
Enterprise Value (C\$Mln):		5,639		
Shares Outstanding - Diluted (Mln):		396		
Dividend Yield:		0.6%		
Cash		1,066		
Net Debt		-69		
Fiscal Year End		Dec 31		
Sales Summary				
	2018 A	2019 A	2020 E	2021 E
Uranium (Mln lbs)	35	32	29	30
Fuel Services (mm kgU)	12	15	13	12
NUKEM (mm lbs)	6	2	1	1
Financial Summary				
	2018 A	2019 A	2020 E	2021 E
P/E	26.9x	151x	692.0x	132.2x
EV/EBITDA	14.2x	15.3x	28.3x	24.9x
CFPS	1.22	1.05	0.42	0.44
P/CF	11.8x	13.7x	34.0x	33.1x
Net Debt/ EBITDA	2.0x	NA	NA	NA
Quarterly EBITDA				
	2018 A	2019 A	2020 E	2021 E
Q1	84 A	14 A	57 A	21 E
Q2	18 A	43 A	60 E	31 E
Q3	50 A	34 A	35 E	54 E
Q4	246 A	277 A	47 E	121 E
FY	398 A	368 A	199 E	227 E
Quarterly EPS				
	2018 A	2019 A	2020 E	2021 E
Q1	0.06 A	-0.08 A	0.07 A	-0.01 E
Q2	-0.07 A	-0.04 A	-0.03 E	0.00 E
Q3	0.04 A	-0.01 A	-0.03 E	0.03 E
Q4	0.51 A	0.24 A	0.00 E	0.09 E
FY	0.54 A	0.10 A	0.02 E	0.11 E

Note: All values are in C\$, unless otherwise stated



Source: Company Reports, Factset, Eight Capital estimates

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.

Summary: 1Q20 results beat consensus estimates and our estimates by 15% on uranium sales of 6Mln lbs vs. our 5.2Mln lbs. 1Q20 adjusted EBITDA came in at \$55Mln vs. our \$27Mln (consensus: \$44Mln) and adjusted EPS of \$0.07 vs. our \$0.00 (consensus: -\$0.04).

Broad-based demand inflation in spot prices expected to continue. With McArthur River/Key Lake on care & maintenance (since Jan-2018) and Cigar Lake production suspended, the uranium market is without two of its largest mines, representing approximately 38Mln lbs of pre-suspension production and 18Mln lbs or 13% of 2019 global mine production (excluding McArthur River). Together with planned and unplanned supply discipline, a number of supportive trends have emerged, including: (1) some utility purchasing in the spot market; (2) growing interest among financial players; (3) a general sellers retreat given the historical inverse relationship between material availability and price; and (4) disproportionate supply disruption affecting uncommitted primary production.

Visibility on commercial inventories & restocking trends remains elusive. U.S. utilities typically hold 1.5-2yrs of inventory, Europeans typically 2-3yrs, and Asian utilities typically 3-5yrs, with the exceptions being China (strategic stockpiles in anticipation of future demand) and Japan (those inventories held by reactors that are currently offline).

We expect margins at Cameco to be relatively weak while relying more heavily on market purchases. We believe Cameco will meet contracted commitments during temporary shutdowns and production curtailments at its various operations; however, any extended suspension that impacts uranium production and fuel services in FY20/21 (or beyond) that cannot be made up at operations and uranium inventory (6.5Mln lbs at end-1Q20), likely requires Cameco to do more open market uranium purchases in a rising spot price environment (+40% or +US\$9.80/lb to US\$34.05/lb since March 20th), borrow more end-user material currently under storage, or advance long-term purchases arrangements, all of which tightens the uranium market.

New estimates: Our revised FY20/21 assumptions include 6/10Mln lbs of uranium production, including return of Cigar Lake production in 3Q20, 4/4Mln lbs of uranium purchases from Inkai and 22/20Mln lbs of uranium purchases/inventory draw at an average purchase price of US\$27/30 per pound to meet sales of 28.5./30Mln lbs. 1Q20 uranium in inventory stood at 6.5 Mln lbs vs. 6.1Mln lbs in 4Q19 and 12.5Mln lbs in 1Q19 (peak 32.9Mln lbs in 2Q17).

Balance sheet and liquidity: 1Q20 cash and investments stand at \$1,235Mln after \$163Mln in free cash flow generation and total debt of \$997Mln (net cash: \$238Mln). In addition, the company has a \$1,000Mln undrawn credit facility, which it does not expect to draw on, as capital requirements are expected to be met with cash and operating cash flow.

Maintain NEUTRAL; Increase TP to \$15. We increase our TP to \$15 (from \$14) to reflect rolling forward our valuation to YE21 and additional value of \$0.61/share for Cameco's uranium contract book. CCO is trading at 1.29x on P/NAV and an equity-implied uranium price of US\$47/lb. Our TP of \$15 is based on 1.2x NAVPS (\$11.21/share).

Summary of 1Q20 Results

	1Q20 Actual	Eight Capital estimates	Variance (Act - Est)	
			(Units)	(%)
Uranium Segment				
Average realized price (US\$/lb)	31.39	32.00	(0.61)	-2%
Average realized price (C\$/lb)	41.44	42.95	(1.51)	-4%
Production ('000s lbs)	2,100	2,276	(176)	-8%
Sales ('000s lbs)	6,000	5,200	800	15%
Unit operating costs (C\$/lb sold)	40.63	41.66	(1.03)	-2%
Revenue	248	223	25	11%
Gross profit	5	7	(2)	-25%
Fuel Services Segment				
Average realized price (C\$/kg U)	29.91	28.89	1.02	4%
Sales (kgU)	3,100	1,875	1,225	65%
Revenue	94	54	40	74%
Gross profit	30	15	15	98%
Revenue	346	290	56	19%
Adjusted EBITDA	55	27	28	101%
Adjusted EPS	0.07	0.00	0.07	13435%
CFPS	0.46	0.05	0.41	881%

Source: Company reports, Eight Capital

Industrial Metals

Cameco Corp.

Rating: NEUTRAL
Target price: C\$15

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Price assumptions	2018	2019	2020	2021	2022	2023	2024
Uranium Spot (US\$/lb)	24.58	25.20	29.45	32.00	35.00	39.00	42.00
Uranium Term (US\$/lb)	32.20	31.50	32.13	35.00	40.00	45.00	47.50
Cameco Realized Price (US\$/lb)	37.00	32.81	33.71	35.10	38.00	43.20	45.85
USD\$/CAD\$ (US\$)	0.774	0.752	0.731	0.750	0.775	0.800	0.800

Summary income statement (C\$Mln)	2018	2019	2020	2021	2022	2023	2024
Sales	2,092	1,863	1,799	1,806	1,867	2,011	2,115
Operating costs	1,468	1,346	1,461	1,452	1,218	1,153	1,186
DD&A	328	276	234	223	282	280	340
EBITDA	398	368	199	227	461	610	681
EBIT	70	92	(34)	4	179	329	340
EBT	40	90	(105)	(46)	132	299	326
Net income	166	74	(39)	43	191	323	352
EPS - FD	0.42	0.19	(0.10)	0.11	0.48	0.82	0.89
Adjusted EPS - FD	0.54	0.10	0.02	0.11	0.48	0.82	0.89
Shares outstanding - FD (Mln)	396	396	396	396	396	396	396

Summary cash flow statement (C\$Mln)	2018	2019	2020	2021	2022	2023	2024
Net income	166	74	(39)	43	191	323	352
Non-cash items	318	343	207	129	163	122	168
Working capital changes	210	113	138	-	-	-	-
Cash from operations	668	527	283	173	354	445	520
Net change in total debt	-	(500)	-	-	(399)	-	(498)
Net change in common equity	-	0	-	-	-	-	-
Dividends	(71)	(32)	(32)	(32)	(32)	(32)	(32)
Cash from financing activities	(144)	(607)	(32)	(32)	(430)	(32)	(529)
Property and equipment	(55)	(75)	(105)	(144)	(256)	(278)	(198)
Other investing activities	(356)	513	(169)	-	-	-	-
Cash from investing activities	(412)	437	(274)	(144)	(256)	(278)	(198)
Free cash flow	612	452	178	29	98	167	321
Net change in cash	112	358	(23)	(3)	(332)	135	(208)

Summary balance sheet (C\$Mln)	2018	2019	2020	2021	2022	2023	2024
Cash & equivalents	712	1,062	1,049	1,047	715	850	642
Total current assets	2,083	1,807	1,890	1,887	1,555	1,690	1,483
Fixed assets	3,882	3,721	3,561	3,482	3,456	3,454	3,312
Total assets	8,019	7,427	7,328	7,246	6,888	7,021	6,672
STD	500	-	-	-	-	-	-
Total current liabilities	876	277	342	342	342	342	342
LTD	996	997	995	995	597	597	99
Minority Interest	0	0	0	0	0	0	0
Shareholder equity	4,993	4,995	4,859	4,871	5,030	5,321	5,641
Total liabilities & equity	8,019	7,427	7,328	7,246	6,888	7,021	6,672

Valuation Analysis	2018	2019	2020	2021	2022	2023	2024
NAVPS per share		11.21					
EPS per share	0.54	0.10	0.02	0.11	0.48	0.82	0.89
CFPS per share	1.22	1.05	0.42	0.44	0.90	1.12	1.31
P/NAV (x)		1.29					
P/E (x)	26.9	>100	>100	>100	29.9	17.7	16.2
P/CF (x)	11.8	13.7	34.0	33.1	16.1	12.8	11.0
Enterprise Value (Mln)	6,492	5,642	5,654	5,656	5,590	5,454	5,164
EV/EBITDA (x)	14.2	15.3	28.3	24.9	12.2	9.3	8.3
FCF Yield (%)	10.9%	8.0%	3.2%	0.5%	1.7%	3.0%	5.7%
P/BV (x)	1.1	1.1	1.2	1.2	1.1	1.1	1.0

Profitability Metrics	2018	2019	2020	2021	2022	2023	2024
EBITDA Margin (%)	19.0%	19.8%	11.1%	12.6%	24.7%	30.3%	32.2%
Return on Equity (%)	3.4%	1.5%	-0.8%	0.9%	3.9%	6.2%	6.4%
Return on Invested Capital (%)	2.5%	1.0%	-0.6%	0.0%	0.0%	0.0%	0.0%

Balance Sheet Analysis	2018	2019	2020	2021	2022	2023	2024
Debt/Equity (%)	30%	20%	20%	20%	12%	11%	2%
Debt/Debt + Equity (%)	19%	13%	14%	14%	9%	9%	1%
Net Debt/Equity (%)	16%	-1%	-1%	-1%	-2%	-5%	-10%
Net Debt/TTM EBITDA (x)	2.0	NA	NA	NA	NA	NA	NA
Net Debt/NTM EBITDA (x)	2.1	NA	NA	NA	NA	NA	NA
EBIT Interest Coverage (x)	6.6	0.8	4.9	6.3	1.2	21.2	1.4

Production Profile (CCO - Share)	2018	2019	2020	2021	2022	2023	2024
McArthur River (69.8%) (Mln lbs)	100	-	(0)	1,280	11,839	14,497	14,497
Cigar Lake (50.0%) (Mln lbs)	9,000	9,000	6,146	9,105	9,105	9,105	9,105
Inkai (40.0%) (Mln lbs)	2,000	3,300	3,286	3,740	3,740	3,740	3,740
US ISR (Mln lbs)	50	0	0	0	0	0	0

Revenue by Segment	2018	2019	2020	2021	2022	2023	2024
Uranium Mining (%)	81%	76%	76%	78%	79%	81%	81%
Fuel Services (%)	15%	20%	21%	19%	18%	16%	15%
NUKEM (%)	4%	4%	3%	3%	3%	3%	3%
Other (%)	0%	0%	0%	0%	0%	0%	0%

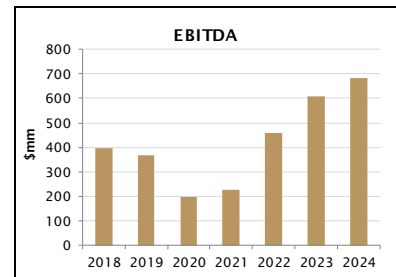
Cash Cost	2018	2019	2020	2021	2022	2023	2024
McArthur River (C\$/lb)	15.01	NA	15.28	15.28	15.91	15.99	16.09
Cigar Lake (C\$/lb)	13.74	14.49	14.42	14.67	14.72	15.66	15.80
Inkai (C\$/lb)	11.35	-	-	-	-	-	-
Purchased Uranium (C\$/lb)	27.66	26.70	27.00	30.13	34.33	41.72	44.04
Total (C\$/lb)	17.01	15.73	14.42	14.75	17.32	17.54	17.64

Source: Eight Capital estimates, Company data

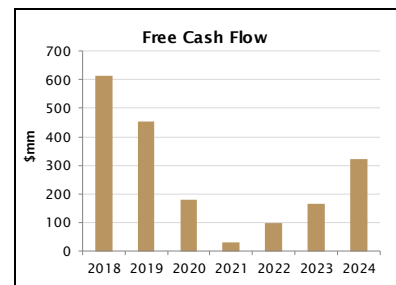
Industrial Metals	
Uranium CANADA	
Primary ticker	CCO-TSE
Price	14.42
Target price	15.00
Exchange rate (US\$/C\$)	0.75
Shares outstanding - FD (Mln)	395.8
Market Capitalization (C\$Mln)	5,707
Enterprise Value (C\$Mln)	5,638
Year end	Dec.31
Pricing currency	CAD\$
Accounting currency	CAD\$

Balance Sheet - (C\$ MM)	Most recent quarter
Cash and cash equivalents	1,066
Net working capital	1,565
Net PP&E	3,654
Total assets	7,438
Short term debt	-
Long term debt	997
Total shareholders' equity	4,909
Total liabilities & shareholder equity	7,438
Shares outstanding (Mln)	396
Book value per share	12.40
Net debt/net debt + equity (%)	-1.2%

Net Asset Value Summary		
	C\$Mln	\$/share
McArthur River	1,877	4.74
Cigar Lake	567	1.43
Inkai (10%)	883	2.23
Rabbit Lake	119	0.30
Crow Butte	47	0.12
Smith Ranch/Highland	75	0.19
Uranium Mining	3,567	9.01
Uranium Contract Book	242	0.61
Fuel Services	583	1.47
NUKEM	47	0.12
Equity Investments	100	0.25
Exploration & Development	458	1.16
Gross Asset Value	4,997	12.62
Long-term Debt	(997)	(2.52)
Working Capital	1,530	3.86
Net Debt	533	1.35
CRA tax remittance	281	0.71
TEPCO arbitration	53	0.13
Corporate SG&A	(755)	(1.91)
Reclamation liabilities	(673)	(1.70)
Net asset value	4,436	
Shares outstanding	396	
Net asset value per share (C\$)	11.21	



Source: Eight Capital estimates, Company data



Source: Eight Capital estimates, Company data

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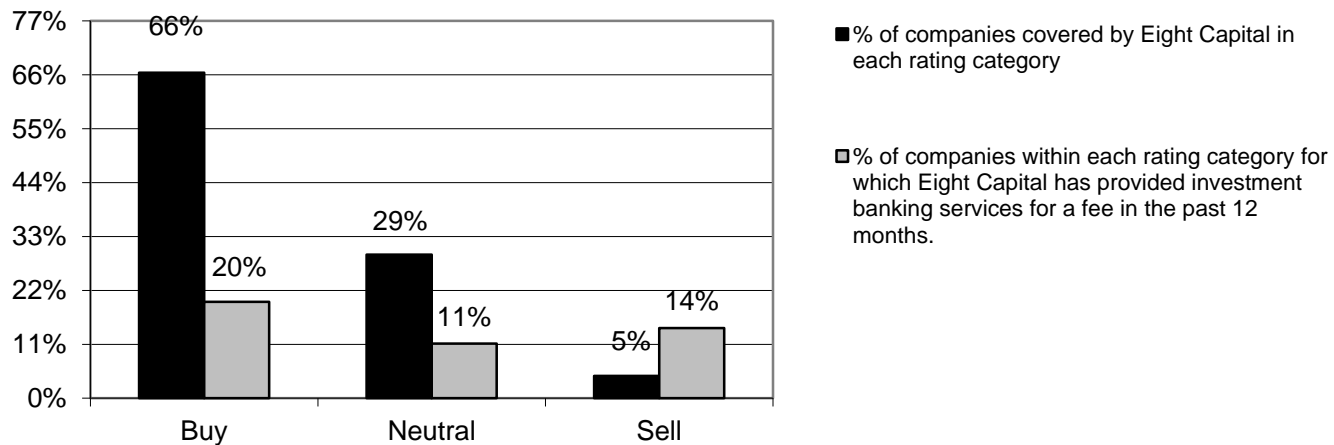
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