



July 29, 2020

## Cameco Corporation

### Cigar restart earlier than expected but doesn't change long-term outlook

**Our view:** We note that a Cigar Lake restart was likely sometime within the next six months (we had modeled early 2021) and longer-term uranium market fundamentals remain unchanged, but the earlier restart may result in a moderate near-term pull-back in uranium prices. We continue to see Cameco as well placed for an eventual uranium recovery with a strong financial position, but we view the shares as close to fairly valued.

#### Key points:

**Model update:** We update our model to include reported 2Q/20 financial and operating results along with several other changes.

- Increased production in 2020 due to restart at Cigar Lake in September, which is earlier than our expected start in early 2021—the company is targeting 5.3Mlbs total attributable production in 2020, which would result in 3.2Mlbs in 2H/20. Lowered production forecast in 2021 due to potential impact from delayed work at Cigar Lake in 2020. We revised our Cigar Lake production forecast to 5.3Mlbs and 8.6Mlbs in 2020 and 2021, from 2.1Mlbs and 9.0Mlbs.
- Increased uranium segment costs to \$45/lb from \$44/lb, as lower care-and-maintenance costs partially offset higher uranium purchase costs.
- Lowered uranium spot price forecast in 2020 to \$31/lb, from \$32/lb, due to earlier than expected restart of Cigar Lake. Reduced term price forecast in 2020 and 2021 to \$33/lb and \$36/lb, from \$34/lb and \$39/lb, due to delayed contracting activity as utility purchasers focus on COVID-19 and trade uncertainty.

**Expect uranium price support near \$30/lb:** We expect uranium spot prices to see support at the low-\$30/lb level for several reasons: 1) Cameco is seeing less uncommitted material in 2H/20 at its storage facilities (recall that Cameco operates one of only three facilities for Western uranium storage); 2) increased interest from US utilities looking to secure material due to trade uncertainties including the upcoming expiration of the Russian Suspension Agreement (October 5, 2020); 3) scheduled production cuts (Ranger, Cominak, Somair in 2021) and at-risk production due to COVID-19 may incentivize further producer purchases.

#### Strong financial position and further confidence around CRA dispute:

We believe Cameco continues to have a strong financial position and we forecast end-2020 net debt near zero—note that the reduction in cash in 2Q/20 was likely due to sales timing and not indicative of steady-state operations. Additionally, we think the favourable ruling in the CRA tax dispute moves Cameco one step further toward recovering the \$303M restricted cash currently held with the CRA.

**Reiterating Sector Perform; lowering PT to \$14 from \$15:** We lower our 2020E and 2021E EBITDA to \$141M and \$224M, from \$143M and \$290M.

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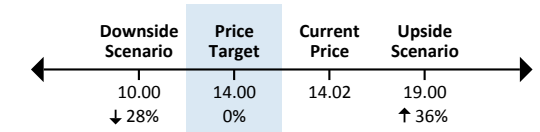
### Sector Perform

TSX: CCO; CAD 14.02; NYSE: CCJ

**Price Target CAD 14.00 ↓ 15.00**

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<input type="checkbox"/> Rating/Risk Change	<input checked="" type="checkbox"/> Price Target Change
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### Scenario Analysis\*



\*Implied Total Returns

### Key Statistics

Shares O/S (MM):	395.8	Market Cap (MM):	5,549
Dividend:	0.08	Yield:	0.6%
NAVPS:	17.48	P/NAVPS:	0.80x
Float (MM):	395.8	Tr. 12 ROE:	2.90%
Debt to Cap:	18%	Enterprise Val. (MM):	5,642
		Avg. Daily Volume:	1,700,419
		3-Yr. Est. EPS Growth:	65.00%

### RBC Estimates

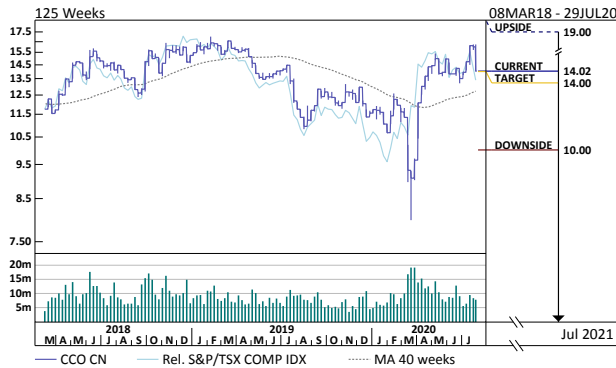
FY Dec	2019A	2020E	2021E	2022E
<b>EPS, Adj Diluted</b>	0.10	(0.15)	(0.02)	0.38
Prev.		0.06	0.09	0.46
<b>P/AEPS</b>	NM	NM	NM	36.9x
<b>EBITDA, Adj</b>	416.5	140.5	224.0	492.1
Prev.		143.4	290.2	532.1
<b>FCFPS</b>	0.96	0.01	(0.02)	0.95
Prev.		(0.08)	0.24	0.99
<b>P/FCF</b>	14.6x	nm	nm	14.8x
<b>EPS, Adj Diluted</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
2019	(0.08)A	(0.04)A	(0.01)A	0.24A
2020	0.07A	(0.16)A	(0.06)E	0.00E
Prev.		(0.03)E	0.02E	
2021	(0.02)E	(0.02)E	(0.02)E	0.03E
Prev.		(0.01)E	0.01E	0.11E
<b>EBITDA, Adj</b>				
2019	28.6A	79.6A	38.9A	269.4A
2020	65.3A	(2.8)A	6.9E	71.1E
Prev.		8.6E	37.6E	31.9E
2021	54.0E	51.5E	41.3E	77.2E
Prev.	57.8E	60.4E	57.0E	115.1E

All values in CAD unless otherwise noted.



### Target/Upside/Downside Scenarios

Exhibit 1: Cameco Corporation



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

#### Price target/base case

**We rate Cameco shares Sector Perform, with a \$14 price target.** We value the company by attributing an equal weighting to our EV/EBITDA and DCF valuation, and adding ~\$1/sh for the CRA restricted cash. Our EV/EBITDA valuation applies a 14x multiple to 2021 EBITDA estimates—this multiple is consistent with historical peak post-Fukushima valuation and a premium to diversified mining equities, but in line with Cameco trough valuation. We think a trough multiple is appropriate as uranium prices have bottomed and enter a recovery phase. Our DCF analysis uses an 8% discount rate.

#### Upside scenario

Our upside scenario of \$19 assumes that uranium prices recover earlier than expected and higher prices are required to incentivize new mine supply. In this scenario, we increase our price forecasts for 2020–23 by \$5/lb and 2024–27 by \$10/lb and use a \$75/lb long-term spot price forecast. We also assume that the CRA restricted cash is returned, which adds \$1/sh to our valuation.

#### Downside scenario

Our downside scenario of \$10 assumes that uranium prices take longer than expected to recover and less new mine supply is required due to weak demand. In this scenario, we decrease our price forecasts for 2020–27 by \$10/lb and use a \$40/lb long-term spot price forecast. We also assume that the CRA restricted cash is not returned.

### Investment summary

We believe the company is well positioned to benefit from an eventual long-term recovery in uranium prices, while strong operations support a very robust financial position in the near term. However, we expect a uranium price recovery to be gradual.

### Potential catalysts

Cameco suspended production at McArthur River mine and Key Lake mill starting January 2018 and announced an indefinite extension of the curtailment in July 2018. The company expects to draw down inventories and make spot market purchases to meet sales commitments. Management has stated that McArthur River would come on-line when the company can sign contracts at prices that would provide acceptable returns—we view this price level as ~\$40/lb.

Cameco currently has ~\$300M in restricted cash set aside (along with lines of credit) for the CRA dispute to satisfy rules that require companies to remit or secure 50% of a tax reassessment. Given the positive ruling for Cameco, we think it is reasonably likely that the company would eventually be able to recover the restricted cash.

Cameco and Kazatomprom have restructured the Inkai JV to provide longer-term stability and potential production increases. Production at Inkai JV may increase according to the resource use contract, although the actual production plan is set annually.

### Risks to our investment thesis

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) further contract cancellations; 3) potential production disruptions; 4) weaker-than-expected uranium prices; and 5) currency volatility, primarily CAD/USD.

## Reiterating Sector Perform and lowering price target to \$14 from \$15

We rate Cameco shares **Sector Perform**, with a **\$14 price target**. We value the company by attributing an equal weighting to our EV/EBITDA and DCF valuation, and adding ~\$1/sh for the CRA restricted cash. Our EV/EBITDA valuation applies a 14x multiple to 2021 EBITDA estimates—this multiple is consistent with historical peak post-Fukushima valuation and a premium to diversified mining equities, though in line with Cameco trough valuation. We think a trough multiple is appropriate as uranium prices have bottomed and enter a recovery phase. Our DCF analysis uses an 8% discount rate.

### Exhibit 2: Cameco valuation summary

EV/EBITDA Valuation			Cameco Valuation Summary		
EV/EBITDA Valuation	CAD\$M	US\$M	Net Asset Value	CAD\$M	US\$M
<b>Adjusted EBITDA (2021)</b>	<b>\$224</b>	<b>\$168</b>	<b>Segments</b>		
Multiple	14.0x	14.0x	Uranium	\$6,518	\$4,881
Enterprise Value	\$3,137	\$2,349	Fuel Services	\$977	\$731
<b>Balance Sheet (end-20E)</b>			SG&A	(\$987)	(\$739)
Net Debt (CAD\$M)	(\$64)	(\$48)	<b>Balance Sheet (end-20E)</b>		
<b>Market Cap</b>	<b>\$3,200</b>	<b>\$2,396</b>	Net Debt	\$64	\$48
Shares (M)	396	396	Net Curr. Assets (excl. cash)	\$352	\$264
<b>EV/EBITDA Valuation Price</b>	<b>\$8</b>	<b>\$6</b>	<b>Net Asset Value</b>	<b>\$6,923</b>	<b>\$5,184</b>
			Shares (M)	396	396
			<b>NAV (\$/share)</b>	<b>\$17</b>	<b>\$13</b>

Source: Company reports, RBC Capital Markets estimates



# Model

Exhibit 3: Cameco uranium segment model

Uranium Segment Analysis								2019				2020				2021							
<i>C\$ millions, unless noted</i>								1QA	2QA	3QA	4QA	1QA	2QA	3QE	4QE	1QE	2QE	3QE	4QE				
<b>Production (M lbs U3O8)</b>																							
McArthur River/Key Lake (70% ownership)	11.3	0.1	0.0	0.0	0.0	6.3	12.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Cigar Lake/McClean Lake (50%)	9.0	9.0	9.0	5.3	8.6	9.0	9.0	2.4	2.5	1.4	2.7	2.1	0.0	0.4	2.8	2.0	2.0	2.3	2.3				
Inkai (40%), unconsolidated	3.2	2.8	3.4	3.0	3.8	4.1	4.1	0.8	0.8	0.9	0.9	0.6	0.7	0.8	0.8	1.0	1.0	1.0	1.0				
Rabbit Lake (100%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Smith Ranch-Highland (100%)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
Crow Butte/Cluff	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
<b>Total</b>	<b>23.8</b>	<b>12.0</b>	<b>12.4</b>	<b>8.3</b>	<b>12.4</b>	<b>19.3</b>	<b>25.6</b>	<b>3.2</b>	<b>3.3</b>	<b>2.3</b>	<b>3.6</b>	<b>2.7</b>	<b>0.7</b>	<b>1.2</b>	<b>3.6</b>	<b>3.0</b>	<b>3.0</b>	<b>3.2</b>	<b>3.2</b>				
Consolidated Production	23.8	9.2	9.0	5.3	8.6	15.3	21.5	2.4	2.5	1.4	2.7	2.1	0.0	0.4	2.8	2.0	2.0	2.3	2.3				
<b>Realized Price</b>																							
CDN/USD Exchange rate (C\$)	\$1.30	\$1.30	\$1.33	\$1.36	\$1.33	\$1.33	\$1.30	\$1.33	\$1.34	\$1.32	\$1.32	\$1.34	\$1.39	\$1.35	\$1.35	\$1.33	\$1.33	\$1.33	\$1.33				
Uranium Spot Price (US\$/lb U3O8)	\$22	\$24	\$26	\$31	\$33	\$33	\$33	\$28	\$25	\$25	\$25	\$25	\$32	\$33	\$33	\$33	\$33	\$33	\$33				
Uranium Term Price (US\$/lb U3O8)	\$31	\$31	\$32	\$33	\$36	\$38	\$40	\$32	\$32	\$32	\$32	\$32	\$32	\$33	\$33	\$35	\$35	\$38	\$38				
<b>Realized Price (US\$/lb)</b>	<b>\$36</b>	<b>\$37</b>	<b>\$34</b>	<b>\$33</b>	<b>\$35</b>	<b>\$35</b>	<b>\$36</b>	<b>\$32</b>	<b>\$33</b>	<b>\$31</b>	<b>\$36</b>	<b>\$31</b>	<b>\$33</b>	<b>\$33</b>	<b>\$34</b>	<b>\$35</b>	<b>\$35</b>	<b>\$36</b>	<b>\$36</b>				
<b>Realized Price (C\$/lb)</b>	<b>\$47</b>	<b>\$48</b>	<b>\$45</b>	<b>\$45</b>	<b>\$47</b>	<b>\$47</b>	<b>\$47</b>	<b>\$43</b>	<b>\$44</b>	<b>\$41</b>	<b>\$48</b>	<b>\$41</b>	<b>\$46</b>	<b>\$45</b>	<b>\$46</b>	<b>\$47</b>	<b>\$47</b>	<b>\$47</b>	<b>\$47</b>				
<b>Revenue (C\$M)</b>																							
Sales Volumes (Mlbs)	33.6	35.1	31.5	30.2	25.0	25.0	27.6	4.8	6.6	6.1	14.0	6.0	9.2	7.5	7.5	5.0	5.0	6.3	8.8				
Realized Price (C\$/lb)	\$47	\$48	\$45	\$45	\$47	\$47	\$47	\$43	\$44	\$41	\$48	\$41	\$46	\$45	\$46	\$47	\$47	\$47	\$47				
<b>Revenue</b>	<b>\$1,574</b>	<b>\$1,684</b>	<b>\$1,414</b>	<b>\$1,353</b>	<b>\$1,180</b>	<b>\$1,179</b>	<b>\$1,287</b>	<b>\$207</b>	<b>\$293</b>	<b>\$248</b>	<b>\$666</b>	<b>\$248</b>	<b>\$426</b>	<b>\$336</b>	<b>\$342</b>	<b>\$234</b>	<b>\$234</b>	<b>\$297</b>	<b>\$416</b>				
<b>Cost of Goods Sold (C\$M)</b>																							
Cost of Product Sold	\$799	\$848	\$867	\$1,023	\$851	\$620	\$519	\$147	\$177	\$158	\$386	\$166	\$338	\$281	\$237	\$158	\$159	\$215	\$320				
Royalties	\$67	\$39	\$32	\$20	\$38	\$88	\$127	\$3	\$6	\$9	\$14	\$5	\$3	\$1	\$12	\$9	\$9	\$10	\$10				
Care and Maintenance	\$38	\$143	\$121	\$151	\$100	\$20	\$20	\$28	\$27	\$24	\$41	\$26	\$45	\$50	\$30	\$25	\$25	\$25	\$25				
Other costs	\$8	\$13	\$11	\$11	\$10	\$10	\$10	\$3	\$2	\$2	\$4	\$4	\$3	\$3	\$3	\$3	\$3	\$3	\$3				
<b>Total</b>	<b>\$912</b>	<b>\$1,043</b>	<b>\$1,031</b>	<b>\$1,205</b>	<b>\$999</b>	<b>\$738</b>	<b>\$675</b>	<b>\$181</b>	<b>\$212</b>	<b>\$192</b>	<b>\$446</b>	<b>\$201</b>	<b>\$389</b>	<b>\$335</b>	<b>\$281</b>	<b>\$194</b>	<b>\$195</b>	<b>\$252</b>	<b>\$358</b>				
<b>Cash COGS</b>	<b>\$930</b>	<b>\$1,139</b>	<b>\$1,042</b>	<b>\$1,242</b>	<b>\$999</b>	<b>\$738</b>	<b>\$675</b>	<b>\$181</b>	<b>\$225</b>	<b>\$193</b>	<b>\$443</b>	<b>\$202</b>	<b>\$424</b>	<b>\$335</b>	<b>\$281</b>	<b>\$194</b>	<b>\$195</b>	<b>\$252</b>	<b>\$358</b>				
Cash Costs	\$930	\$1,139	\$1,042	\$1,242	\$999	\$738	\$675	\$181	\$225	\$193	\$443	\$202	\$424	\$335	\$281	\$194	\$195	\$252	\$358				
D&A	\$268	\$277	\$208	\$115	\$115	\$183	\$258	\$18	\$45	\$58	\$87	\$31	\$36	\$6	\$42	\$30	\$30	\$27	\$27				
<b>Total COGS</b>	<b>\$1,198</b>	<b>\$1,416</b>	<b>\$1,250</b>	<b>\$1,357</b>	<b>\$1,114</b>	<b>\$921</b>	<b>\$933</b>	<b>\$199</b>	<b>\$270</b>	<b>\$251</b>	<b>\$530</b>	<b>\$234</b>	<b>\$460</b>	<b>\$341</b>	<b>\$323</b>	<b>\$224</b>	<b>\$226</b>	<b>\$279</b>	<b>\$385</b>				
<b>COGS per pound</b>	<b>\$36</b>	<b>\$40</b>	<b>\$40</b>	<b>\$45</b>	<b>\$45</b>	<b>\$37</b>	<b>\$34</b>	<b>\$41</b>	<b>\$41</b>	<b>\$41</b>	<b>\$38</b>	<b>\$39</b>	<b>\$50</b>	<b>\$45</b>	<b>\$43</b>	<b>\$45</b>	<b>\$45</b>	<b>\$45</b>	<b>\$44</b>				
<b>Cash COGS per pound (incl. royalties)</b>	<b>\$28</b>	<b>\$32</b>	<b>\$33</b>	<b>\$41</b>	<b>\$40</b>	<b>\$30</b>	<b>\$24</b>	<b>\$38</b>	<b>\$34</b>	<b>\$32</b>	<b>\$32</b>	<b>\$34</b>	<b>\$46</b>	<b>\$45</b>	<b>\$37</b>	<b>\$39</b>	<b>\$39</b>	<b>\$40</b>	<b>\$41</b>				
<b>Cash COGS per pound (excl. royalties)</b>	<b>\$26</b>	<b>\$31</b>	<b>\$32</b>	<b>\$40</b>	<b>\$38</b>	<b>\$26</b>	<b>\$20</b>	<b>\$37</b>	<b>\$33</b>	<b>\$30</b>	<b>\$31</b>	<b>\$33</b>	<b>\$46</b>	<b>\$44</b>	<b>\$36</b>	<b>\$37</b>	<b>\$37</b>	<b>\$39</b>	<b>\$40</b>				
<b>Summary (C\$M)</b>																							
Revenue	\$1,574	\$1,684	\$1,414	\$1,353	\$1,180	\$1,179	\$1,287	\$207	\$293	\$248	\$666	\$248	\$426	\$336	\$342	\$234	\$234	\$297	\$416				
Cash Cost of product sold	(\$930)	(\$1,139)	(\$1,042)	(\$1,242)	(\$999)	(\$738)	(\$675)	(\$181)	(\$225)	(\$193)	(\$443)	(\$202)	(\$424)	(\$335)	(\$281)	(\$194)	(\$195)	(\$252)	(\$358)				
D&A	(\$268)	(\$277)	(\$208)	(\$115)	(\$115)	(\$183)	(\$258)	(\$18)	(\$45)	(\$58)	(\$87)	(\$31)	(\$36)	(\$6)	(\$42)	(\$30)	(\$30)	(\$27)	(\$27)				
<b>Gross Profit</b>	<b>\$376</b>	<b>\$268</b>	<b>\$164</b>	<b>(\$4)</b>	<b>\$66</b>	<b>\$258</b>	<b>\$354</b>	<b>\$8</b>	<b>\$23</b>	<b>(\$3)</b>	<b>\$136</b>	<b>\$15</b>	<b>(\$34)</b>	<b>(\$5)</b>	<b>\$19</b>	<b>\$9</b>	<b>\$9</b>	<b>\$18</b>	<b>\$31</b>				
Gross Profit (%)	24%	16%	12%	0%	6%	22%	27%	4%	8%	-1%	20%	6%	-8%	-1%	6%	4%	4%	6%	7%				
Exploration	(\$30)	(\$20)	(\$14)	(\$14)	(\$30)	(\$30)	(\$30)	(\$4)	(\$3)	(\$3)	(\$2)	(\$4)	(\$2)	(\$4)	(\$4)	(\$8)	(\$8)	(\$8)	(\$8)				
D&A	\$268	\$277	\$208	\$115	\$115	\$183	\$258	\$18	\$45	\$58	\$87	\$31	\$36	\$6	\$42	\$30	\$30	\$27	\$27				
<b>EBITDA</b>	<b>\$614</b>	<b>\$525</b>	<b>\$358</b>	<b>\$97</b>	<b>\$151</b>	<b>\$411</b>	<b>\$582</b>	<b>\$21</b>	<b>\$65</b>	<b>\$52</b>	<b>\$221</b>	<b>\$42</b>	<b>(\$0)</b>	<b>(\$2)</b>	<b>\$57</b>	<b>\$32</b>	<b>\$31</b>	<b>\$37</b>	<b>\$50</b>				
JV Inkai EBITDA	\$0	\$45	\$63	\$66	\$98	\$109	\$106	\$12	\$12	\$2	\$19	\$14	\$1	\$11	\$10	\$14	\$15	\$15	\$15				
<b>Adjusted EBITDA</b>	<b>\$614</b>	<b>\$570</b>	<b>\$421</b>	<b>\$162</b>	<b>\$249</b>	<b>\$520</b>	<b>\$688</b>	<b>\$34</b>	<b>\$77</b>	<b>\$53</b>	<b>\$240</b>	<b>\$56</b>	<b>\$1</b>	<b>\$9</b>	<b>\$67</b>	<b>\$47</b>	<b>\$46</b>	<b>\$52</b>	<b>\$65</b>				

Source: Company reports, RBC Capital Markets estimates



Exhibit 4: Cameco earnings model

Earnings Model <i>C\$ millions, unless noted</i>	2017A							2019							2020				2021			
	2017A	2018A	2019A	2020E	2021E	2022E	2023E	1QA	2QA	3QA	4QA	1QA	2QA	3QE	4QE	1QE	2QE	3QE	4QE			
<b>Revenue</b>	\$2,157	\$2,092	\$1,863	\$1,702	\$1,530	\$1,529	\$1,628	\$298	\$388	\$303	\$874	\$346	\$525	\$408	\$423	\$331	\$325	\$351	\$523			
Cost of goods	(\$1,390)	(\$1,468)	(\$1,346)	(\$1,450)	(\$1,199)	(\$937)	(\$874)	(\$240)	(\$286)	(\$236)	(\$584)	(\$256)	(\$490)	(\$377)	(\$327)	(\$250)	(\$247)	(\$283)	(\$419)			
D&A	(\$330)	(\$328)	(\$276)	(\$172)	(\$164)	(\$233)	(\$308)	(\$41)	(\$60)	(\$69)	(\$106)	(\$55)	(\$49)	(\$15)	(\$53)	(\$44)	(\$43)	(\$35)	(\$42)			
SG&A	(\$163)	(\$142)	(\$125)	(\$130)	(\$130)	(\$130)	(\$130)	(\$36)	(\$30)	(\$24)	(\$34)	(\$34)	(\$36)	(\$30)	(\$30)	(\$33)	(\$33)	(\$33)	(\$33)			
Exploration	(\$30)	(\$20)	(\$14)	(\$14)	(\$30)	(\$30)	(\$30)	(\$4)	(\$3)	(\$3)	(\$2)	(\$4)	(\$2)	(\$4)	(\$4)	(\$8)	(\$8)	(\$8)	(\$8)			
Research & development	(\$6)	(\$2)	(\$6)	(\$4)	(\$5)	(\$5)	(\$5)	(\$2)	(\$1)	(\$2)	(\$2)	(\$1)	(\$0)	(\$1)	(\$1)	(\$1)	(\$1)	(\$1)	(\$1)			
Gain/loss on sale of assets	(\$7)	(\$2)	(\$2)	\$0	\$0	\$0	\$0	\$0	(\$0)	(\$0)	(\$2)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
Equity income	\$0	\$32	\$45	\$36	\$58	\$65	\$64	\$12	\$12	\$2	\$19	\$14	\$1	\$11	\$10	\$14	\$15	\$15	\$15			
Other operating expense (Adj.)	(\$0)	(\$3)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$1)	\$1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
<b>Adjusted EBITDA (incl. Inkal)</b>	<b>\$561</b>	<b>\$515</b>	<b>\$417</b>	<b>\$141</b>	<b>\$224</b>	<b>\$492</b>	<b>\$652</b>	<b>\$29</b>	<b>\$80</b>	<b>\$39</b>	<b>\$269</b>	<b>\$65</b>	<b>(\$3)</b>	<b>\$7</b>	<b>\$71</b>	<b>\$54</b>	<b>\$52</b>	<b>\$41</b>	<b>\$77</b>			
Margin	26%	23%	20%	6%	11%	28%	36%	6%	17%	12%	29%	15%	-1%	-1%	14%	12%	11%	8%	12%			
<b>EBIT</b>	<b>(\$128)</b>	<b>\$103</b>	<b>\$138</b>	<b>(\$48)</b>	<b>\$60</b>	<b>\$259</b>	<b>\$344</b>	<b>(\$14)</b>	<b>(\$4)</b>	<b>(\$33)</b>	<b>\$189</b>	<b>\$17</b>	<b>(\$75)</b>	<b>(\$8)</b>	<b>\$18</b>	<b>\$10</b>	<b>\$8</b>	<b>\$7</b>	<b>\$35</b>			
<b>Adjusted EBIT</b>	<b>\$230</b>	<b>\$154</b>	<b>\$95</b>	<b>(\$67)</b>	<b>\$2</b>	<b>\$194</b>	<b>\$281</b>	<b>(\$24)</b>	<b>\$8</b>	<b>(\$32)</b>	<b>\$145</b>	<b>(\$3)</b>	<b>(\$52)</b>	<b>(\$19)</b>	<b>\$8</b>	<b>(\$4)</b>	<b>(\$6)</b>	<b>(\$8)</b>	<b>\$20</b>			
Margin	11%	7%	5%	-4%	0%	13%	17%	-8%	2%	-11%	17%	-1%	-10%	-5%	2%	-1%	-2%	-2%	4%			
Finance costs	(\$111)	(\$112)	(\$99)	(\$78)	(\$84)	(\$84)	(\$84)	(\$29)	(\$27)	(\$26)	(\$17)	(\$19)	(\$17)	(\$21)	(\$21)	(\$21)	(\$21)	(\$21)	(\$21)			
Gain/loss on derivatives	\$56	(\$81)	\$32	(\$26)	\$0	\$0	\$0	\$18	\$16	(\$15)	\$13	(\$65)	\$40	\$0	\$0	\$0	\$0	\$0	\$0			
Finance income	\$5	\$22	\$30	\$13	\$12	\$12	\$16	\$9	\$7	\$10	\$4	\$6	\$2	\$2	\$2	\$3	\$3	\$3	\$3			
Other income/expense	(\$30)	\$108	\$34	\$32	\$0	\$0	\$0	(\$2)	(\$12)	\$61	(\$13)	\$49	(\$17)	\$0	\$0	\$0	\$0	\$0	\$0			
<b>Pre-tax Income (Adj.)</b>	<b>\$43</b>	<b>\$156</b>	<b>\$89</b>	<b>(\$61)</b>	<b>(\$12)</b>	<b>\$188</b>	<b>\$277</b>	<b>(\$39)</b>	<b>(\$14)</b>	<b>\$9</b>	<b>\$133</b>	<b>\$51</b>	<b>(\$85)</b>	<b>(\$26)</b>	<b>(\$1)</b>	<b>(\$8)</b>	<b>(\$10)</b>	<b>(\$11)</b>	<b>\$17</b>			
Taxes	\$3	\$126	(\$61)	\$12	\$2	(\$38)	(\$55)	(\$0)	(\$2)	(\$10)	(\$49)	(\$7)	\$14	\$4	\$0	\$2	\$2	\$2	(\$3)			
Taxes (Adj.)	\$17	\$95	(\$48)	\$2	\$2	(\$38)	(\$55)	\$6	(\$4)	(\$11)	(\$39)	(\$23)	\$20	\$4	\$0	\$2	\$2	\$2	(\$3)			
Tax rate	-39%	-61%	54%	3%	20%	20%	20%	10%	-27%	128%	29%	44%	24%	15%	15%	20%	20%	20%	20%			
<b>Net Income</b>	<b>(\$205)</b>	<b>\$166</b>	<b>\$74</b>	<b>(\$95)</b>	<b>(\$10)</b>	<b>\$150</b>	<b>\$221</b>	<b>(\$18)</b>	<b>(\$23)</b>	<b>(\$13)</b>	<b>\$128</b>	<b>(\$19)</b>	<b>(\$53)</b>	<b>(\$22)</b>	<b>(\$1)</b>	<b>(\$6)</b>	<b>(\$8)</b>	<b>(\$9)</b>	<b>\$13</b>			
<b>Adjusted Net Income</b>	<b>\$59</b>	<b>\$251</b>	<b>\$41</b>	<b>(\$59)</b>	<b>(\$10)</b>	<b>\$150</b>	<b>\$221</b>	<b>(\$33)</b>	<b>(\$18)</b>	<b>(\$2)</b>	<b>\$94</b>	<b>\$29</b>	<b>(\$65)</b>	<b>(\$22)</b>	<b>(\$1)</b>	<b>(\$6)</b>	<b>(\$8)</b>	<b>(\$9)</b>	<b>\$13</b>			
Diluted shares	396	396	396	396	396	396	396	396	396	396	396	396	396	396	396	396	396	396	396			
<b>Adjusted EPS</b>	<b>\$0.15</b>	<b>\$0.63</b>	<b>\$0.10</b>	<b>(\$0.15)</b>	<b>(\$0.02)</b>	<b>\$0.38</b>	<b>\$0.56</b>	<b>(\$0.08)</b>	<b>(\$0.04)</b>	<b>(\$0.01)</b>	<b>\$0.24</b>	<b>\$0.07</b>	<b>(\$0.16)</b>	<b>(\$0.06)</b>	<b>(\$0.00)</b>	<b>(\$0.02)</b>	<b>(\$0.02)</b>	<b>(\$0.02)</b>	<b>\$0.03</b>			
<b>EPS</b>	<b>(\$0.52)</b>	<b>\$0.42</b>	<b>\$0.19</b>	<b>(\$0.24)</b>	<b>(\$0.02)</b>	<b>\$0.38</b>	<b>\$0.56</b>	<b>(\$0.05)</b>	<b>(\$0.06)</b>	<b>(\$0.03)</b>	<b>\$0.32</b>	<b>(\$0.05)</b>	<b>(\$0.13)</b>	<b>(\$0.06)</b>	<b>(\$0.00)</b>	<b>(\$0.02)</b>	<b>(\$0.02)</b>	<b>(\$0.02)</b>	<b>\$0.03</b>			
Dividend/share	\$0.40	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.00	\$0.00	\$0.00	\$0.08	\$0.00	\$0.00	\$0.00	\$0.08	\$0.00	\$0.00	\$0.00	\$0.08			
<b>Change YOY</b>																						
Revenue	-11%	-3%	-11%	-9%	-10%	0%	6%	-32%	16%	-38%	5%	16%	35%	35%	-52%	-4%	-38%	-14%	24%			
SG&A	-21%	-13%	-12%	4%	0%	0%	0%	3%	-4%	-38%	-4%	-6%	19%	23%	-13%	-4%	-10%	8%	8%			
EBITDA	1%	-14%	-23%	-72%	58%	158%	38%	-80%	8%	-57%	0%	213%	-105%	-111%	-76%	-23%	-1190%	-752%	2%			
EBIT	24%	-33%	-38%	-170%	-103%	10327%	45%	-207%	-197%	122%	-6%	-86%	-799%	-42%	-95%	22%	-88%	-57%	166%			
Net Income	-59%	325%	-84%	-245%	-84%	-1648%	47%	-246%	-38%	-104%	-53%	-186%	270%	809%	-101%	-122%	-88%	-60%	-1952%			
Shares	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%			
EPS	-59%	325%	-84%	-245%	-84%	-1648%	47%	-246%	-38%	-104%	-53%	-186%	269%	808%	-101%	-122%	-88%	-60%	-1952%			
<b>Margins</b>																						
Gross Profit	20%	14%	13%	5%	11%	23%	27%	6%	11%	-1%	21%	10%	-3%	4%	10%	11%	11%	9%	12%			
EBITDA	26%	23%	20%	6%	11%	28%	36%	6%	17%	12%	29%	15%	-1%	-1%	14%	12%	11%	8%	12%			
EBIT	26%	23%	20%	6%	11%	28%	36%	6%	17%	12%	29%	15%	-1%	-1%	14%	12%	11%	8%	12%			
Net Income	3%	12%	2%	-3%	-1%	10%	14%	-11%	-5%	-1%	11%	8%	-12%	-5%	0%	-2%	-2%	-3%	3%			

Source: Company reports, RBC Capital Markets estimates





## Valuation

We value the company by attributing an equal weighting to our EV/EBITDA and DCF valuation, and adding ~\$1/sh for the CRA restricted cash. Our EV/EBITDA valuation applies a 14x multiple to 2021 EBITDA estimates—this multiple is consistent with historical peak post-Fukushima valuation and a premium to diversified mining equities, but in line with Cameco trough valuation. We think a trough multiple is appropriate as uranium prices have bottomed and enter a recovery phase. Our DCF analysis uses an 8% discount rate. The implied return to our \$14 price target supports our Sector Perform 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) further contract cancellations; 3) potential production disruptions; 4) weaker-than-expected uranium prices; and 5) currency volatility, primarily CAD/USD.

## Company description

Cameco is headquartered in Saskatoon, Saskatchewan and has three primary segments: uranium mining and sales, nuclear fuel services, and nuclear fuel trading. The company generated \$2.1B revenue and \$515M EBITDA in 2018, with the vast majority coming from the uranium segment. Cameco produces uranium from three major properties that are considered among the best assets globally due to high grades and low costs, and it has potential to significantly increase production over the long term as uranium prices improve.

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**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

**Restricted (R):** RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

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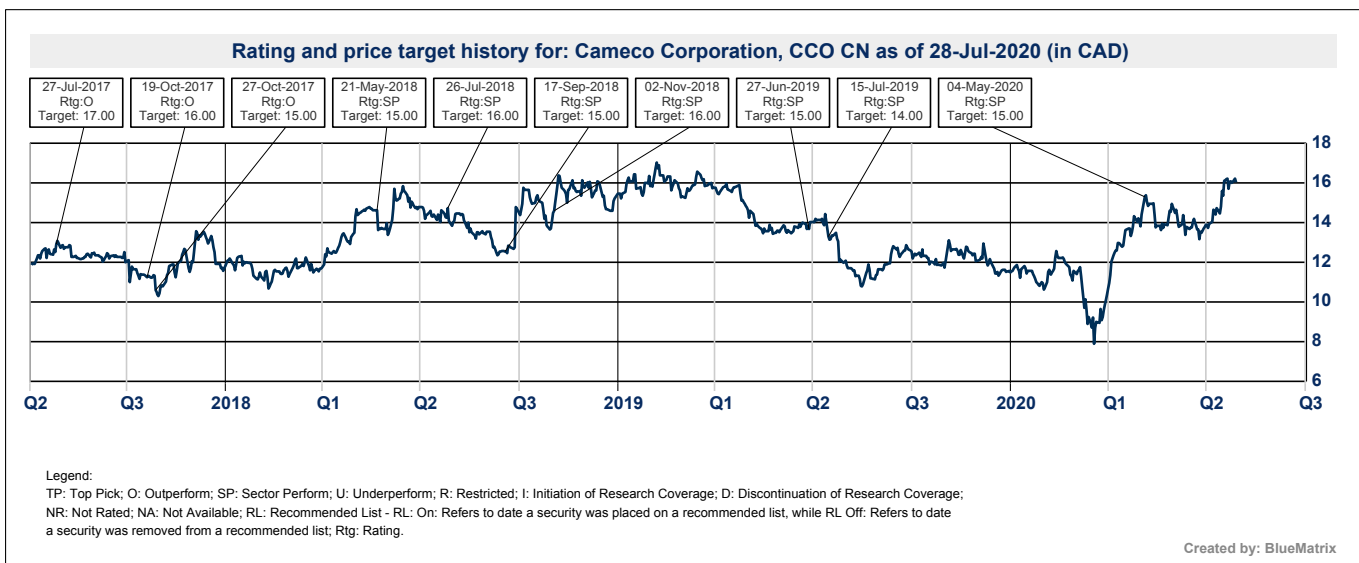




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			Count	Percent
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### Cameco Corporation

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