

CAMECO CORPORATION

Reports Q1/21 Results, Increases Spot Market Purchases

EVENT

Cameco reported its Q1/21 before the open and hosted a management call to discuss the results earlier today.

BOTTOM LINE

Positive – While earnings and cash flow were largely immaterial in Q1/21 as Cigar Lake remained on care and maintenance, in its quarterly report and on the conference call, Cameco noted that it will increase its uranium purchases this year from 8-10 MMlb U₃O₈ to 11-13 MMlb U₃O₈. This should provide continued support for spot U₃O₈ prices and drive further momentum in the related uranium equities, including Cameco.

FOCUS POINTS

- **Cigar Lake Ramp-up Pace and Production Rate Still Uncertain** – Production guidance for 2021 related to the ramp-up at Cigar Lake was not provided, and Cameco’s increased spot market purchases is largely due to this uncertainty.
- **9 MMlb U₃O₈ in New Long-Term Contracts** – While little detail was provided as to terms (pricing/location), subsequent to quarter end Cameco signed new long-term contracts for delivery of 9 MMlb U₃O₈. Cameco also noted that the spot market remains “not that deep.” Based on the discussions we have had with key industry players; this is an understatement.
- **Increasing Price Target, Maintaining Buy** – We are increasing our price target to US\$22.50/\$28.00, up from US\$18.50/\$24.00, based on a 75/25 blend of 2.0x NAVPS_{8.0%} and 20.0x 2022E CFPS, up from 1.75x NAVPS_{8.0%} and 17.5x 2022E CFPS, previously. We are maintaining our Buy rating.

Recommendation:

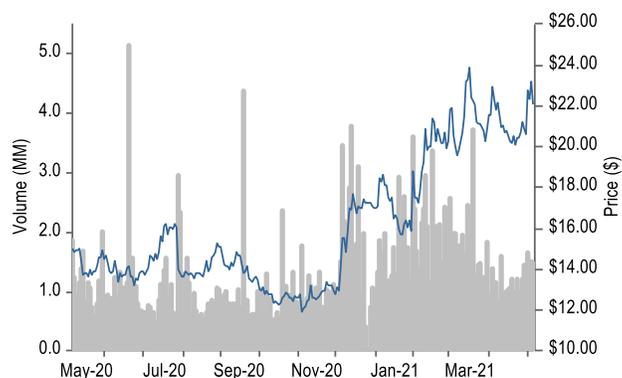
BUY↑

Symbol/Exchange: CCJ-NYSE/CCO-TSX
Sector: Metals & Mining
All dollar values in C\$ unless otherwise noted.
Current price: US\$18.16/\$22.09
One-year target: US\$22.50/\$28.00↑
Return to Target: 23.9%
Cash and Equivalents: \$1,024 MM

Financial summary

	2019A	2020A	2021E	2022E
Shares O/S (MM)	397.6	52-week range	\$11.84 - \$24.57	
Market cap (MM\$)	\$8,783.9	30D avg. vol. (000)	8,290.2	
Market float (MM\$)	\$8,765.5	Fiscal year-end	31-Dec	
Uranium Production (MMlb)	9.0	5.1	2.6	9.1
Prod'd & Purch'd (MMlb)	28.0	38.7	11.6	19.5
Uranium Sales (MMlb)	31.5	30.5	23.0	19.5
Realized U3O8 Price (\$/lb)	\$43.88	\$45.71	\$48.78	\$59.38
Cash Operating Costs (\$/lb)	\$28.98	\$37.24	\$37.46	\$36.17
EPS, dil., adj.	\$0.11	(\$0.17)	(\$0.13)	\$0.41
Dividends per share	\$0.08	\$0.08	\$0.08	\$0.08
CFPS	\$1.09	\$0.63	\$0.49	\$0.99
Free CFPS	\$1.14	(\$0.05)	\$0.21	\$0.74

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.

Q1/21 FINANCIAL AND OPERATING RESULTS

This morning, Cameco reported Q1/21 operating and financial results, and provided a macroeconomic outlook for the uranium sector. Given that Cigar Lake remained on care and maintenance for the entire first quarter, we consider the Q1/21 earnings and cash flow results as largely immaterial. That said, the Company sold 5.0 MMlb U₃O₈ in the first quarter (vs. our estimate of 6.0 MMlb U₃O₈) into long-term contracts at an average realized price of US\$32.35/lb U₃O₈ (down from Q4/20 levels of US\$38.43/lb U₃O₈). Combined with sales from the Fuel Services division of 2.6 MMkgU, Q1/21 revenue was reported at \$290 MM, driving headline EPS of \$(0.01). Normalizing for non-cash gains/losses on derivatives, reclamation provisions, and deferred taxes, adjusted EPS was reported at \$(0.07), a beat on consensus of \$(0.10) but below our \$0.02 estimate. The Company maintained a strong balance sheet exiting the quarter with \$1.0 BB in cash, and uranium in inventory of 11.3 MMlb U₃O₈ equivalent, equating to ~\$420 MM at prevailing spot U₃O₈ prices and foreign exchange rates. During the quarter, Cameco made uranium purchases totaling 1.5 MMlb U₃O₈. Cameco's total debt position is unchanged with no short-term debt, and long-term debt of \$1.0 BB comprised of senior unsecured debentures maturing on June 24, 2024 (\$500 MM at 4.19%), Oct 21, 2027 (\$400 MM at 2.95%), 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 Q1/21 headline results are summarized below:

Exhibit 1. Quarterly Results Comparison

Avg. Realized Price:	Q2/20A	Q3/20A	Q4/20A	Q1/20A	Q1/20E
U ₃ O ₈ (US\$/lb U ₃ O ₈)	\$32.99	\$33.77	\$38.43	\$32.35	\$38.50
U ₃ O ₈ (C\$/lb U ₃ O ₈)	\$46.13	\$44.85	\$50.40	\$41.05	\$50.05
U (C\$/kgU)	\$28.95	\$26.95	\$26.29	\$31.91	\$30.00
Uranium Segment:					
U ₃ O ₈ production (MMlb U ₃ O ₈)	0.0	0.2	2.8	0.0	0.0
U ₃ O ₈ purchased (MMlb U ₃ O ₈)	14.7	7.0	7.3	1.5	2.5
Produced & purchased (MMlb U ₃ O ₈)	14.7	7.2	10.1	1.5	2.5
Total uranium sold (MMlb U ₃ O ₈)	9.2	6.7	8.6	5.0	6.0
Cash costs per pound (US\$)	\$43.82	\$41.44	\$30.93	\$37.13	\$40.00
Total costs per pound (US\$)	\$43.82	\$42.10	\$34.99	\$37.13	\$40.00
Uranium cash margin	5%	8%	39%	10%	20%
Fuel Services Segment:					
U production (MM kgU)	2.7	2.0	3.3	4.0	3.3
Sales volume (MM kgU)	3.2	2.8	4.4	2.6	3.3
Avg. unit cost of sales incl. D&A (C\$)	\$21.48	\$22.81	\$19.12	\$21.53	\$20.75
Financials (C\$MM)					
Revenue	\$525.3	\$378.9	\$550.4	\$290.0	\$397.8
Cost of goods sold	(\$539.4)	(\$402.5)	(\$441.6)	(\$329.8)	(\$355.4)
Gross profit	(\$14.1)	(\$23.6)	\$108.7	(\$39.8)	\$42.4
Operating Income	(\$75.4)	(\$63.9)	\$57.9	(\$31.0)	\$11.1
Total other income / (expense)	\$8.3	(\$2.4)	\$48.7	\$24.0	(\$0.4)
Net income (loss)	(\$53.0)	(\$60.8)	\$79.8	(\$5.0)	\$7.9
EPS, dil. (C\$)	(\$0.13)	(\$0.15)	\$0.20	(\$0.01)	\$0.02
EPS, dil. adj. (C\$)	(\$0.16)	(\$0.20)	\$0.12	(\$0.07)	\$0.02

Source: Cantor Fitzgerald, Cameco Reports

IMPORTANT TAKEAWAYS FROM Q1 AND INVESTOR CALL

Putting the largely immaterial (in our view) financial results aside, several far more important developments were noted by Cameco in its Q1/21 release and follow-up investor call from earlier today. These include:

▶ **New 9 MMlb U₃O₈ in Long-Term Contracts Signed:**

While little detail was provided as to terms (pricing/location), subsequent to quarter end Cameco signed new long-term contracts for delivery of 9 MMlb U₃O₈. While this has yet to move the quoted long-term “on-market RFP” contract prices higher, Cameco noted that “off-market” interest continues to grow. This is typically a leading indicator of “on-market” contracting and ultimately higher long-term uranium prices.

▶ **Ramp-up Pace and Production Rate at Cigar Lake Still Uncertain:**

While the first ore shipment from Cigar Lake post re-start was sent to the McLean Lake mill in late April, production guidance for 2021 was not provided. According to Cameco, it is evaluating the rate at which the mine can “sustainably operate.”

▶ **Increased Spot Market Purchases:**

As a result of the Cigar Lake uncertainty, in its Q1/21 disclosure and follow-up investor call, Cameco noted that it will increase its uranium purchases this year from 8-10 MMlb U₃O₈ to 11-13 MMlb U₃O₈. Excluding the 4.9 MMlb U₃O₈ to be purchased from Inkai, this leaves Cameco with 6.1-8.1 MMlb U₃O₈ to be purchased in the spot market over the calendar year.

▶ **Spot Market Remains Extremely Tight:**

A lot of time was spent on the Cameco Q1/21 investor call discussing the market impact of the recent spot market purchases made by Uranium Participation (U-TSX, Restricted), Yellow Cake (YCA-LSE, Buy - £3.25 target), and Denison Mines (DNN-NYSE/DML-TSX, Buy - US\$2.25/\$2.75 target), among others, in addition to forthcoming management change and re-organization of Uranium Participation. Refer to our recent notes ([YCA](#), [DNN](#), [U](#)) covering these developments. The main takeaway, is that according to Cameco, the spot market is “not that deep.” Based on the discussions we have had with key industry players; this is an understatement.

Exhibit 2. Cameco NAVPS Breakdown

Asset	Value (\$MM)	\$ Per Share	% of NAV
Cigar Lake	\$1,113	\$2.80	18%
McArthur River / Key Lake Mill	\$2,794	\$7.03	45%
Inkai	\$643	\$1.62	10%
Other mining assets (BV)	\$133	\$0.34	2%
Total Mining Assets	\$4,683	\$11.78	76%
Fuel Services Division	\$1,453	\$3.65	23%
Cash + S/T Investments	\$1,044	\$2.62	17%
Current Debt + S/T Leases	\$0	\$0.00	0%
Long Term Debt + L/T Leases	(\$996)	(\$2.50)	-16%
Future Equity Financing	\$0	\$0.00	0%
Future Debt Financing	\$0	\$0.00	0%
	\$1,500	\$3.77	24%
Net Asset Value, fully diluted	\$6,183	\$15.55	
P/NAV		1.42x	

Source: Cantor Fitzgerald

URANIUM SENTIMENT CONTINUES TO IMPROVE

Over the last 4-5 months, sentiment in the uranium sector has turned increasingly positive, as we originally highlighted in our recent Macro Report: *A Green Economy and Electric Vehicles Start with Metals* on January 25 (link [here](#)). Under the Biden Administration, the United States has rejoined the Paris Climate Agreement that calls for net-zero carbon emissions for most of the developed-world by 2050. More recently, various reputable news outlets are reporting that the White House is considering subsidies for U.S. nuclear power plants to help meet the Country's climate targets. According to Bloomberg (link [here](#)) "there's a deepening understanding with the [Biden] administration that it needs nuclear to meet its zero-emissions goals" and "the United States has more than 90 nuclear reactors, the most in the world, and the business is the Country's top source of emissions-free power generation." With uranium currently generating 80% of carbon-free grid power in the United States, it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future. Cameco has a long-standing history of being a preferred supplier to the U.S. utilities.

Exhibit 3. Cameco Price Target Methodology

	Weight	Multiple	Target
Target P/NAV, Net Cash, 50% Blend	75%	2.00x	\$23.32
Target P/CFPS (2022E), 50% Blend	25%	20.00x	\$4.96
		Target, rounded:	\$28.00
Upside to Target:			26.8%

Source: Cantor Fitzgerald

INCREASING PRICE TARGET, MAINTAINING BUY

We are increasing our price target on Cameco to US\$22.50/\$28.00, up from US\$18.50/\$24.00, based on a 75/25 blend of 2.0x NAVPS_{8.0%} and 20.0x 2022E CFPS, up from 1.75x NAVPS_{8.0%} and 17.5x 2022E CFPS, previously. The expansion in our target multiple reflects the improving sentiment in the uranium sector and the "scarcity value" of large-cap equities that have exposure to the space. As a global leader in the uranium sector, which has moved closer to the forefront of the "Transitional Energy" movement, Cameco should be a core holding for any/all institutional investors with a uranium focus, energy allocation, or Environmental, Social, and Governance (ESG) criteria.

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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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