CANTOR Fitzgerald

February 10, 2021
Company Update

Equity Research

CAMECO CORPORATION

Solid Q4/20 Numbers and Upbeat 2021 Outlook

EVENT

This morning Cameco reported its Q4/20 financial results and hosted a conference call to provide an outlook on the uranium sector.

BOTTOM LINE

Positive – Q4/20 EPS, adj. was reported at $0.12, a solid beat to our estimate and consensus at $(0.02). Higher sales volumes in both the uranium and fuel services divisions drove the beat.

FOCUS POINTS

- **Balance Sheet Set for Long-Term** – The Company exited Q4/20 with $0.9 BB in cash, $1.0 BB in long-term debt (first principal repayment not due until 2024), and $1.0 BB in undrawn credit capacity.
- **Uranium Market Sentiment Positive** – As Cameco starts 2021 with each of its operating mines on care-and-maintenance, market sentiment on the uranium macro is growing increasingly positive, with the Company expecting 2021 to be constructive for progressing towards large-volume long-term contracts. Off-market discussions have been increasing, which is historically a leading indicator for long-term on-market contracts.
- **Increasing Price Target, Maintaining Hold** – We are increasing our price target to US$15.75/$20.50, up from US$13.50/$17.50, based on a 75/25 blend of 1.5x $NAVPS_{8.0\%}$ and 15.0x 2022E CFPS, up from a 50/50 blend of 1.25x $NAVPS_{8.0\%}$ and 12.5x 2021E CFPS previously. Changes in our weighting reflect the continued shutdown of Cameco's core operations that will preserve value over the longer-term (NAVPS) at the expense of mine operating earnings over the short-term (CFPS). We maintain our Hold rating.

Recommendation: Hold

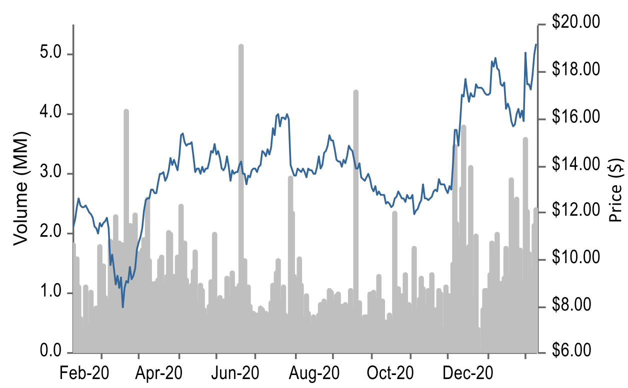
Symbol/Exchange:	CCJ-NYSE, CCO-TSX
Sector:	Metals & Mining
All dollar values in C$ unless otherwise noted.	
Current price:	US$15.14/$19.24
One-year target:	US$15.75/$20.50↑
Return to Target:	6.5%
Cash and Equivalents:	$918.4 MM

Financial summary

Shares O/S (MM)	395.8	52-week range	$7.69 - $21.26
Market cap ($MM)	$7,615.7	30D avg. vol. (000)	1,584.5
Market float ($MM)	$7,599.8	Fiscal year-end	31-Dec

	2019A	2020A	2021E	2022E
Uranium Production (MMlb)	9.0	5.1	0.0	9.1
Prod'd & Purch'd (MMlb)	28.0	38.7	10.0	19.5
Uranium Sales (MMlb)	31.5	30.5	24.0	19.5
Realized U3O8 Price ($/lb)	$43.88	$45.71	$50.05	$61.75
Cash Operating Costs ($/lb)	$28.98	$37.24	$40.00	$36.72
EPS, dil., adj.	$0.11	($0.17)	$0.08	$0.48
Dividends per share	$0.08	$0.08	$0.08	$0.08
CFPS	$1.09	$0.63	$0.76	$1.05
Free CFPS	$1.14	($0.05)	$0.41	$0.80

Source: Company Reports and Cantor Fitzgerald Estimates.



Company profile: Cameco Corporation operates in two primary segments: uranium and fuel services. The Company boasts the world's largest high-grade uranium reserves and low-cost uranium operations.

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See disclosure and a description of our recommendation structure at the end of this report.

Q4/20 RESULTS A SOLID BEAT

This morning, Cameco reported Q4/20 operating and financial results, and provided a macroeconomic outlook for the uranium sector. Adjusted EPS was a solid beat at $0.12 vs. our estimate and the consensus average of $(0.02). CFPS (before w/c changes) was also a sizeable beat at $0.48 vs. our $0.19 estimate and consensus at $0.16. The Company sold 8.6 MMlb U_3O_8 in Q4/20, entirely from inventory purchased on the spot market as operations at Cigar Lake once again closed in mid-December due to Covid-19 concerns. The mine produced 2.8 MMlb U_3O_8 in the fourth quarter prior to shutting down indefinitely. Cash costs on U_3O_8 sold in the quarter was down significantly Q/Q at $30.93/lb vs. $41.44/lb in Q3/20, due to increased contribution of lower-cost U_3O_8 mined at Cigar Lake, relative to higher-cost material purchased in the spot market. In Q4/20 Cameco sold 8.6 MMlb U_3O_8 vs. our 8.0 MMlb U_3O_8 estimate, and Fuel Services also outperformed selling 4.4 MM kgU vs. our 3.5 MM kgU estimate. Increased sales volumes coupled with higher realized uranium sales prices in the quarter ($50.40/lb U_3O_8 vs. our $42.90/lb U_3O_8 estimate) led to higher revenues of $550 MM, a 45% beat on our $437 MM estimate. We note that sales volumes vary widely quarter to quarter, entirely dependent upon Cameco's contract book, with deliveries tending to be highest in the final quarter of each calendar year; 2020 being no exception. The Company maintained a strong balance sheet at the end of the year exiting with $918 MM in cash, having generated free cash flow of $229 MM in Q4/20 largely related to increased revenues and positive cash inflows from working capital this past quarter. At quarter end, Cameco held inventory of 15.3 MMlb U_3O_8 equivalent (excluding broken ore), slightly higher Q/Q, and equating to ~$680 MM at prevailing spot U_3O_8 prices and foreign exchange rates. During the quarter, Cameco refinanced its 2022 debentures, extending the maturity date out to 2027, and reducing its interest rate from 3.75% to 2.95% (equating to savings of ~$0.8 MM per quarter). Cameco's total debt position is unchanged with no short-term debt, and long-term debt of $1.0 BB now comprised of senior unsecured debentures maturing on June 24, 2024 ($500 MM at 4.19%), Oct 21, 2027 ($400 MM at 2.95%, refinanced Q4/20), and November 14, 2042 ($100 MM at 5.09%). Cameco also has access to a $1.0 BB unsecured revolving credit facility; however, it does not anticipate the need to draw from it in 2021. The Q4/20 headline results are summarized below:

- **Realized Uranium Prices (<u>beat</u>):**
  Cameco realized average prices of $50.40/lb U_3O_8 on its sales in Q4/20, 12% higher than our $42.90/lb U_3O_8 estimate and up from $44.85/lb U_3O_8 in Q3/20.

- **Average unit cash cost of sales (<u>in-line</u>):**
  Cash costs were $34.99/lb, in-line with our estimate of $35.54/lb, and lower than its $42.10/lb in Q3/20. As mentioned, costs remained dependent on spot U_3O_8 prices due to a lack of material production from Cigar Lake.

- **Uranium Production (slight <u>miss</u>):**
  Cameco produced 2.8 MMlb U_3O_8, lower than our estimate of 3.0 MMlb U_3O_8, but up from Q3/20 levels of 0.2 MMlb U_3O_8, when Cigar Lake was shut for effectively the entire quarter. Production is shut at all operations once again and we expect to see low to no production over the next year.

- **Uranium Purchased (<u>beat</u>):**
  U_3O_8 purchased in Q4 totaled 7.3 MMlb U_3O_8 vs. our estimate of 5.0 MMlb U_3O_8, and slightly up from Q3/20 levels of 7.0 MMlb U_3O_8.

- **Uranium Sales (<u>beat</u>):**
  Sales were 8.6 MMlb U_3O_8 beating our estimate of 8.0 MMlb U_3O_8 and Q3/20 levels of 6.7 MMlb U_3O_8.
- **Fuel Services Production (<u>slight beat</u>):**
  Fuel Services production was a slight beat at 3.3 MMkgU vs. our estimate of 3.1 MMkgU, above Q3/20 levels of 2.0 MMkgU.
- **Fuel Services Sales (<u>beat</u>):**
  Fuel Services sales of 4.4 MMkgU beat our estimate of 3.6 MMkgU, and higher than Q3/20 levels of 2.8 MMkgU.
- **EPS, adjusted (<u>beat</u>):**
  Cameco reported headline EPS of $0.20. Normalized EPS, after adjusting for derivative losses (-$0.11), reclamation provision adjustments ($0.00), and associated income tax adjustments (+$0.03), came in at $0.12, a solid beat to our ($0.02) estimate and consensus of ($0.02).
- **CFPS, adjusted (<u>beat</u>):**
  The materially higher earnings drove a beat to CFPS in Q4/20. CFPS (before w/c changes) was reported at $0.48 vs. our $0.19 estimate and consensus of $0.16.

Exhibit 1. Quarterly Results Comparison

Avg. Realized Price:	**Q2/20A**	**Q3/20A**	**Q4/20A**	**Q4/20E**	**% Diff**
U3O8 (US$/lb U3O8)	$32.99	$33.77	$38.43	$33.00	16%
U3O8 (C$/lb U3O8)	$46.13	$44.85	$50.40	$42.90	17%
U (C$/kgU)	$28.95	$26.95	$26.29	$26.00	1%
Uranium Segment:					
U3O8 production (MMlb U3O8)	0.0	0.2	2.8	3.0	-7%
U3O8 purchased (MMlb U3O8)	14.7	7.0	7.3	5.0	46%
Produced & purchased (MMlb U3O8	14.7	7.2	10.1	8.0	26%
Total uranium sold (MMlb U3O8)	9.2	6.7	8.6	8.0	8%
Cash costs per pound (US$)	$43.82	$41.44	$30.93	$34.32	-10%
Total costs per pound (US$)	$43.82	$42.10	$34.99	$35.54	-2%
Uranium cash margin	5%	8%	39%	20%	
Fuel Services Segment:					
U production (MM kgU)	2.7	2.0	3.3	3.1	6%
Sales volume (MM kgU)	3.2	2.8	4.4	3.6	21%
Avg. unit cost of sales incl. D&A (C$	$21.48	$22.81	$19.12	$20.75	-8%
Financials (C$MM)					
Revenue	$525.3	$378.9	$550.4	$437.5	26%
Cost of goods sold	($539.4)	($402.5)	($441.6)	($415.1)	6%
Gross profit	($14.1)	($23.6)	$108.7	$22.4	385%
Operating Income	($75.4)	($63.9)	$57.9	($12.5)	nm
Total other income / (expense)	$8.3	($2.4)	$48.7	($0.9)	nm
Net income (loss)	($53.0)	($60.8)	$79.8	($9.8)	nm
EPS, dil. (C$)	($0.13)	($0.15)	$0.20	($0.02)	nm
EPS, dil. adj. (C$)	($0.16)	($0.20)	$0.12	($0.02)	nm
CFPS (before W/C), dil. (C$)	$0.03	($0.05)	$0.48	$0.19	155%

Source: Cantor Fitzgerald, Cameco Reports

2021 OUTLOOK

Coming into 2021, Cameco is well positioned with cash/equivalents of $918 MM, no debt principal repayments for over three years, and undrawn credit facility capacity of $1.0 BB; its balance sheet is sufficiently strong to weather sustained production shutdowns at its operations. Given the continued weakness in the uranium market (spot <$30/lb U_3O_8), all of Cameco's operations will continue to remain on care and maintenance until further notice. The Company does not expect any disruption to its sales commitments and will continue to purchase material on the spot market to meet deliveries and maintain inventory levels. Over the 2021 year, Cameco expects to see Fuel Services revenue of $360-390 MM (Cantor: $390 MM) from sales of 12-13 MMkgU (Cantor: 13 MMkgU), with administration costs of $110-120 MM (Cantor: $110 MM), exploration costs of $9 MM (Cantor: $9 MM), and Capex of $130-150MM (Cantor: $140 MM). No uranium production is forecast for the year, with purchases expected to be between 8-10 MMlb U_3O_8 (Cantor: 10 MMlb U_3O_8) and sales of 23-35 MMlb U_3O_8 (Cantor: 24 MMlb U_3O_8).

Exhibit 2. Cameco NAVPS Breakdown

Asset	Value ($MM)	$ Per Share	% of NAV
Cigar Lake	$1,064	$2.69	18%
McArthur River / Key Lake Mill	$2,794	$7.06	47%
Inkai	$643	$1.62	11%
Other mining assets (BV)	$133	$0.34	2%
Total Mining Assets	**$4,634**	**$11.71**	**79%**
Fuel Services Division	$1,457	$3.68	25%
Cash + S/T Investments	$793	$2.00	13%
Current Debt + S/T Leases	$0	$0.00	0%
Long Term Debt + L/T Leases	($997)	($2.52)	-17%
Future Equity Financing	$0	$0.00	0%
Future Debt Financing	$0	$0.00	0%
	$1,252	**$3.16**	**21%**
Net Asset Value, fully diluted	**$5,886**	**$14.87**	
P/NAV		1.29x	

Source: Cantor Fitzgerald

LONG TERM URANIUM CONTRACT COMMENTARY

As Cameco starts 2021 with each of its operating mines on care-and-maintenance, market sentiment on the uranium macro is growing increasingly positive, with the Company expecting 2021 to be constructive for progressing towards large-volume long-term contracts. Off-market discussions have been increasing, which has historically been a leading indicator for long-term on-market contracts. We note that in Q4/20, as a case in point, Cameco signed a new term contract for 12.5 MMlb U_3O_8, which while small, is a step in the right direction and a positive leading indictor of more contracts to follow. On the conference call earlier this morning, Cameco noted that only 53 MMlb U_3O_8 of long-term contracts were negotiated in 2020, the lowest level since Fukushima, and well below required replacement rates. We expect 2021 will prove to be the inflection year in which utilities return to the term market in size.

URANIUM MACRO COMMENTARY

Environmental, Social, and Governance (ESG) and the Green Economy macro has been the clearest theme to emerge in our 15-years of covering the Metals & Mining sector, and specifically the uranium industry. As we note in our recent Macro Report: *A Green Economy and Electric Vehicles Start with Metals* (link here), we characterize the sentiment towards uranium as "mixed but improving." Under the Biden Administration, the United States has rejoined the Paris Climate Agreement that calls for net-zero carbon emissions by 2050. With uranium currently comprising 80% of carbon-free power generation in the United States, coupled with the aggressive nuclear power expansion plans of China (the world's second largest economy) it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future.

Exhibit 3. Cameco Price Target Methodology

	Weight	Multiple	Target
Target P/NAV, Net Cash, 50% Blend	75%	1.50x	$16.73
Target P/CFPS (2022E), 50% Blend	25%	15.00x	$3.93
		Target, rounded:	**$20.50**
Upside to Target:			6.5%

Source: Cantor Fitzgerald

TARGET AND RECOMMENDATION

We are increasing our price target on Cameco to US$15.75/$20.50, up from US$13.50/$17.50 previously, based on a 75/25 blend of 1.5x $NAVPS_{8.0\%}$ and 15.0x 2022E CFPS, up from a 50/50 blend of 1.25x $NAVPS_{8.0\%}$ and 12.5x 2021E CFPS previously. Changes in our weighting reflect the continued shutdown of Cameco's core operations that will preserve value over the longer-term (NAVPS) until uranium prices recover, at the expense of mine operating earnings over the short-term (CFPS). We maintain our Hold rating.

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HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

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