

Cameco Corp.

(CCO-T: C\$14.42) *intraday*

NEUTRAL

Target: \$16.00

July 29, 2020

Ralph M. Profiti, CFA / (647) 484-8545

rprofiti@viiicapital.com

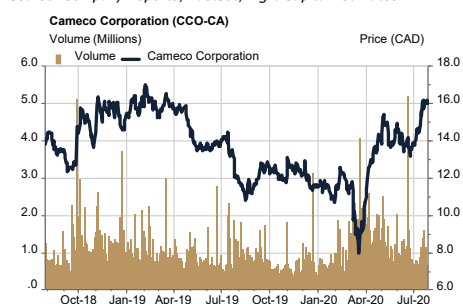
Tony Huang / (647) 497-6599

thuang@viiicapital.com

Cigar Lake Restart Driven by Market-Related and Cost Structure Factors

	Current			
Rating:	NEUTRAL			
Target:	C\$16.00			
Company Data				
Last Price (TSX)				\$14.42
52-Week Range:		\$7.69 -		\$16.71
Market Capitalization (C\$Mln):				5,708
Enterprise Value (C\$Mln):				5,842
Shares Outstanding - Diluted (Mln):				396
Dividend Yield:				0.6%
Cash				863
Net Debt				134
Fiscal Year End				Dec 31
Sales Summary				
	2019 A	2020 E	2021 E	2022 E
Uranium (Mln lbs)	35	32	29	30
Fuel Services (mm kgU)	12	14	13	12
NUKEM (mm lbs)	6	2	1	1
Financial Summary				
	2019 A	2020 E	2021 E	2022 E
P/E	NM	NM	NM	29.9x
EV/EBITDA	15.3x	49.9x	24.9x	12.2x
CFPS	1.05	0.34	0.44	0.90
P/CF	13.7x	42.3x	33.0x	16.1x
Net Debt/ EBITDA	NA	1.5x	0.7x	0.2x
Quarterly EBITDA				
	2019 A	2020 E	2021 E	2022 E
Q1	14 A	57 A	21 E	66 E
Q2	43 A	34 A	31 E	105 E
Q3	34 A	35 E	54 E	126 E
Q4	277 A	47 E	121 E	164 E
FY	368 A	113 E	227 E	461 E
Quarterly EPS				
	2019 A	2020 E	2021 E	2022 E
Q1	-0.08 A	0.07 A	0.00 E	0.08 E
Q2	-0.04 A	-0.16 A	0.00 E	0.14 E
Q3	-0.01 A	-0.03 E	0.03 E	0.14 E
Q4	0.24 A	0.00 E	0.09 E	0.12 E
FY	0.10 A	-0.11 E	0.11 E	0.48 E

Note: All values are in C\$, unless otherwise stated
Source: Company Reports, FactSet, Eight Capital Estimates



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.

Cigar Lake restart driven by market-related & cost structure factors. In our view, increased care and maintenance costs across all curtailed Cameco operations of \$140-170Mn/year (pre-withdrawal of guidance), combined with required increased purchasing activity at a higher cost than produced pounds in an increasing spot price environment, warrants a more balanced approach to Cameco's commercial strategy between produced and purchased material; however, while margins are expected to be positively impacted, this could be offset in the near-term by pressure on uranium prices and market sentiment.

Q2 results weaker than expected. 2Q20 adjusted EBITDA came in at \$34Mn vs. our \$60Mn and consensus of \$41Mn, and an adjusted EPS loss of \$(0.16)/share vs. our \$(0.03)/share and consensus: \$(0.05)/share. Weaker than expected results were driven by 4% lower realized uranium price (US\$32.99/lb vs. our US\$34.53/lb) and lower sales in Fuel Services (3.2kgU vs. our 4.4kgU).

Cigar Lake restart and steady production still at risk. Management is targeting restart at the beginning of September with its share of FY20 production at 5.3Mln lbs. The restart is dependent on Cameco's ability to establish safe and stable operating protocols. Management continues to experience delays and deferrals in project work, including lower capital expenditures, which introduces potential risk to Cigar Lake production rates in 2021, which at full capacity is able to produce 18Mln lbs/year.

Cameco will still rely on market purchases into 2021. YTD, Cameco has completed open market purchases of 19.3Mln lbs vs. 58Mln lbs or 33% of total spot volume for delivery within one year, as reported by UxC. CCO holds uranium inventory of 14.4Mln lbs at end-2Q20 at an average cost of \$38.17/lb. To satisfy contracted commitments, we believe CCO's reliance on market purchase in uranium production and fuel services will continue and/or CCO will borrow more end-user material currently under storage, or advance long-term purchase arrangements, all of which tightens the uranium market.

On June 26, 2020, the Court of Appeal ruled favourably in a case against the CRA. The Government of Canada continues to hold \$303Mln in cash and \$482Mln in letters of credit that Cameco has been required to pay as instalments on the reassessments issued by CRA for all tax years in dispute (2003-2013), materially impacting financial capacity and liquidity, in our view. **Cameco will be asking the government to return these instalments, even if leave to appeal is requested by CRA.** We currently carry \$281Mln in CRA tax remittance reversals (\$303Mln discounted by one year at 8% discount rate).

Balance sheet & liquidity remains strong: 2Q20 cash and investments stand at \$878Mln (including short-term investments) and total debt of \$997Mln (Net debt: \$119Mln). In addition, CCO has a \$1,000Mln undrawn credit facility (not including \$482Mln secured against CRA claims), which it does not expect to draw on, as capital requirements are expected to be met with cash and operating cash flow.

Maintain Neutral; TP \$16. Our TP of \$16 is based on 1.3x P/NAV (\$11.09/share), with Cameco currently trading at 1.4x P/NAV and an equity-implied uranium price of US\$47/lb.

Summary of 2Q20 Results

First look at Cameco results: 2Q20			Variance (Act - Est)	
	2Q20 Actual	Eight Capital estimates	(Units)	(%)
Uranium Segment				
Average realized price (US\$/lb)	32.99	34.52	(1.53)	-4%
Average realized price (C\$/lb)	46.13	47.86	(1.73)	-4%
Production ('000s lbs)	-	455	(455)	<i>n.m.</i>
Sales ('000s lbs)	9,200	9,000	200	2%
Unit operating costs (C\$/lb sold)	49.82	48.85	0.97	2%
Revenue	426	431	(5)	-1%
Gross profit	(34)	(9)	(25)	<i>n.m.</i>
Fuel Services Segment				
Average realized price (C\$/kg U)	28.95	29.84	(0.89)	-3%
Sales (kgU)	3,200	4,375	(1,175)	-27%
Revenue	92	131	(39)	-30%
Gross profit	24	37	(13)	-34%
Revenue	525	576	(51)	-9%
Adjusted EBITDA	34	60	(26)	-43%
Adjusted EPS	(0.16)	(0.03)	(0.13)	<i>n.m.</i>
CFPS	(0.80)	0.12	(0.92)	<i>n.m.</i>

Source: Company reports, Eight Capital

Industrial Metals

Cameco Corp.

Rating: NEUTRAL
Target price: C\$16

Ralph M. Profti, CFA +1 (647) 484-8545

Tony Huang +1 (647) 497-6599

Price assumptions	2018	2019	2020	2021	2022	2023	2024
Uranium Spot (US\$/lb)	24.58	25.20	29.35	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	33.68	35.10	38.00	43.20	45.85
USD\$/CAD\$ (US\$)	0.774	0.741	0.741	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	1,738	1,806	1,867	2,011	2,115
Operating costs	1,468	1,346	1,464	1,451	1,218	1,153	1,186
DD&A	328	276	212	223	282	280	340
EBITDA	398	368	113	227	461	610	681
EBIT	70	92	(99)	4	179	329	340
EBT	40	90	(148)	(46)	132	299	326
Net income	166	74	(81)	43	191	323	352
EPS - FD	0.42	0.19	(0.20)	0.11	0.48	0.82	0.89
Adjusted EPS - FD	0.54	0.10	(0.11)	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	(81)	43	191	323	352
Non-cash items	318	343	216	129	163	122	168
Working capital changes	210	113	(201)	-	-	-	-
Cash from operations	668	527	(79)	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)	(53)	(32)	(430)	(32)	(529)
Property and equipment	(55)	(75)	(89)	(144)	(256)	(278)	(198)
Other investing activities	(356)	513	(15)	-	-	-	-
Cash from investing activities	(412)	437	(104)	(144)	(256)	(278)	(198)
Free cash flow	612	452	(169)	29	98	167	321
Net change in cash	112	358	(236)	(2)	(332)	135	(208)

Summary balance sheet (C\$Mln)	2018	2019	2020	2021	2022	2023	2024
Cash & equivalents	712	1,062	829	827	495	631	423
Total current assets	2,083	1,807	1,868	1,866	1,534	1,670	1,462
Fixed assets	3,882	3,721	3,711	3,632	3,606	3,604	3,462
Total assets	8,019	7,427	7,455	7,373	7,015	7,148	6,798
STD	500	-	-	-	-	-	-
Total current liabilities	876	277	350	350	350	350	350
LTD	996	997	995	995	597	597	99
Minority Interest	0	0	0	0	0	0	0
Shareholder equity	4,993	4,995	4,877	4,889	5,048	5,340	5,660
Total liabilities & equity	8,019	7,427	7,455	7,373	7,015	7,148	6,798

Valuation Analysis	2018	2019	2020	2021	2022	2023	2024
NAVPS	per share	11.09					
EPS	per share	0.54	0.10	(0.11)	0.11	0.48	0.82
CFPS	per share	1.22	1.05	0.34	0.44	0.90	1.12
P/NAV	(x)		1.30				
P/E	(x)	26.9	>100	NA	>100	29.9	17.7
P/CF	(x)	11.8	13.7	42.3	33.0	16.1	12.8
Enterprise Value (Mln)	6,492	5,642	5,874	5,876	5,809	5,674	5,384
EV/EBITDA	(x)	14.2	15.3	49.9	24.9	12.2	9.3
FCF Yield	(%)	10.9%	8.0%	-3.0%	0.5%	1.7%	3.0%
P/BV	(x)	1.1	1.1	1.2	1.2	1.1	1.0

Profitability Metrics	2018	2019	2020	2021	2022	2023	2024
EBITDA Margin	(%)	19.0%	19.8%	6.5%	12.6%	24.7%	30.3%
Return on Equity	(%)	3.4%	1.5%	-1.6%	0.9%	3.8%	6.2%
Return on Invested Capital	(%)	2.5%	1.0%	-1.1%	0.0%	0.0%	0.0%

Balance Sheet Analysis	2018	2019	2020	2021	2022	2023	2024
Debt/Equity	(%)	30%	20%	20%	12%	11%	2%
Debt/Debt + Equity	(%)	19%	13%	13%	14%	9%	1%
Net Debt/Equity	(%)	16%	-1%	3%	3%	2%	-6%
Net Debt/TTM EBITDA	(x)	2.0	NA	1.5	0.7	0.2	NA
Net Debt/NTM EBITDA	(x)	2.1	NA	0.7	0.4	0.2	NA
EBIT Interest Coverage	(x)	6.6	0.8	3.5	6.4	1.2	21.2

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
Cigar Lake (50.0%)	(Mln lbs)	9,000	9,000	5,969	9,105	9,105	9,105
Inkai (40.0%)	(Mln lbs)	2,000	3,300	3,071	3,740	3,740	3,740
US ISR	(Mln lbs)	50	0	0	0	0	0

Revenue by Segment	2018	2019	2020	2021	2022	2023	2024
Uranium Mining	(%)	81%	76%	75%	78%	79%	81%
Fuel Services	(%)	15%	20%	23%	19%	18%	15%
NUKEM	(%)	4%	4%	3%	3%	3%	3%
Other	(%)	0%	0%	0%	0%	0%	0%

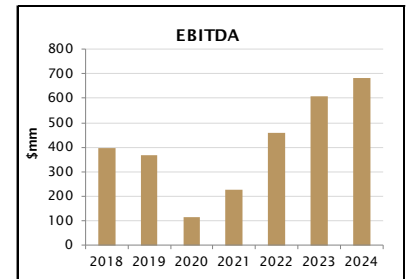
Cash Cost	2018	2019	2020	2021	2022	2023	2024
McArthur River	(C\$/lb)	15.01	15.37	15.28	15.28	15.91	15.99
Cigar Lake	(C\$/lb)	13.74	14.49	14.42	14.67	14.72	15.66
Inkai	(C\$/lb)	11.35	-	-	-	-	-
Purchased Uranium	(C\$/lb)	27.66	26.11	27.20	30.12	34.33	41.72
Total	(C\$/lb)	17.01	15.73	15.35	14.75	17.32	17.54

Source: Eight Capital estimates, Company data

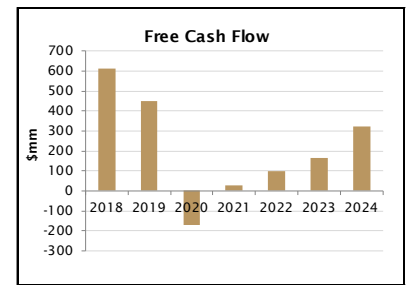
Industrial Metals		
Uranium		
CANADA		
Primary ticker		CCO-TSE
Price		14.42
Target price		16.00
Exchange rate (US\$/C\$)		0.75
Shares outstanding - FD (Mln)		395.8
Market Capitalization (C\$Mln)		5,707
Enterprise Value (C\$Mln)		5,842
Year end		Dec.31
Pricing currency		CAD\$
Accounting currency		CAD\$

Balance Sheet - (C\$ MM)	Most recent quarter
Cash and cash equivalents	863
Net working capital	1,552
Net PP&E	3,764
Total assets	7,542
Short term debt	-
Long term debt	997
Total shareholders' equity	4,918
Total liabilities & shareholder equity	7,542
Shares outstanding (Mln)	396
Book value per share	12.42
Net debt/net debt + equity (%)	2.3%

Net Asset Value Summary		
	C\$Mln	\$/share
McArthur River	1,877	4.74
Cigar Lake	565	1.43
Inkai (10%)	872	2.20
Rabbit Lake	119	0.30
Crow Butte	47	0.12
Smith Ranch/Highland	75	0.19
Uranium Mining	3,554	8.98
Uranium Contract Book	239	0.60
Fuel Services	596	1.51
NUKEM	5	0.01
Equity Investments	100	0.25
Exploration & Development	458	1.16
Gross Asset Value	4,952	12.51
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 S&G&A	(755)	(1.91)
Reclamation liabilities	(673)	(1.70)
Net asset value	4,391	
Shares outstanding	396	
Net asset value per share (C\$)	11.09	



Source: Eight Capital estimates, Company data



Source: Eight Capital estimates, Company data

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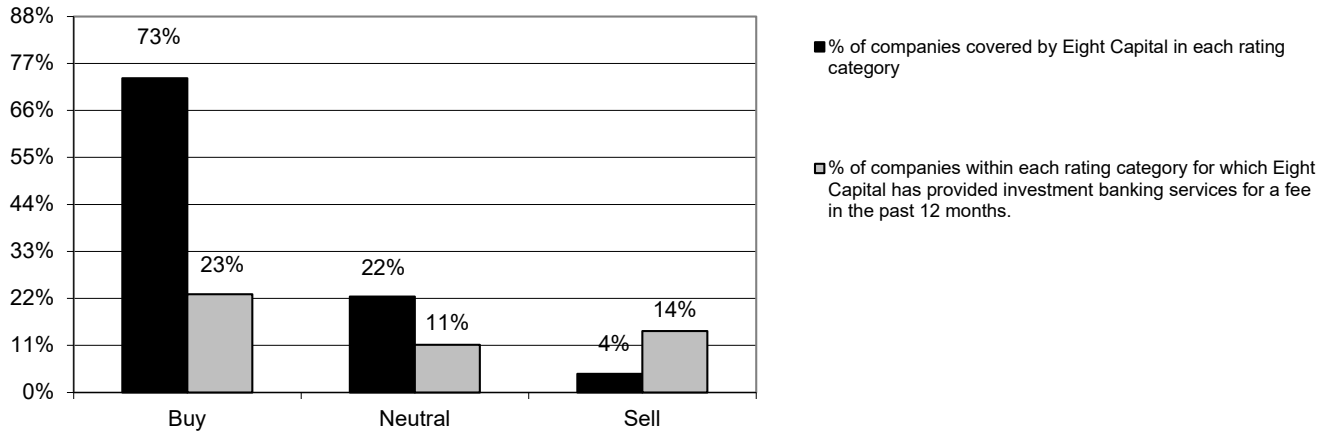
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