



November 11, 2020

## Cameco Corporation

### Remains well positioned for eventual uranium recovery

**Our view:** We believe Cameco remains very well positioned to benefit from an eventual recovery in the uranium market with a solid financial position, low-cost production at Cigar Lake and Inkai, and low-cost idled production at McArthur River.

#### Key points:

**Uranium market balanced through mid-2020s before entering significant deficit:** We forecast a relatively balanced market through the mid-2020s as growing demand is met by increased supply. As we enter the late-2020s, we expect a growing deficit as supply decreases due to mine depletion and a reduction in secondary supply. We expect prices to increase gradually through mid-2020's into the \$35-40/lb range, from ~\$30/lb currently, supported by the uranium cost curve. As the market moves into deficit, we expect prices to increase more significantly and forecast a long-term uranium price at \$50/lb which we view as the necessary incentive price for new mine supply. Please see [RBCCM Uranium Outlook: Recovery in progress as balance set to turn into L-T deficit](#) for more details.

**Cigar Lake and Inkai re-start should reduce market purchases in 2021:** Operations at Cigar Lake re-started in September and at Inkai in August, which should result in a significant increase of attributable production to Cameco in 2021 - we forecast 12Mlbs production in 2021, up from 8Mlbs in 2020. As a result, we expect lower costs in 2021 due to reduced market purchases that were required in 2020 to meet delivery commitments.

**Estimated McArthur re-start date pushed to 2023:** We have pushed out our estimated re-start date for the currently idled McArthur River mine to 2023 due to a re-evaluation of the uranium S&D and price outlook. We continue to expect McArthur to re-start when prices are at an acceptable level for management which we view as ~\$40/lb. As a result of the longer dated re-start, we now value McArthur on a DCF basis and estimate a \$2.3B NAV using an 8% discount rate.

**Rock solid financial position provides flexibility:** We believe Cameco has a very solid financial position with low net debt (was near-zero, but recent inventory build has increased working capital), long-dated debt maturities (due to recent re-financing at low rates), and positive cash flow (we estimate \$112M FCF in 2021).

**Reiterate Sector Perform and \$14 PT:** We are reducing our 2021E and 2022E EBITDA estimates to \$219M and \$280M, from \$224M and \$492M - the change in 2022 is primarily due to pushing out the McArthur re-start. We have changed our valuation to apply a 10x multiple on 2022E EBITDA, in-line with the average post-Fukushima and pre-McArthur shut-down, and treating the value of McArthur river on a NAV (8%) basis.

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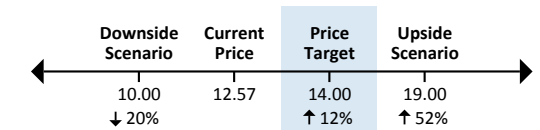
### Sector Perform

TSX: CCO; CAD 12.57; NYSE: CCI

### Price Target CAD 14.00

WHAT'S INSIDE	
<input type="checkbox"/> Rating/Risk Change	<input 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):	4,975
Dividend:	0.08	Yield:	0.6%
NAVPS:	12.54	P/NAVPS:	1.00x
Float (MM):	395.8	Tr. 12 ROE:	2.90%
Debt to Cap:	18%	Enterprise Val. (MM):	4,822
		Avg. Daily Volume:	1,396,826
		3-Yr. Est. EPS Growth:	65.00%

### RBC Estimates

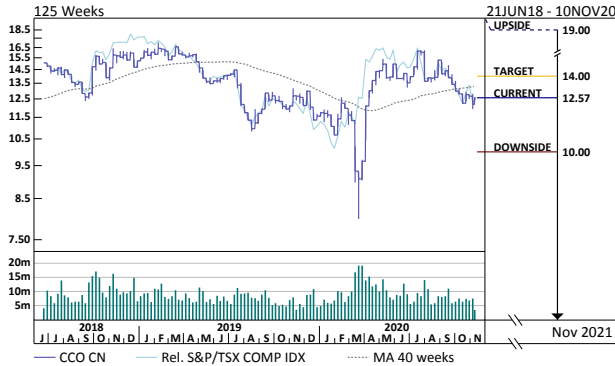
FY Dec	2019A	2020E	2021E	2022E
<b>EPS, Adj Diluted</b>	0.10	(0.35)	(0.04)	0.10
Prev.		(0.15)	(0.02)	0.38
<b>P/AEPS</b>	NM	NM	NM	NM
<b>EBITDA, Adj</b>	416.5	81.0	219.2	280.2
Prev.		140.5	224.0	492.1
<b>FCFPS</b>	0.96	(0.44)	0.28	0.54
Prev.		0.01	(0.02)	0.95
<b>P/FCF</b>	13.1x	nm	44.9x	23.3x
<b>EPS, Adj 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	(0.20)A	(0.06)E
Prev.			(0.06)E	0.00E
2021	(0.04)E	(0.03)E	(0.01)E	0.04E
Prev.	(0.02)E	(0.02)E	(0.02)E	0.03E
<b>EBITDA, Adj</b>				
2019	28.6A	79.6A	38.9A	269.4A
2020	65.3A	(2.8)A	(24.0)A	42.5E
Prev.			6.9E	71.1E
2021	40.8E	47.7E	50.1E	80.6E
Prev.	54.0E	51.5E	41.3E	77.2E

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 applying an EV/EBITDA multiple to Cameco’s operating assets, a DCF valuation to its McArthur River asset, and then adding the CRA restricted cash. Our EV/EBITDA valuation applies a 10x multiple to 2022 EBITDA estimates (from 14x on 2021E) — this multiple is in line with the average multiple post-Fukushima and pre-McArthur shut-down. 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 2021 by \$5/lb and 2022–30 by \$10/lb and use a \$60/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 2021 forecast by \$5/lb and 2022–30 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.



Exhibit 2: RBC Uranium Supply & Demand Forecast

S&D (Mlbs U3O8)	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	CAGR 20-30E	CAGR 20-35E
<b>Generating Capacity (GWe)</b>	<b>338</b>	<b>346</b>	<b>358</b>	<b>362</b>	<b>371</b>	<b>370</b>	<b>367</b>	<b>370</b>	<b>370</b>	<b>380</b>	<b>381</b>	<b>384</b>	<b>398</b>	<b>405</b>	<b>407</b>	<b>417</b>	<b>1%</b>	<b>1%</b>
North America	52	53	54	55	54	52	52	50	50	49	49	48	48	48	48	48	-1%	0%
South America	1	1	1	1	1	1	1	1	1	1	1	1	1	3	2	3	7%	3%
West & Central Europe	52	50	50	47	48	50	48	45	43	45	44	43	43	42	40	41	-2%	-2%
East Europe	19	20	22	21	25	24	23	23	24	23	23	23	22	24	25	25	0%	0%
Africa	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	9%	3%
Central Asia & Middle East	1	1	1	4	2	1	3	2	3	4	8	5	6	5	6	7	17%	10%
East Asia	41	37	49	53	49	39	40	41	43	50	52	53	52	54	54	57	4%	2%
Other Asia	4	4	3	3	4	4	6	8	8	10	10	8	9	9	11	9	8%	6%
<b>Demand</b>	<b>171</b>	<b>167</b>	<b>181</b>	<b>186</b>	<b>183</b>	<b>172</b>	<b>175</b>	<b>173</b>	<b>173</b>	<b>183</b>	<b>188</b>	<b>181</b>	<b>182</b>	<b>185</b>	<b>187</b>	<b>191</b>	<b>1%</b>	<b>0%</b>
Africa	20	19	20	23	23	21	20	19	19	19	18	18	18	18	18	18	-1%	-4%
Australia	15	16	14	17	16	16	12	12	12	12	12	13	14	15	16	16	0%	-2%
Canada	34	36	34	18	18	10	17	18	27	36	36	36	36	24	18	18	5%	4%
Kazakhstan	61	64	61	56	59	47	59	59	62	63	62	62	60	60	60	60	2%	1%
Russia	8	8	8	8	9	9	9	9	9	9	9	9	9	9	9	9	0%	0%
Ukraine	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	0%	0%
Uzbekistan	8	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	0%	0%
United States	3	3	3	1	0	0	0	0	0	0	0	0	0	0	0	0	NA	NA
Other	7	7	6	6	6	7	7	7	7	7	7	7	7	7	7	7	0%	0%
<b>Mine Supply</b>	<b>159</b>	<b>164</b>	<b>157</b>	<b>141</b>	<b>143</b>	<b>122</b>	<b>137</b>	<b>137</b>	<b>149</b>	<b>158</b>	<b>156</b>	<b>157</b>	<b>156</b>	<b>145</b>	<b>140</b>	<b>140</b>	<b>1%</b>	<b>0%</b>
Russia	14	16	18	16	16	15	15	15	15	15	14	13	11	11	11	9	-5%	-4%
United States	8	6	5	4	3	3	1	1	2	1	2	1	2	2	3	1	-11%	-8%
Other	18	17	17	19	18	15	14	12	11	10	9	9	8	9	8	8	-6%	-5%
<b>Secondary Supply</b>	<b>40</b>	<b>39</b>	<b>39</b>	<b>38</b>	<b>36</b>	<b>33</b>	<b>29</b>	<b>29</b>	<b>28</b>	<b>26</b>	<b>25</b>	<b>23</b>	<b>21</b>	<b>21</b>	<b>22</b>	<b>17</b>	<b>-6%</b>	<b>-5%</b>
Mine Supply	159	164	157	141	143	122	137	137	149	158	156	157	156	145	140	140	1%	0%
Secondary Supply	40	39	39	38	36	33	29	29	28	26	25	23	21	21	22	17	-6%	-5%
<b>Total Supply</b>	<b>199</b>	<b>203</b>	<b>196</b>	<b>180</b>	<b>180</b>	<b>156</b>	<b>166</b>	<b>166</b>	<b>177</b>	<b>184</b>	<b>181</b>	<b>180</b>	<b>177</b>	<b>166</b>	<b>162</b>	<b>157</b>	<b>0%</b>	<b>-1%</b>
<b>Surplus/Deficit</b>	<b>29</b>	<b>36</b>	<b>16</b>	<b>-6</b>	<b>-3</b>	<b>-16</b>	<b>-9</b>	<b>-7</b>	<b>4</b>	<b>2</b>	<b>-6</b>	<b>-1</b>	<b>-5</b>	<b>-19</b>	<b>-25</b>	<b>-34</b>		
Supply as % of demand	117%	121%	109%	97%	98%	90%	95%	96%	102%	101%	97%	99%	97%	90%	87%	82%		
<b>Spot Price (US\$/lb)</b>	<b>\$37</b>	<b>\$26</b>	<b>\$22</b>	<b>\$25</b>	<b>\$26</b>	<b>\$29</b>	<b>\$30</b>	<b>\$33</b>	<b>\$33</b>	<b>\$35</b>	<b>\$35</b>	<b>\$35</b>	<b>\$40</b>	<b>\$40</b>	<b>\$40</b>	<b>\$50</b>	<b>5%</b>	<b>6%</b>
<b>Term Price (US\$/lb)</b>	<b>\$47</b>	<b>\$40</b>	<b>\$31</b>	<b>\$31</b>	<b>\$32</b>	<b>\$32</b>	<b>\$34</b>	<b>\$35</b>	<b>\$38</b>	<b>\$40</b>	<b>\$40</b>	<b>\$40</b>	<b>\$50</b>	<b>\$50</b>	<b>\$50</b>	<b>\$50</b>	<b>5%</b>	<b>4%</b>

Source: Company reports, RBC Capital Markets estimates



## Reiterate Sector Perform and maintain \$14 price target

We rate Cameco shares Sector Perform with a \$14 price target. We value the company by applying an EV/EBITDA multiple to Cameco's operating assets, a DCF valuation to its McArthur River asset, and then adding the CRA restricted cash. Our EV/EBITDA valuation applies a 10x multiple to 2022 EBITDA estimates — this multiple is in-line with the average multiple post-Fukushima and pre-McArthur shut-down. Our DCF analysis uses an 8% discount rate.

Exhibit 3: Cameco valuation summary

EV/EBITDA valuation	CAD\$M	US\$M	Non-operating assets	CAD\$M	US\$M
<b>Adjusted EBITDA (2022)</b>	<b>\$286</b>	<b>\$215</b>	McArthur River	\$2,324	\$1,741
Multiple	10.0x	10.0x	CRA Restricted Cash	\$303	\$227
<b>Enterprise Value</b>	<b>\$2,865</b>	<b>\$2,145</b>	<b>Total</b>	<b>\$2,628</b>	<b>\$1,968</b>
<b>Balance Sheet (end-21E)</b>			<b>Total Equity Value</b>	<b>\$5,455</b>	<b>\$4,085</b>
Net Debt (CAD\$M)	\$37	\$28	Shares (M)	396	396
<b>EV/EBITDA Market Cap</b>	<b>\$2,827</b>	<b>\$2,117</b>	<b>Valuation Price</b>	<b>\$14</b>	<b>\$10</b>

Source: Company reports, RBC Capital Markets estimates



# Model

## Exhibit 4: Cameco Uranium Segment Model

Uranium Segment Analysis								2019				2020				2021			
<i>CS millions, unless noted</i>	2017A	2018A	2019A	2020E	2021E	2022E	2023E	1QA	2QA	3QA	4QA	1QA	2QA	3QA	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	0.0	6.3	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	5.0	8.6	9.0	9.0	2.4	2.5	1.4	2.7	2.1	0.0	0.2	2.7	2.0	2.0	2.3	2.3
Inkai (40%), unconsolidated	3.2	2.8	3.4	2.8	3.8	4.1	4.1	0.8	0.8	0.9	0.9	0.6	0.7	0.6	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>7.8</b>	<b>12.4</b>	<b>13.1</b>	<b>19.3</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>0.8</b>	<b>3.5</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	5.0	8.6	9.0	15.3	2.4	2.5	1.4	2.7	2.1	0.0	0.2	2.7	2.0	2.0	2.3	2.3
<b>Realized Price</b>																			
CDN/USD Exchange rate (C\$)	\$1.32	\$1.32	\$1.30	\$1.33	\$1.34	\$1.33	\$1.33	\$1.33	\$1.26	\$1.29	\$1.31	\$1.32	\$1.33	\$1.34	\$1.32	\$1.32	\$1.34	\$1.39	\$1.33
Uranium Spot Price (US\$/lb U3O8)	\$22	\$25	\$26	\$29	\$30	\$33	\$33	\$28	\$25	\$25	\$25	\$25	\$32	\$31	\$30	\$30	\$30	\$30	\$30
Uranium Term Price (US\$/lb U3O8)	\$31	\$31	\$32	\$32	\$34	\$35	\$38	\$32	\$32	\$32	\$32	\$32	\$32	\$33	\$33	\$33	\$33	\$35	\$35
<b>Realized Price (US\$/lb)</b>	<b>\$35</b>	<b>\$36</b>	<b>\$35</b>	<b>\$33</b>	<b>\$34</b>	<b>\$34</b>	<b>\$35</b>	<b>\$32</b>	<b>\$33</b>	<b>\$31</b>	<b>\$36</b>	<b>\$31</b>	<b>\$33</b>	<b>\$34</b>	<b>\$33</b>	<b>\$34</b>	<b>\$34</b>	<b>\$34</b>	<b>\$34</b>
<b>Realized Price (C\$/lb)</b>	<b>\$47</b>	<b>\$48</b>	<b>\$45</b>	<b>\$44</b>	<b>\$46</b>	<b>\$46</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>\$44</b>	<b>\$45</b>	<b>\$46</b>	<b>\$48</b>	<b>\$46</b>
<b>Revenue (C\$M)</b>																			
Sales Volumes (Mlbs)	33.6	35.1	31.5	29.4	25.0	25.0	25.0	4.8	6.6	6.1	14.0	6.0	9.2	6.7	7.5	5.0	5.0	6.3	8.8
Realized Price (C\$/lb)	\$47	\$48	\$45	\$44	\$46	\$46	\$47	\$43	\$44	\$41	\$48	\$41	\$46	\$45	\$44	\$45	\$46	\$48	\$46
<b>Revenue</b>	<b>\$1,574</b>	<b>\$1,684</b>	<b>\$1,414</b>	<b>\$1,303</b>	<b>\$1,154</b>	<b>\$1,138</b>	<b>\$1,169</b>	<b>\$207</b>	<b>\$293</b>	<b>\$248</b>	<b>\$666</b>	<b>\$248</b>	<b>\$426</b>	<b>\$302</b>	<b>\$327</b>	<b>\$224</b>	<b>\$229</b>	<b>\$299</b>	<b>\$402</b>
<b>Cost of Goods Sold (C\$M)</b>																			
Cost of Product Sold	\$799	\$848	\$867	\$998	\$820	\$757	\$582	\$147	\$177	\$158	\$386	\$166	\$338	\$246	\$247	\$157	\$154	\$207	\$301
Royalties	\$67	\$39	\$32	\$18	\$37	\$39	\$80	\$3	\$6	\$9	\$14	\$5	\$3	\$0	\$11	\$9	\$9	\$10	\$10
Care and Maintenance	\$38	\$143	\$121	\$139	\$100	\$100	\$60	\$28	\$27	\$24	\$41	\$26	\$45	\$38	\$30	\$25	\$25	\$25	\$25
Other costs	\$8	\$13	\$11	\$13	\$10	\$10	\$10	\$3	\$2	\$2	\$4	\$4	\$3	\$4	\$3	\$3	\$3	\$3	\$3
<b>Total</b>	<b>\$912</b>	<b>\$1,043</b>	<b>\$1,031</b>	<b>\$1,169</b>	<b>\$967</b>	<b>\$906</b>	<b>\$732</b>	<b>\$181</b>	<b>\$212</b>	<b>\$192</b>	<b>\$446</b>	<b>\$201</b>	<b>\$389</b>	<b>\$289</b>	<b>\$290</b>	<b>\$193</b>	<b>\$190</b>	<b>\$245</b>	<b>\$338</b>
<b>Cash COGS</b>	<b>\$930</b>	<b>\$1,139</b>	<b>\$1,042</b>	<b>\$1,235</b>	<b>\$967</b>	<b>\$906</b>	<b>\$732</b>	<b>\$181</b>	<b>\$225</b>	<b>\$193</b>	<b>\$443</b>	<b>\$202</b>	<b>\$424</b>	<b>\$318</b>	<b>\$290</b>	<b>\$193</b>	<b>\$190</b>	<b>\$245</b>	<b>\$338</b>
Cash Costs	\$930	\$1,139	\$1,042	\$1,235	\$967	\$906	\$732	\$181	\$225	\$193	\$443	\$202	\$424	\$318	\$290	\$193	\$190	\$245	\$338
D&A	\$268	\$277	\$208	\$126	\$115	\$108	\$183	\$18	\$45	\$58	\$87	\$31	\$36	\$18	\$41	\$30	\$30	\$27	\$27
<b>Total COGS</b>	<b>\$1,198</b>	<b>\$1,416</b>	<b>\$1,250</b>	<b>\$1,360</b>	<b>\$1,082</b>	<b>\$1,014</b>	<b>\$915</b>	<b>\$199</b>	<b>\$270</b>	<b>\$251</b>	<b>\$530</b>	<b>\$234</b>	<b>\$460</b>	<b>\$336</b>	<b>\$331</b>	<b>\$224</b>	<b>\$221</b>	<b>\$272</b>	<b>\$365</b>
<b>COGS per pound</b>	<b>\$36</b>	<b>\$40</b>	<b>\$40</b>	<b>\$46</b>	<b>\$43</b>	<b>\$41</b>	<b>\$37</b>	<b>\$41</b>	<b>\$41</b>	<b>\$41</b>	<b>\$38</b>	<b>\$39</b>	<b>\$50</b>	<b>\$50</b>	<b>\$44</b>	<b>\$45</b>	<b>\$44</b>	<b>\$44</b>	<b>\$42</b>
<b>Cash COGS per pound (incl. royalties)</b>	<b>\$28</b>	<b>\$32</b>	<b>\$33</b>	<b>\$42</b>	<b>\$39</b>	<b>\$36</b>	<b>\$29</b>	<b>\$38</b>	<b>\$34</b>	<b>\$32</b>	<b>\$32</b>	<b>\$34</b>	<b>\$46</b>	<b>\$47</b>	<b>\$39</b>	<b>\$39</b>	<b>\$38</b>	<b>\$39</b>	<b>\$39</b>
<b>Cash COGS per pound (excl. royalties)</b>	<b>\$26</b>	<b>\$31</b>	<b>\$32</b>	<b>\$41</b>	<b>\$37</b>	<b>\$35</b>	<b>\$26</b>	<b>\$37</b>	<b>\$33</b>	<b>\$30</b>	<b>\$31</b>	<b>\$33</b>	<b>\$46</b>	<b>\$47</b>	<b>\$37</b>	<b>\$37</b>	<b>\$36</b>	<b>\$38</b>	<b>\$38</b>
<b>Summary (C\$M)</b>																			
Revenue	\$1,574	\$1,684	\$1,414	\$1,303	\$1,154	\$1,138	\$1,169	\$207	\$293	\$248	\$666	\$248	\$426	\$302	\$327	\$224	\$229	\$299	\$402
Cash Cost of product sold	(\$930)	(\$1,139)	(\$1,042)	(\$1,235)	(\$967)	(\$906)	(\$732)	(\$181)	(\$225)	(\$193)	(\$443)	(\$202)	(\$424)	(\$318)	(\$290)	(\$193)	(\$190)	(\$245)	(\$338)
D&A	(\$268)	(\$277)	(\$208)	(\$126)	(\$115)	(\$108)	(\$183)	(\$18)	(\$45)	(\$58)	(\$87)	(\$31)	(\$36)	(\$18)	(\$41)	(\$30)	(\$30)	(\$27)	(\$27)
<b>Gross Profit</b>	<b>\$376</b>	<b>\$268</b>	<b>\$164</b>	<b>(\$57)</b>	<b>\$72</b>	<b>\$124</b>	<b>\$254</b>	<b>\$8</b>	<b>\$23</b>	<b>(\$3)</b>	<b>\$136</b>	<b>\$15</b>	<b>(\$34)</b>	<b>(\$34)</b>	<b>(\$4)</b>	<b>\$1</b>	<b>\$8</b>	<b>\$27</b>	<b>\$36</b>
Gross Profit (%)	24%	16%	12%	-4%	6%	11%	22%	4%	8%	-1%	20%	6%	-8%	-11%	-1%	0%	3%	9%	9%
Exploration	(\$30)	(\$20)	(\$14)	(\$12)	(\$30)	(\$30)	(\$30)	(\$4)	(\$3)	(\$3)	(\$2)	(\$4)	(\$2)	(\$2)	(\$4)	(\$8)	(\$8)	(\$8)	(\$8)
D&A	\$268	\$277	\$208	\$126	\$115	\$108	\$183	\$18	\$45	\$58	\$87	\$31	\$36	\$18	\$41	\$30	\$30	\$27	\$27
<b>EBITDA</b>	<b>\$614</b>	<b>\$525</b>	<b>\$358</b>	<b>\$56</b>	<b>\$157</b>	<b>\$202</b>	<b>\$407</b>	<b>\$21</b>	<b>\$65</b>	<b>\$52</b>	<b>\$221</b>	<b>\$42</b>	<b>(\$0)</b>	<b>(\$18)</b>	<b>\$33</b>	<b>\$24</b>	<b>\$31</b>	<b>\$46</b>	<b>\$56</b>
JV Inkai EBITDA	\$0	\$45	\$64	\$62	\$87	\$109	\$109	\$12	\$12	\$2	\$19	\$14	\$1	\$3	\$9	\$12	\$12	\$13	\$12
<b>Adjusted EBITDA</b>	<b>\$614</b>	<b>\$569</b>	<b>\$422</b>	<b>\$118</b>	<b>\$244</b>	<b>\$311</b>	<b>\$516</b>	<b>\$34</b>	<b>\$77</b>	<b>\$53</b>	<b>\$240</b>	<b>\$56</b>	<b>\$1</b>	<b>(\$15)</b>	<b>\$41</b>	<b>\$36</b>	<b>\$43</b>	<b>\$59</b>	<b>\$68</b>

Source: Company reports, RBC Capital Markets estimates



Exhibit 5: 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	3QA	4QE	1QE	2QE	3QE	4QE			
<b>Revenue</b>	\$2,157	\$2,092	\$1,863	\$1,656	\$1,505	\$1,485	\$1,516	\$298	\$388	\$303	\$874	\$346	\$525	\$379	\$406	\$321	\$320	\$354	\$509			
Cost of goods	(\$1,390)	(\$1,468)	(\$1,346)	(\$1,456)	(\$1,170)	(\$1,105)	(\$930)	(\$240)	(\$286)	(\$236)	(\$584)	(\$256)	(\$490)	(\$373)	(\$337)	(\$251)	(\$244)	(\$276)	(\$400)			
D&A	(\$330)	(\$328)	(\$276)	(\$185)	(\$162)	(\$158)	(\$233)	(\$41)	(\$60)	(\$69)	(\$106)	(\$55)	(\$49)	(\$30)	(\$51)	(\$43)	(\$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)	(\$12)	(\$30)	(\$30)	(\$30)	(\$4)	(\$3)	(\$3)	(\$2)	(\$4)	(\$2)	(\$2)	(\$4)	(\$8)	(\$8)	(\$8)	(\$8)			
Research & development	(\$6)	(\$2)	(\$6)	(\$3)	(\$5)	(\$5)	(\$5)	(\$2)	(\$1)	(\$2)	(\$2)	(\$1)	(\$0)	(\$0)	(\$1)	(\$1)	(\$1)	(\$1)	(\$1)			
Gain/loss on sale of assets	(\$7)	(\$2)	(\$2)	(\$1)	\$0	\$0	\$0	\$0	(\$0)	(\$0)	(\$2)	\$0	\$0	(\$1)	\$0	\$0	\$0	\$0	\$0			
Equity income	\$0	\$32	\$45	\$26	\$50	\$65	\$65	\$12	\$12	\$2	\$19	\$14	\$1	\$3.2	\$9	\$12	\$12	\$13	\$12			
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. Inkai)</b>	<b>\$561</b>	<b>\$515</b>	<b>\$417</b>	<b>\$81</b>	<b>\$219</b>	<b>\$280</b>	<b>\$486</b>	<b>\$29</b>	<b>\$80</b>	<b>\$39</b>	<b>\$269</b>	<b>\$65</b>	<b>(\$3)</b>	<b>(\$24)</b>	<b>\$43</b>	<b>\$41</b>	<b>\$48</b>	<b>\$50</b>	<b>\$81</b>			
Margin	26%	23%	20%	3%	11%	14%	28%	6%	17%	12%	29%	15%	-1%	-7%	8%	9%	11%	11%	13%			
<b>EBIT</b>	<b>(\$128)</b>	<b>\$103</b>	<b>\$138</b>	<b>(\$128)</b>	<b>\$57</b>	<b>\$122</b>	<b>\$253</b>	<b>(\$14)</b>	<b>(\$4)</b>	<b>(\$33)</b>	<b>\$189</b>	<b>\$17</b>	<b>(\$75)</b>	<b>(\$61)</b>	<b>(\$9)</b>	<b>(\$2)</b>	<b>\$5</b>	<b>\$15</b>	<b>\$38</b>			
<b>Adjusted EBIT</b>	<b>\$230</b>	<b>\$154</b>	<b>\$95</b>	<b>(\$130)</b>	<b>\$7</b>	<b>\$58</b>	<b>\$188</b>	<b>(\$24)</b>	<b>\$8</b>	<b>(\$32)</b>	<b>\$145</b>	<b>(\$3)</b>	<b>(\$52)</b>	<b>(\$57)</b>	<b>(\$17)</b>	<b>(\$14)</b>	<b>(\$7)</b>	<b>\$3</b>	<b>\$26</b>			
Margin	11%	7%	5%	-8%	0%	4%	12%	-8%	2%	-11%	17%	-1%	-10%	-15%	-4%	-4%	-2%	1%	5%			
Finance costs	(\$111)	(\$112)	(\$99)	(\$74)	(\$86)	(\$86)	(\$86)	(\$29)	(\$27)	(\$26)	(\$17)	(\$19)	(\$17)	(\$17)	(\$21)	(\$21)	(\$21)	(\$21)	(\$21)			
Gain/loss on derivatives	\$56	(\$81)	\$32	(\$5)	\$0	\$0	\$0	\$18	\$16	(\$15)	\$13	(\$65)	\$40	\$21	\$0	\$0	\$0	\$0	\$0			
Finance income	\$5	\$22	\$30	\$11	\$10	\$12	\$13	\$9	\$7	\$10	\$4	\$6	\$2	\$1	\$2	\$2	\$3	\$3	\$3			
Other income/expense	(\$30)	\$108	\$34	\$21	\$0	\$0	\$0	(\$2)	(\$12)	\$61	(\$13)	\$49	(\$17)	(\$11)	\$0	\$0	\$0	\$0	\$0			
<b>Pre-tax Income (Adj.)</b>	<b>\$43</b>	<b>\$156</b>	<b>\$89</b>	<b>(\$152)</b>	<b>(\$19)</b>	<b>\$48</b>	<b>\$180</b>	<b>(\$39)</b>	<b>(\$14)</b>	<b>\$9</b>	<b>\$133</b>	<b>\$51</b>	<b>(\$85)</b>	<b>(\$90)</b>	<b>(\$28)</b>	<b>(\$21)</b>	<b>(\$14)</b>	<b>(\$3)</b>	<b>\$19</b>			
Taxes	\$3	\$126	(\$61)	\$17	\$4	(\$10)	(\$36)	(\$0)	(\$2)	(\$10)	(\$49)	(\$7)	\$14	\$5	\$4	\$4	\$3	\$1	(\$4)			
Taxes (Adj.)	\$17	\$95	(\$48)	\$14	\$4	(\$10)	(\$36)	\$6	(\$4)	(\$11)	(\$39)	(\$23)	\$20	\$12	\$4	\$4	\$3	\$1	(\$4)			
Tax rate	-39%	-61%	54%	9%	20%	20%	20%	10%	-27%	128%	29%	44%	24%	14%	15%	20%	20%	20%	20%			
<b>Net Income</b>	<b>(\$205)</b>	<b>\$166</b>	<b>\$74</b>	<b>(\$157)</b>	<b>(\$15)</b>	<b>\$39</b>	<b>\$144</b>	<b>(\$18)</b>	<b>(\$23)</b>	<b>(\$13)</b>	<b>\$128</b>	<b>(\$19)</b>	<b>(\$53)</b>	<b>(\$61)</b>	<b>(\$24)</b>	<b>(\$17)</b>	<b>(\$11)</b>	<b>(\$3)</b>	<b>\$16</b>			
<b>Adjusted Net Income</b>	<b>\$59</b>	<b>\$251</b>	<b>\$41</b>	<b>(\$138)</b>	<b>(\$15)</b>	<b>\$39</b>	<b>\$144</b>	<b>(\$33)</b>	<b>(\$18)</b>	<b>(\$2)</b>	<b>\$94</b>	<b>\$29</b>	<b>(\$65)</b>	<b>(\$78)</b>	<b>(\$24)</b>	<b>(\$17)</b>	<b>(\$11)</b>	<b>(\$3)</b>	<b>\$16</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>(\$0.35)</b>	<b>(\$0.04)</b>	<b>\$0.10</b>	<b>\$0.36</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>(\$0.20)</b>	<b>(\$0.06)</b>	<b>(\$0.04)</b>	<b>(\$0.03)</b>	<b>(\$0.01)</b>	<b>\$0.04</b>			
<b>EPS</b>	<b>(\$0.52)</b>	<b>\$0.42</b>	<b>\$0.19</b>	<b>(\$0.40)</b>	<b>(\$0.04)</b>	<b>\$0.10</b>	<b>\$0.36</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>(\$0.15)</b>	<b>(\$0.06)</b>	<b>(\$0.04)</b>	<b>(\$0.03)</b>	<b>(\$0.01)</b>	<b>\$0.04</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	\$0.00	\$0.00	\$0.00	\$0.00	\$0.08			
<b>Change YOY</b>																						
Revenue	-11%	-3%	-11%	-11%	-9%	-1%	2%	-32%	16%	-38%	5%	16%	35%	25%	-54%	-7%	-39%	-7%	25%			
SG&A	-21%	-13%	-12%	4%	0%	0%	0%	3%	-4%	-38%	-4%	-6%	19%	25%	-13%	-4%	-10%	7%	8%			
EBITDA	1%	-14%	-23%	-85%	210%	27%	96%	-80%	8%	-57%	0%	213%	-105%	-174%	-86%	-44%	-1142%	-237%	101%			
EBIT	24%	-33%	-38%	-236%	-106%	679%	227%	-207%	-197%	122%	-6%	-86%	-799%	76%	-112%	322%	-86%	-105%	-249%			
Net Income	-59%	325%	-84%	-437%	-89%	-357%	274%	-246%	-38%	-104%	-53%	-186%	270%	3053%	-125%	-159%	-83%	-97%	-165%			
Shares	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%			
EPS	-59%	325%	-84%	-437%	-89%	-357%	274%	-246%	-38%	-104%	-53%	-186%	269%	3052%	-125%	-159%	-83%	-97%	-165%			
<b>Margins</b>																						
Gross Profit	20%	14%	13%	1%	11%	15%	23%	6%	11%	-1%	21%	10%	-3%	-6%	4%	9%	11%	12%	13%			
EBITDA	26%	23%	20%	3%	11%	14%	28%	6%	17%	12%	29%	15%	-1%	-7%	8%	9%	11%	11%	13%			
EBIT	26%	23%	20%	3%	11%	14%	28%	6%	17%	12%	29%	15%	-1%	-7%	8%	9%	11%	11%	13%			
Net Income	3%	12%	2%	-8%	-1%	3%	10%	-11%	-5%	-1%	11%	8%	-12%	-21%	-6%	-5%	-3%	-1%	3%			

Source: Company reports, RBC Capital Markets estimates





## Valuation

We value the company by applying an EV/EBITDA multiple to Cameco's operating assets, a DCF valuation to its McArthur River asset, and then adding the CRA restricted cash. Our EV/EBITDA valuation applies a 10x multiple to 2022 EBITDA estimates — this multiple is in line with the average multiple post-Fukushima and pre-McArthur shut-down. 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 \$1.9B revenue in 2019, 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.



## Required disclosures

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RBC Capital Markets is currently providing Cameco Corporation with non-securities services.

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#### Ratings

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**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.

**Not Rated (NR):** The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.

As of March 31, 2020, RBC Capital Markets discontinued its Top Pick rating. Top Pick rated securities represented an analysts best idea in the sector; expected to provide significant absolute returns over 12 months with a favorable risk-reward ratio. Top Pick rated securities have been reassigned to our Outperform rated securities category, which are securities expected to materially outperform sector average over 12 months.

#### Risk Rating

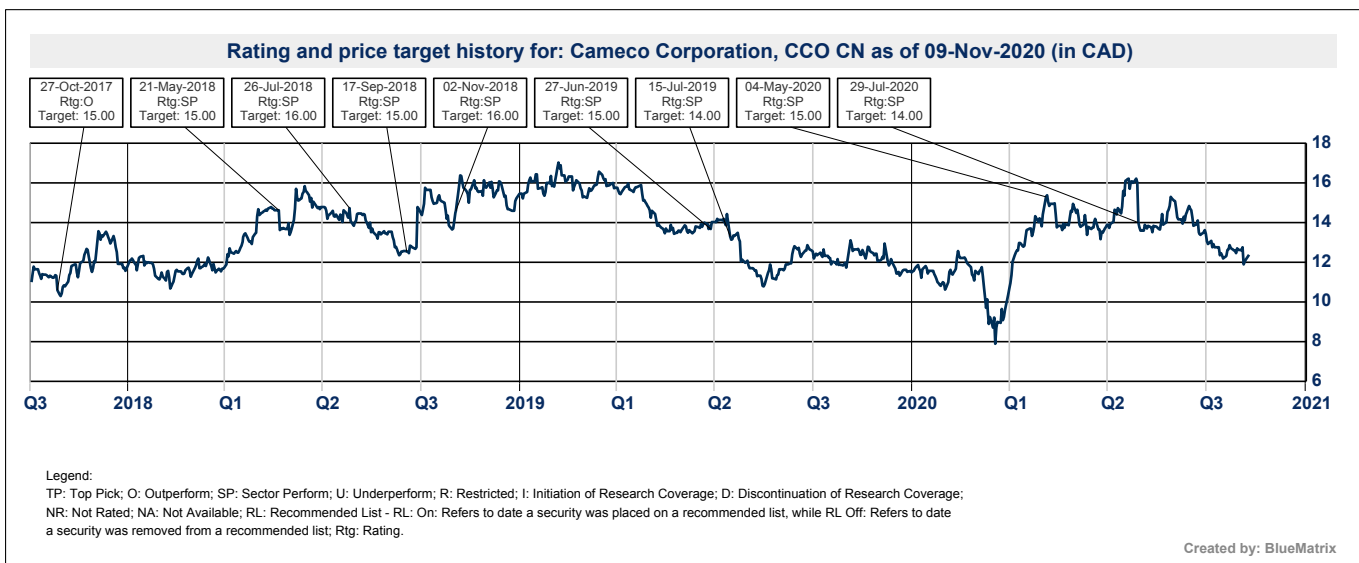
The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



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For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of ratings RBC Capital Markets, Equity Research As of 30-Sep-2020				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Outperform]	788	52.96	248	31.47
HOLD [Sector Perform]	619	41.60	135	21.81
SELL [Underperform]	81	5.44	11	13.58



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## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsightresearch.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

### Cameco Corporation

#### Valuation

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multiple is in line with the average multiple post-Fukushima and pre-McArthur shut-down. 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.

### Conflicts policy

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