

Action Note

Equity Research

November 4, 2020

Metals & Minerals

Cameco Corp.

(CCO-T, CCJ-N) C\$12.79 | US\$9.72

Q3/20: CCO's Term Contracting Pipeline Remains Active

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Event

CCO reported adjusted Q3/20 EPS of \$(0.20), which compares to TD at \$(0.14) and consensus of \$(0.05). EBITDA was \$(27)M versus TD at \$(6)M.

Impact: NEUTRAL

- CCO's quarterly financial results reflect the fact that during a large part of Q3/20 all of the company's principal operating assets were not operational** - Cigar Lake due to COVID-19 precautions and McArthur River/Key Lake due to supply management actions taken by management in 2019 in response to weak uranium market conditions. As such, quarterly earnings are less meaningful.
- Cameco continues to maintain a strong balance sheet with \$793M of cash and equivalents at quarter-end, and a \$1B undrawn credit facility.** In addition, on October 21, CCO issued debentures in the amount \$400M, bearing interest of 2.95% per annum and maturing in 2027, and announced the redemption of its outstanding \$400M debenture bearing interest of 3.75% maturing in 2022. In our view, CCO continues to hold more than sufficient financial capacity to weather currently weak uranium market conditions.
- The stage is set for a rebound in term contracting activity** with trade policy roadblocks largely out of the way (most recently the renegotiation of the Russian Suspension Agreement), the uranium market in deficit, the two largest uranium producers exercising supply discipline, spot supply and inventories dwindling, and global nuclear generating capacity now above the levels achieved pre-Fukushima. As well, the large term contracts signed 10 years ago during the last uranium boom are starting to expire.
- The missing ingredient remains a sense of urgency by utilities to re-enter the term contracting market.** CCO noted that its pipeline of contract negotiations remains very active and that it continues to focus on signing market-related contracts. However, contracting activity has taken a back-seat this year as utilities focus on managing through the pandemic.

TD Investment Conclusion

We are maintaining our **BUY** recommendation. We have reduced our target to **\$16.00** (from \$18.00); we have lowered our target NAV-8% multiple to **1.15x** (from 1.3x) to reflect continued uncertainty around the timing of the next utility contracting cycle. We note that since 2011, Cameco has traded at a P/NAV multiple of ~1.1x, based on our modelling.



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:	BUY
Risk:	HIGH
12-Month Target Price:	C\$16.00↓ Prior: C\$18.00
12-Month Dividend (Est.):	C\$0.08
12-Month Total Return:	25.7%

Market Data (C\$)

Current Price	C\$12.79
52-Week Range	\$7.69 - \$16.72
Mkt Cap (f.d.) (\$mm)	\$5,067.4
EV (\$mm)	\$4,974.3
Current Dividend	\$0.08
Dividend Yield	0.6%
Avg. Daily Trading Vol.	1,479,562

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	396.2
Float Shares (mm)	396.2
Net Debt/Total Cap	4.4%
NAVPS	\$14.00
Working Cap (\$mm)	\$1,510.3

Estimates (C\$)

Year	2018A	2019A	2020E	2021E
EBITDA (\$mm)	460.0	372.8	85.8	86.9
EBITDA (\$mm) (old)	-	-	106.5	88.4
EPS (f.d.)	0.38	0.10	(0.29)	(0.16)
EPS (f.d.) (old)	-	-	(0.23)	-
CFPS (f.d)	1.21	1.04	0.15	0.24
CFPS (f.d) (old)	-	-	0.07	-

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

Year	2018A	2019A	2020E	2021E
Q1	0.06	(0.08)	0.07	-
Q2	(0.07)	(0.04)	(0.16)	-
Q3	(0.12)	(0.01)	(0.20)	-
Q4	0.52	0.23	0.00	-

Valuations

Year	2018A	2019A	2020E	2021E
EV/EBITDA	10.8x	13.3x	58.0x	57.2x
P/E (f.d.)	33.7x	nmf	nmf	nmf
P/CFPS (f.d)	10.6x	12.3x	85.3x	53.3x

Supplemental Data

Year	2018A	2019A	2020E	2021E
U3O8 (US\$/lb)	25	26	31	36
U3O8 Prod. Mlb	9	9	5	9

All figures in C\$, unless otherwise specified

Action Note

Equity Research

November 4, 2020

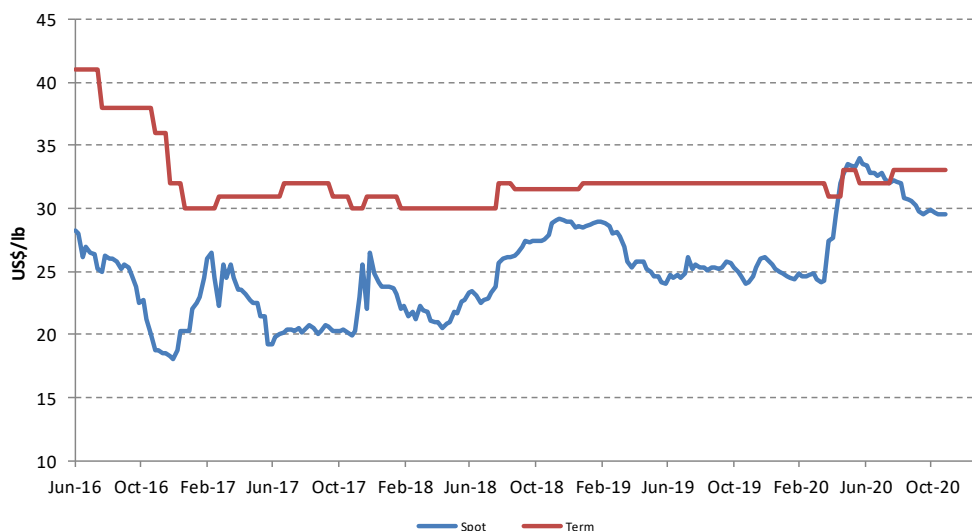
Details

Exhibit 1. Q3/20 Summary

	Q3/20			Q/Q			Y/Y		
	Actual	TD Est.	% Diff	Q3/20	Q2/20	% ch.	Q3/20	Q3/19	% ch.
Realized Uranium Price (US\$/lb)	33.77	33.00	2%	33.77	32.99	2%	33.77	30.94	9%
Realized Uranium Price (C\$/lb)	49.90	44.00	13%	49.90	46.13	8%	49.90	40.91	22%
Total Cost (C\$/lb Sold)	49.90	50.36	-1%	49.90	43.82	14%	49.90	41.42	20%
Uranium production									
Rabbit Lake	-	-	na	-	-	na	-	-	na
McArthur River	-	-	na	-	-	na	-	-	na
Cigar Lake	200	800	-75%	200	-	na	200	1,400	-86%
Highland-Smith	-	-	na	-	-	na	-	-	na
Crow Butte	-	-	na	-	-	na	-	-	na
Total uranium production (klbs)	200	800	-75%	200	-	na	200	1,400	-86%
Total uranium sales (klbs)	6,700	5,667	18%	6,700	8,569	-22%	6,700	6,100	10%
Gross profit (C\$M)									
Uranium	-34	-32	-5%	-34	-34	0%	-34	-3	nm
Fuel services	12	9	31%	12	24	-50%	12	4	194%
Financial highlights									
Adj. EPS (C\$)	-0.20	-0.14	-44%	-0.20	-0.16	-20%	-0.20	-0.01	nm
CFPS (C\$)	-0.05	-0.13	58%	-0.05	0.06	nm	-0.05	0.21	nm
EBITDA (C\$M)	(27)	(6)	-344%	(27)	(4)	-661%	(27)	38	-171%

Source: Ux Consulting; World Nuclear Association; TD Securities estimates

Exhibit 2. Spot and Term Uranium Prices (US\$/lb)



Source: UxC; TD Securities

To the end of September, CCO had purchased 26.2Mlbs of uranium and delivered 22Mlbs under contract. The company had 14.8Mlbs of uranium in inventory at quarter-end, which compares to 14.4Mlbs at the end of Q2/20.

Action Note

Equity Research

November 4, 2020

We note that Cameco suspended guidance at the time of the suspension of production at Cigar Lake, however, guidance has not yet been reinstated given continued uncertainties with respect to COVID-19 precautions and the potential impact on production levels. Production at Cigar Lake resumed in Q3/20 with CCO's share of production being 0.2Mlbs compared to 1.4Mlbs in Q3/19.

Ux Consulting's (UxC) weekly price indicator increased slightly this week to US\$29.55/lb (from US\$29.50/lb). UxC also reported 3-year and 5-year U3O8 forward prices were flat on a week-over-week basis at US\$32.50/lb and \$35.00/lb, respectively.

Reported term activity remains low compared with prior years. Year-to-date, UxC is reporting that ~46Mlbs of uranium has been contracted in the term market; at this time last year, more than 71Mlbs had been placed into term contracts. While activity has improved over the past few months, it appears possible that 2020 term activity could be the lowest in several years. According to UxC, there are a number of non-U.S. utilities active in the term market currently and a couple of utilities are expected to enter the market within the next few months. Kazatomprom noted this week in its Q3/20 report that, in its view, the majority of the term activity to date in 2020 has been from U.S. utilities looking at current market developments and deciding to secure fuel for the next decade.

Outlook

We have updated our forecasts to reflect Q3/20 results.

Exhibit 4. Cameco net asset value

Cameco Net Asset Value		8%		10%	
		C\$000	C\$/sh	C\$000	C\$/sh
Nuclear Operations					
McArthur River	69.8% MRJV, 83.33% KLJV	2,069,526	5.22	1,626,516	4.11
Cigar Lake	50.3% JV	1,036,097	2.62	951,575	2.40
Rabbit Lake	100%	89,817	0.23	65,450	0.17
Inkai	40%	1,319,482	3.33	1,039,015	2.62
Highland-Smith	100%	190,200	0.48	190,200	0.48
Crow Butte	100%	108,600	0.27	108,600	0.27
Conversion	100%	380,027	0.96	330,063	0.83
Total Operations		5,193,749	13.11	4,311,419	10.88
Existing Mines (50% inferred resources @ C\$8/lb)					
		515,200	1.30	515,200	1.30
Pipeline projects (50% total resources @C\$4/lb) *					
		628,200	1.59	628,200	1.59
Mining/Project NAV		6,337,149	16.00	5,454,819	13.77
Plus:					
Working Capital		1,510,315	3.81	1,510,315	3.81
Equity Investments		27,402	0.07	27,402	0.07
Minus:					
Corporate G&A		(403,161)	(1.02)	(364,952)	(0.92)
CRA Cash Remittances		206,953	0.52	206,953	0.52
Debt		(997,222)	(2.52)	(997,222)	(2.52)
Reclamation		(1,133,600)	(2.86)	(1,133,600)	(2.86)
Plus/(Minus) balance sheet items		(789,313)	(1.99)	(751,104)	(1.90)
Total NAV		5,547,837	14.00	4,703,715	11.87

* Pipeline projects include: Yeelirrie, Kintyre, Millennium and Fox Lake

TD Metal Price Forecasts	2020E	2021E	2022E	LT
Uranium (US\$/lb)	30.86	36.00	37.50	45.00
US\$/C\$	0.74	0.75	0.75	0.80

Source: TD Securities estimates



Action Note

Equity Research

November 4, 2020

Valuation

CCO is currently trading at a P/NAV multiple of 0.86x, compared with its larger-cap Canadian mining peers at an average of 0.97x. Based on our forecasts, Cameco has traded at an average P/NAV multiple of 1.1x, since 2011 (post the Fukushima accident).

Justification of Target Price

Our \$16.00 target price is based on a NAV-8% multiple of 1.15x (100% weighted, unchanged).

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 transfer pricing tax dispute with CRA, which CRA has sought leave to appeal to the Supreme Court of Canada, is an additional risk. COVID-19 related operational restrictions could impact our forecasts.

Action Note

Equity Research

November 4, 2020

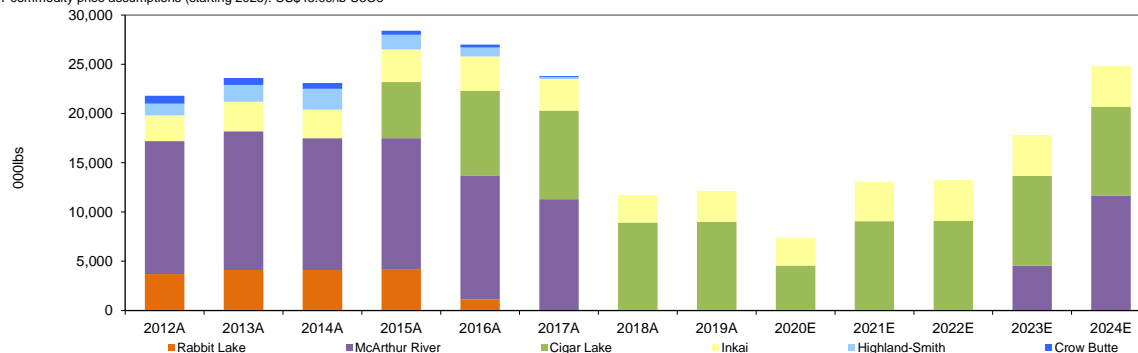
Exhibit 5. Snapshot

Risk Profile:	HIGH					
Stock Rating:	BUY					
Target Price:	16.00					
		NAV Estimate	NAV-8%		NAV-10%	
			C\$m	C\$/share	C\$m	C\$/share
Target Price Calculator		McArthur River	2,069.5	5.22	1,626.5	4.11
EV/2021E EBITDA	0%	Cigar Lake	1,036.1	2.62	951.6	2.40
15.00x	C\$m	Rabbit Lake	89.8	0.23	65.4	0.17
Cash as of Q4/20	C\$m	Inkai	1,319.5	3.33	1,039.0	2.62
Long-term debt as of Q4/20	C\$m	Highland-Smith	190.2	0.48	190.2	0.48
Total	C\$m	Crow Butte	108.6	0.27	108.6	0.27
Per share - C\$		Conversion	380.0	0.96	330.1	0.83
NAV-8%	100%	Total Operations	5,193.7	13.11	4,311.4	10.88
1.15x	C\$m	Resources - Existing Mines*	515.2	1.30	515.2	1.30
Per share - C\$		Resources - Pipeline projects*	628.2	1.59	628.2	1.59
Target Price (100% NAV-8%)	16.00	Nukem	0.0	0.00	0.0	0.00
		Mining/Project NAV	6,337.1	16.00	5,454.8	13.77
		Working Capital	1,510.3	3.81	1,510.3	3.81
		Corporate G&A	-403.2	-1.02	-365.0	-0.92
		CRA Cash Remittances	207.0	0.52	207.0	0.52
		Debt	-997.2	-2.52	-997.2	-2.52
		Other	-1,106.2	-2.79	-1,106.2	-2.79
		Total balance sheet adj.	-789.3	-1.99	-751.1	-1.90
		Total Net Asset Value	5,547.8	14.00	4,703.7	11.87

* 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	Q1/20A	Q2/20A	Q3/20A	Q4/20E	2020E	2021E	2022E	2023E	2024E
Metal Price Assumptions												
Spot Uranium (US\$/lb)	22.12	24.82	25.94	24.77	32.41	31.26	35.00	30.86	36.00	37.50	40.00	40.00
Realized Uranium Price (US\$/lb)	35.70	37.13	33.00	31.39	32.99	33.77	35.00	33.29	36.60	37.38	40.00	40.00
Realized Uranium Price (C\$/lb)	46.06	47.95	44.84	41.44	46.13	49.90	46.67	46.18	48.80	49.83	51.95	50.00
Production Assumptions												
Uranium (mmlb), attributable	23.8	8.9	9.0	2.1	0.0	0.2	2.3	4.6	9.1	9.1	13.7	20.7
Per Share Estimates (US\$/sh)												
EPS (f.d.) (C\$/sh)	0.15	0.38	0.10	0.07	(0.16)	(0.20)	(0.00)	(0.29)	(0.16)	0.11	0.13	0.56
CFPS bf WC (C\$/sh)	1.31	1.21	1.04	0.11	0.06	(0.05)	0.03	0.15	0.24	0.42	0.38	0.94
EBITDA	1.43	1.16	0.97	0.13	(0.01)	(0.07)	0.16	0.22	0.22	0.42	0.33	0.99
Financial Estimates (\$mm)												
Total Revenue	2,156.9	2,091.7	1,862.9	345.6	525.3	378.9	487.1	1,736.8	1,304.5	1,075.3	1,054.9	1,521.6
Operating Cost	1,390.2	1,467.9	1,345.6	255.5	490.4	372.9	391.0	1,509.7	1,090.6	773.6	778.3	949.9
Gross Margin	766.6	623.7	517.4	90.0	34.9	6.0	96.1	227.1	213.9	301.7	276.6	571.7
Gross Margin %	36%	30%	28%	26%	7%	2%	20%	13%	16%	28%	26%	38%
EBITDA	567.9	460.0	372.8	51.3	(3.5)	(26.8)	64.8	85.8	86.9	166.9	128.9	393.1
EBITDA Margin %	26%	22%	20%	15%	-1%	-7%	13%	5%	7%	16%	12%	26%
Operating CF bf. ch. in WC	519.9	478.4	413.8	44.2	22.9	(21.8)	12.6	57.9	95.0	167.7	150.1	372.6
Changes in Working Capital	76.1	189.0	113.2	137.9	(339.3)	(44.3)	0.0	(245.7)	0.0	0.0	0.0	0.0
CF from operating activities	596.1	667.4	527.0	182.1	(316.4)	(66.1)	12.6	(187.8)	95.0	167.7	150.1	372.6
CF from financing activities	(227.8)	(144.2)	(606.9)	(0.7)	(21.0)	(0.7)	(31.7)	(54.0)	(31.7)	(431.7)	(31.7)	(531.7)
CAPEX	(114.0)	(55.4)	(75.2)	(18.8)	(14.3)	(16.4)	(30.0)	(79.5)	(95.0)	(97.3)	(73.1)	(68.4)
Other	21	(356)	513	(169)	154	(5)	(4)	(23)	(18)	(18)	(18)	0
CF from investing activities	(93.1)	(411.6)	437.4	(187.4)	140.1	(21.2)	(34.4)	(102.8)	(112.5)	(114.8)	(90.6)	(68.4)
Cash	591.6	711.5	1,062.4	1,066.0	862.6	772.8	719.3	719.3	670.1	291.3	319.1	91.7
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	996.9	997.1	997.2	997.2	997.2	997.2	597.2	597.2	97.2
Net Debt	902.9	393.1	(65.7)	(69.1)	134.5	204.5	258.0	258.0	307.1	285.9	258.1	(14.4)
Net Debt/EBITDA	1.59x	0.62x	-0.18x	nm	nm	nm	nm	3.24x	3.77x	1.83x	2.16x	0.01x
Net Debt/Net Debt + Equity	15.7%	5.4%	-1.3%	-1.4%	2.7%	4.4%	5.4%	5.4%	6.5%	6.1%	5.8%	0.1%
FCF	405.9	423.1	338.6	25.4	8.6	(38.2)	(17.4)	(21.6)	(0.0)	70.4	77.0	304.3
S/O basic (mm)	395.8	395.8	385.8	395.8	396.1	395.8	395.8	395.9	395.9	395.9	395.9	395.9

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



Source: TD Securities estimates



Action Note

Equity Research

November 4, 2020

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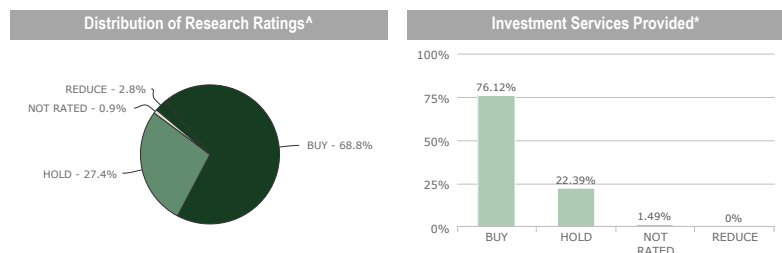
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Cameco Corp.	CCO-T CCJ-N	2, 4, 9

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Current as of: November 4, 2020

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Action Note

Equity Research

November 4, 2020

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Action Note

Equity Research

November 4, 2020

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