

Action Note

Equity Research

February 11, 2021

Metals & Minerals

Cameco Corp.

(CCO-T, CCJ-N) C\$20.88 | US\$16.44

Will 2021 See the Start of a Contracting Cycle? It's Not Clear

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Event

We have updated our forecasts to reflect company guidance. We also provide a sensitivity analysis with respect to long-term uranium prices.

Impact: MIXED

- We believe that the energy transition theme is feeding into increased investor interest in nuclear power, combined with the potential that the new Biden Administration takes a more friendly stance towards the sector.** This could provide nuclear utilities with increased confidence to return to the uranium term-contracting market. In our view, the challenge for investors is assessing the time frame over which this evolving scenario could play out. In the interim, the uranium market has started off the year quietly and the spot price has slipped below the US\$29/lb level for the first time since April 2020.
- But it is not clear if 2021 will see utilities engage in the term-contracting market in significant volumes.** Cameco added 12.5Mlbs to its uranium-contract portfolio in 2020; management reiterated that its off-market contract discussion pipeline remains strong and growing. Over the next five years, the company has ~16Mlbs per year under long-term contracts, down from 19Mlbs at the start of 2020. Management noted that it will remain patient with respect to adding to its contract portfolio (preferring market-related pricing) and also indicated that it expects 2021 contracting to remain largely discretionary. There remain uncommitted pounds available in the spot market, according to management.
- Cameco is projecting 2021 uranium sales of 23-25Mlbs (TD forecast 2021 sales: 27Mlbs; 2020 uranium sales totalled 30.6Mlbs) and 2021 uranium purchases of 8-10Mlbs; the company had 15.3Mlbs in inventory at YE2020.** Given Cameco's declining contract portfolio over the next several years, we see the potential for the company's sales volumes to slip lower again in 2022 and 2023.
- Assuming that Cameco's operations will return to full production by 2025, we estimate that the current share price is discounting an uranium price of between US\$55/lb-US\$60/lb based on a 10x-12.5x 2025E EV/EBITDA multiple (not discounted back to today).**

TD Investment Conclusion

We have increased our target price to \$20.00 (from \$18.00) based on an increase in our target P/NAV multiple to 1.4x (from 1.25x). We are maintaining our HOLD recommendation.



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:	HOLD
Risk:	HIGH
12-Month Target Price:	C\$20.00↑ Prior: C\$18.00
12-Month Dividend (Est.):	C\$0.08
12-Month Total Return:	(3.8)%

Market Data (C\$)

Current Price	C\$20.88
52-Week Range	\$7.69 - \$21.26
Mkt Cap (f.d.) (\$mm)	\$8,268.5
EV (\$mm)	\$8,310.9
Current Dividend	\$0.08
Dividend Yield	0.4%
Avg. Daily Trading Vol.	2,462,761

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	396.0
Float Shares (mm)	396.0
Net Debt/Total Cap	1.5%
NAVPS	\$14.44
Working Cap (\$mm)	\$1,641.3

Estimates (C\$)

Year	2019A	2020A	2021E	2022E
EBITDA (\$mm)	372.8	154.9	(91.8)	86.8
EBITDA (\$mm) (old)	-	77.8	(26.2)	145.4
EPS (f.d.)	0.10	(0.17)	(0.65)	(0.20)
EPS (f.d.) (old)	-	(0.32)	(0.61)	(0.10)
CFPS (f.d)	1.04	0.65	(0.24)	0.23
CFPS (f.d) (old)	-	0.13	(0.57)	0.36

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

Year	2019A	2020A	2021E	2022E
Q1	(0.08)	0.07	(0.25)	-
Q2	(0.04)	(0.16)	(0.22)	-
Q3	(0.01)	(0.20)	(0.09)	-
Q4	0.23	0.12	(0.08)	-

Valuations

Year	2019A	2020A	2021E	2022E
EV/EBITDA	22.3x	53.7x	nmf	95.7x
P/E (f.d.)	nmf	nmf	nmf	nmf
P/CFPS (f.d)	20.1x	32.1x	nmf	90.8x

Supplemental Data

Year	2019A	2020A	2021E	2022E
U3O8 (US\$/lb)	26	30	35	36
U3O8 Prod. Mlb	9	5	5	9

All figures in C\$, unless otherwise specified

Action Note

Equity Research

February 11, 2021

Details

Our model currently assumes that Cigar Lake will resume production in mid-Q2/20. For McArthur River/Key Lake, we assume that production will restart in mid-2023 and Rabbit Lake in mid-2025. By 2025, our projections assume that uranium prices will reach US\$45/lb (which is our long-term price forecast). As a result, by 2025, we are forecasting that Cameco's operations will be effectively back to full production at ~24Mlbs per annum and uranium sales will rebound to ~29/30Mlbs per year. Our EBITDA forecast for 2025 is ~\$600mm; at a US\$60/lb uranium price in 2025, our EBITDA estimate would be ~\$900mm.

In Exhibit 1, we show a sensitivity based on our 2025 production forecasts and assuming various uranium price scenarios and EV/EBITDA multiples. This analysis suggests that Cameco's current share price is discounting a 2025 uranium price of between US\$55/lb–US\$60/lb based on a 10x–12.5x 2025 EV/EBITDA multiple. Although we believe that the long-term incentive price for greenfield uranium production could be in the US\$55–US\$60/lb range, we also do not believe that new greenfield uranium production capacity will be required until the late-2020s at the earliest, given the significant amount of brownfield curtailed uranium production capacity. In Cameco's own words, the next uranium price cycle will belong to the legacy producers.

Exhibit 1. Cameco's Implied Share Price at Various 2025 Uranium Prices and EV/EBITDA Multiples

Realized Uranium Price (US\$/lb)	EV/2025E EBITDA Multiple		
	10.0x	12.5x	15.0x
\$40.00	\$12.10	\$15.20	\$18.40
\$45.00	\$14.70	\$18.50	\$22.30
\$50.00	\$17.30	\$21.80	\$26.20
\$55.00	\$19.90	\$25.00	\$30.10
\$60.00	\$22.60	\$28.30	\$34.10

Source: TD Securities Inc. estimates

In Exhibit 2, we show our P/NAV sensitivity at various long-term uranium prices (starting in 2025) at various P/NAV multiples. Based on a range of P/NAV multiples between 1.2x–1.4x, we estimate that Cameco's current share price is discounting a long-term price between US\$45–US\$55/lb.

Exhibit 2. Cameco's Implied Share Price Assuming Various LT Uranium Prices Starting in 2025 and P/NAV Multiples

Realized LT Uranium Price (US\$/lb)	P/NAV Multiple			
	1.2x	1.3x	1.4x	1.5x
\$40.00	\$15.40	\$16.70	\$18.00	\$19.30
\$45.00	\$17.30	\$18.80	\$20.20	\$21.70
\$50.00	\$19.20	\$20.80	\$22.50	\$24.10
\$55.00	\$21.20	\$22.90	\$24.70	\$26.40
\$60.00	\$23.10	\$25.00	\$26.90	\$28.80

Source: TD Securities Inc. estimates

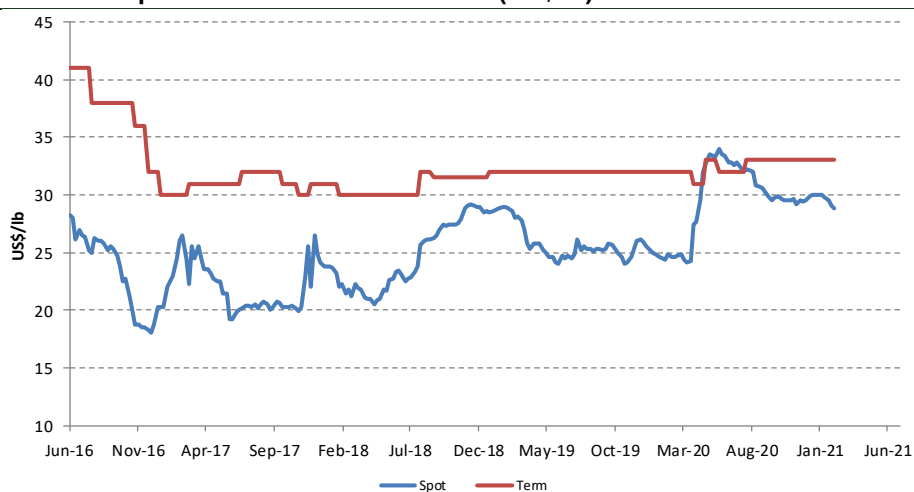
Action Note

Equity Research

February 11, 2021

In our view, supply/demand fundamentals in the uranium market have improved significantly, with COVID-19-related supply curtailments pushing the market into a supply deficit. In addition, a number of trade policy issues that have hung over the market for several years have been resolved, thereby reducing trade-related friction for utilities with respect to uranium purchases. Although anecdotal evidence suggests that utilities are returning to the term market, they are not doing so in sufficient numbers or purchased volumes to put upward pressure on term pricing yet. We believe that the missing piece of the puzzle for a sustained upward move in the uranium term price remains the resumption of a term-contracting cycle.

Exhibit 3. Spot and Term Uranium Prices (US\$/lb)



Source: UxC, TD Securities Inc.

Exhibit 4. Uranium Supply/Demand Model

	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Mine Supply - Western World (Mlb U3O8)									
Total Mine Supply - Western World	100	83	85	75	76	80	85	88	86
Net Eastern Mine Supply (lbs U3O8)	54	54	55	44	52	53	60	66	72
Total World Mine Supply (Mlb U3O8)	154	138	140	119	128	133	145	154	158
YoY % change	-7.6%	-10.2%	1.7%	-15.2%	7.9%	3.3%	9.1%	6.8%	2.6%
Secondary Supply									
Global underfeeding and tails re-enrichment*	19	18	18	16	16	15	15	14	14
Mixed Oxide Fuel (MOX)*	5	5	6	6	6	6	6	7	8
US government sales (DOE Proposed)*	3	2	2	1	0	0	0	0	0
Additional Russian secondary supply*	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Total Secondary Supply (Mlb)	27	24	26	24	22	21	21	21	21
Secondary supply as % of global reactor demand	16%	14%	15%	13%	12%	12%	12%	11%	11%
Mobilization of Commercial Inventory	7	7	7	7	7	7	7	7	7
Total Supply	187	169	173	150	157	161	173	183	187
Total World Demand									
Total World Nuclear Generating Capacity (MWe) *	358,819	368,571	372,978	374,420	384,508	385,211	389,242	394,906	398,885
Uranium requirements per MWe	472	472	472	472	472	472	472	472	472
Uranium demand (mmlb)	169	174	176	177	181	182	184	186	188
First Core Requirement (2 year lead)	-	-	-	-	-	-	-	-	-
Total World Demand (Mlb U3O8)	169	174	176	177	181	182	184	186	188
YoY % change	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%	1.0%
Supply / Demand Balance (Mlb)	18	-5	-3	-27	-24	-21	-11	-4	-2
Spot Uranium Price (US\$/lb U3O8)	\$22.12	\$24.82	\$25.94	\$29.52	\$34.50	\$36.00	\$38.00	\$40.00	\$45.00

* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case

Note - TD LT price assumption starts in 2025; a flat US\$45/lb price is assumed for 2025 and beyond.

Source: UxC, WNA, TD Securities Inc. estimates

Outlook

We have updated our forecasts to reflect 2021 guidance.

Exhibit 5. 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	2,206,125	5.57	1,761,383	4.45
Cigar Lake	50.3% JV	848,169	2.14	780,793	1.97
Rabbit Lake	100%	105,003	0.27	79,995	0.20
Inkai	40%	1,397,935	3.53	1,116,187	2.82
Highland-Smith	100%	190,200	0.48	190,200	0.48
Crow Butte	100%	108,600	0.27	108,600	0.27
Conversion	100%	414,896	1.05	367,987	0.93
Total Operations		5,270,928	13.31	4,405,144	11.12
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		6,414,328	16.20	5,548,544	14.01
Plus:					
Working Capital		1,641,261	4.14	1,641,261	4.14
Equity Investments		43,873	0.11	43,873	0.11
Minus:					
Corporate G&A		(435,299)	(1.10)	(400,120)	(1.01)
CRA Cash Remittances		206,953	0.52	206,953	0.52
Debt		(995,541)	(2.51)	(995,541)	(2.51)
Reclamation		(1,156,387)	(2.92)	(1,156,387)	(2.92)
Plus/(Minus) balance sheet items		(695,140)	(1.76)	(659,961)	(1.67)
Total NAV		5,719,188	14.44	4,888,583	12.34

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

Source: TD Securities Inc. estimates

Valuation

CCO is currently trading at a P/NAV multiple of ~1.4x, compared with its larger-cap Canadian mining peers at an average of 1.1x. Based on our forecasts, Cameco has traded at an average P/NAV multiple of 1.1x since 2011 (following the Fukushima accident).

Justification of Target Price

Our \$20.00 target price is based on an NAV-8% multiple of 1.4x (100% weighted, previously 1.25x). Our higher target multiple reflects investor appetite for energy transition/low carbon investment opportunities and valuation inflation for commodity-related stocks.

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 affect our forecasts.



Action Note

Equity Research

February 11, 2021

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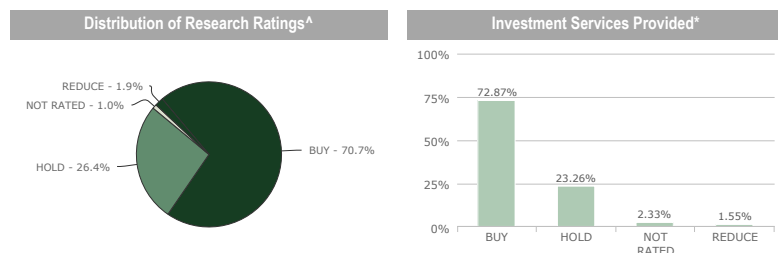
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Action Note

Equity Research

February 11, 2021

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Action Note

Equity Research

February 11, 2021

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