

Cameco Corp.

(CCO-T: C\$23.80) *intraday*

NEUTRAL

Target: C\$22.00

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Uranium No Longer An Inventory-Driven Market

Rating:	NEUTRAL
Target:	C\$22.00

Company Data	
Last Price (TSX)	\$23.80
52-Week Range:	\$11.84 - \$24.57
Market Capitalization (C\$Mn):	9,464
Enterprise Value (C\$Mn):	9,436
Shares Outstanding - Diluted (Mn):	397
Dividend Yield:	0.3%
Cash	1,024
Net Debt	-28
Fiscal Year End	Dec 31

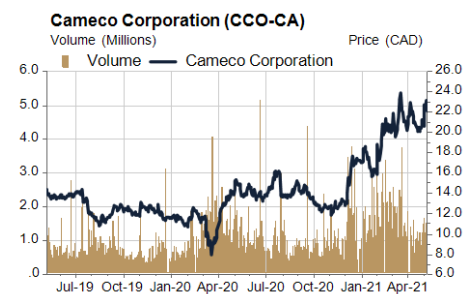
Sales Summary				
	2019 A	2020 A	2021 E	2022 E
Uranium (Mn lbs)	35	32	30	25
Fuel Services (mm kgU)	12	14	13	12
NUKEM (mm lbs)	6	2	1	1

Financial Summary				
	2019 A	2020 A	2021 E	2022 E
P/E	n.m.	n.m.	n.m.	n.m.
EV/EBITDA	25.5x	85.5x	63.3x	35.5x
CFPS	1.05	0.49	0.26	0.53
P/CF	22.6x	48.2x	91.8x	44.6x
Net Debt/ EBITDA	n/a	0.7x	n/a	n/a

Quarterly EBITDA				
	2019 A	2020 A	2021 E	2022 E
Q1	14 A	51 A	18 A	48 E
Q2	43 A	-4 A	18 E	62 E
Q3	34 A	-10 A	51 E	60 E
Q4	277 A	71 A	61 E	94 E
FY	368 A	110 A	149 E	265 E

Quarterly EPS				
	2019 A	2020 A	2021 E	2022 E
Q1	-0.08 A	0.07 A	-0.08 A	0.02 E
Q2	-0.04 A	-0.16 A	-0.06 E	0.04 E
Q3	-0.01 A	-0.20 A	0.02 E	0.02 E
Q4	0.24 A	0.12 A	0.05 E	0.04 E
FY	0.10 A	-0.17 A	-0.07 E	0.13 E

Note: All values are in C\$, unless otherwise stated
 Source: Company Reports, FactSet, Eight Capital Estimates



Source: Company Reports, Factset, Eight Capital estimates

Company Description

Cameco is one of the world's largest uranium producers with mines in Canada, the U.S. and Kazakhstan, and is also a leading provider of nuclear fuel processing services and uranium trading.

Cameco reported 1Q21 adjusted EBITDA of \$14Mn vs. our \$0Mn (consensus \$12Mn) and adjusted EPS of (\$0.07) vs. our (\$0.08) (consensus (\$0.10)), driven by lower realized uranium price, lower uranium sales volume, and higher unit operating costs. Fuel Services Business contribution was stronger than expected.

Purchasing guidance increased; 9Mn lbs of new sales contracts. Cigar Lake production restarted in April, but guidance remains suspended due to uncertainty caused by COVID-19. Cigar Lake accounts for 13% of global uranium mine supply and 10% of total global uranium supply. Management will continue open market purchases to meet 2021 uranium deliveries guidance of 23-25Mn lbs and maintain desired level of inventories, which at 1Q21 totaled 11.3Mn lbs at an average cost of \$37.86/lb (vs. 4Q20 of 15.3Mn lbs at average cost of \$38.09/lb). Expected purchases of 11-13Mn lbs (vs. prior guidance of 8-10Mn lbs) in 2021 compares to 33.5Mn lbs in 2020 and includes JV Inkai purchases. In April, CCO added 9Mn lbs of U3O8 to its long-term contract portfolio.

FY21 capex guidance reiterated at \$130-155Mn, although delays and deferrals in project work could lower capital expenditures for the year.

Cameco remains in a strong financial position and continues to strike a constructive tone on uranium supply/demand fundamentals. YTD, junior uranium miners and uranium investment funds have purchased 10.5Mn lbs of uranium in the spot market, including Uranium Participation Corp.'s (U-T, Not Rated) recent financing subsequent to entering into a definitive agreement with Sprott Asset Management to form the Sprott Physical Uranium Trust. We suspect that spot prices <\$35/lb would be a level enticing junior miners and investment funds as strategic buyers given supportive equity markets. As highlighted in our recent industry update, we estimate the uranium market will shift into physical deficit of 5.9Mn lbs in 2021 ([link](#)).

Near-term care & maintenance costs. Cigar Lake incurred \$33Mn in care and maintenance costs in 1Q21 and has since restarted, with the first shipment of ore sent to McClean Lake mill at the end of April. CCO expects to incur \$8-10Mn per month for the suspension of McArthur River/Key Lake, as well as \$17-19Mn and \$27-32Mn in FY21 for the ongoing care and maintenance costs of US ISR Operations and Rabbit Lake.

CRA precedent set, administration costs reduced. FY21 direct administration cost guidance of \$85-95Mn (vs. prior guidance of \$110-120Mn) due to \$27Mn reduced in legal fees and disbursement of costs, following February's Supreme Court of Canada dismissal of the CRA's request for leave to appeal the tax dispute, which finally resolves the tax years 2003, 2005, and 2006. CCO believes that the disputed \$785Mn (includes 2007-2014 tax years) in cash (\$303Mn) and letters of credit held as security (\$482Mn) should be returned.

First look at Cameco results: 1Q21			Variance (Act - Est)	
	1Q21 Actual	Eight Capital estimates	(Units)	(%)
Uranium Segment				
Average realized price (US\$/lb)	32.25	35.10	(2.85)	-8%
Average realized price (C\$/lb)	41.05	44.45	(3.40)	-8%
Production ('000s lbs)	-	-	-	n.m.
Sales ('000s lbs)	5,000	5,500	(500)	-9%
Unit operating costs (C\$/lb sold)	54.06	47.43	6.63	14%
Revenue	205	244	(39)	-16%
Gross profit	(65)	(16)	(49)	n.m.

Fuel Services Segment				
Average realized price (C\$/kg U)	31.91	27.26	4.65	17%
Sales (kgU)	2,600	1,800	800	44%
Revenue	84	49	35	71%
Gross profit	27	6	21	323%

Source: Company data, Eight Capital estimates

Maintain NEUTRAL; TP C\$22. Our TP of \$22 is based on 1.5x P/NAV (\$14.38/share). 1Q21-end cash and investments stands at \$1,024Mn, total debt of \$1Bn (no maturities until FY24 and beyond), and \$1,000Mn of undrawn credit facilities.

Industrial Metals

Cameco Corp.

Rating: NEUTRAL
Target price: C\$22

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Price assumptions	2019	2020	2021	2022	2023	2024	2025
Uranium Spot (US\$/lb)	25.14	29.96	32.75	35.00	39.00	42.00	47.00
Uranium Term (US\$/lb)	31.88	34.63	35.00	40.00	45.00	47.50	50.00
Cameco Realized Price (US\$/lb)	32.81	33.51	35.33	38.00	43.20	45.85	49.10
USD\$/CAD\$ (US\$)	0.741	0.748	0.797	0.800	0.800	0.800	0.800

Summary income statement (C\$Mln)	2019	2020	2021	2022	2023	2024	2025
Sales	1,863	1,800	1,469	1,666	1,957	2,115	2,243
Operating costs	1,346	1,485	1,237	1,224	1,414	1,198	1,229
DD&A	276	209	201	256	272	340	340
EBITDA	368	110	149	265	296	669	766
EBIT	92	(79)	(52)	8	23	329	426
EBT	90	(76)	(88)	(44)	(29)	293	400
Net income	74	(53)	(2)	50	84	329	416
EPS - FD	0.19	(0.13)	(0.00)	0.13	0.21	0.83	1.05
Adjusted EPS - FD	0.10	(0.17)	(0.07)	0.13	0.21	0.83	1.05
Shares outstanding - FD (Mln)	396	396	397	398	398	398	398

Summary cash flow statement (C\$Mln)	2019	2020	2021	2022	2023	2024	2025
Net income	74	(53)	(2)	50	84	329	416
Non-cash items	343	249	105	162	159	173	144
Working capital changes	113	(201)	103	62	-	-	-
Cash from operations	527	57	197	275	243	502	560
Net change in total debt	(500)	(2)	0	-	-	(500)	-
Net change in common equity	0	5	18	-	-	-	-
Dividends	(32)	(32)	(32)	(32)	(32)	(32)	(32)
Cash from financing activities	(607)	(98)	(15)	(32)	(32)	(532)	(32)
Property and equipment	(75)	(77)	(100)	(158)	(123)	(227)	(238)
Other investing activities	513	(24)	54	-	-	-	-
Cash from investing activities	437	(101)	(47)	(158)	(123)	(227)	(238)
Free cash flow	452	(21)	96	117	120	274	322
Net change in cash	358	(142)	135	85	89	(257)	290

Summary balance sheet (C\$Mln)	2019	2020	2021	2022	2023	2024	2025
Cash & equivalents	1,062	918	1,051	1,136	1,225	967	1,258
Total current assets	1,807	1,945	1,913	1,936	2,025	1,767	2,058
Fixed assets	3,721	3,772	3,582	3,484	3,334	3,221	3,119
Total assets	7,427	7,581	7,333	7,258	7,197	6,826	7,014
STD	-	-	-	-	-	-	-
Total current liabilities	277	304	237	237	237	237	237
LTD	997	996	996	996	996	496	496
Minority Interest	0	0	0	0	0	0	0
Shareholder equity	4,995	4,958	4,946	4,964	5,017	5,314	5,698
Total liabilities & equity	7,427	7,581	7,333	7,257	7,196	6,826	7,014

Valuation Analysis	2019	2020	2021	2022	2023	2024	2025
NAVPS per share	0.10	(0.17)	14.38	0.13	0.21	0.83	1.05
EPS per share	1.05	0.49	0.26	0.53	0.61	1.26	1.41
CFPS per share	(x)	(x)	1.65	(x)	(x)	(x)	(x)
P/NAV	(x)	(x)	>100	>100	>100	28.8	22.8
P/E	(x)	n/a	n/a	>100	>100	18.9	16.9
P/CF	(x)	22.6	48.2	91.8	44.6	38.9	31.5
Enterprise Value (Mln)	9,398	9,541	9,408	9,323	9,235	8,992	8,702
EV/EBITDA	(x)	25.5	85.5	63.3	35.5	31.8	14.0
FCF Yield	(%)	4.8%	-0.2%	1.0%	1.2%	1.3%	2.9%
P/BV	(x)	1.9	1.9	1.9	1.9	1.9	1.7

Profitability Metrics	2019	2020	2021	2022	2023	2024	2025
EBITDA Margin	(%)	19.8%	6.1%	10.1%	15.9%	15.1%	31.7%
Return on Equity	(%)	1.5%	-1.1%	0.0%	1.0%	1.7%	6.4%
Return on Invested Capital	(%)	1.0%	-0.7%	0.0%	0.7%	1.2%	5.0%

Balance Sheet Analysis	2019	2020	2021	2022	2023	2024	2025
Debt/Equity	(%)	20.0%	20.1%	20.1%	19.8%	9.3%	8.7%
Debt/Debt + Equity	(%)	13.4%	13.1%	13.6%	13.7%	7.3%	7.1%
Net Debt/Equity	(%)	-1.3%	1.6%	-1.1%	-2.8%	-4.6%	-13.4%
Net Debt/TTM EBITDA	(x)	n/a	0.7	n/a	n/a	n/a	n/a
Net Debt/NTM EBITDA	(x)	n/a	0.5	n/a	n/a	n/a	n/a
EBIT Interest Coverage	(x)	0.8	2.6	4.6	6.9	7.8	1.3

Production Profile (CCO - Share)	2019	2020	2021	2022	2023	2024	2025
McArthur River (69.8%) (Mln lbs)	-	-	-	-	-	12,652	13,961
Cigar Lake (50.0%) (Mln lbs)	9,000	3,988	5,065	9,005	9,005	9,005	9,005
Inkai (40.0%) (Mln lbs)	3,300	2,975	3,740	3,740	3,740	3,740	3,740
US ISR (Mln lbs)	0	0	0	0	0	0	0

Revenue by Segment	2019	2020	2021	2022	2023	2024	2025
Uranium Mining	(%)	76%	77%	75%	77%	80%	81%
Fuel Services	(%)	20%	22%	22%	19%	16%	15%
NUKEM	(%)	4%	1%	4%	4%	3%	4%
Other	(%)	0%	0%	0%	0%	0%	0%

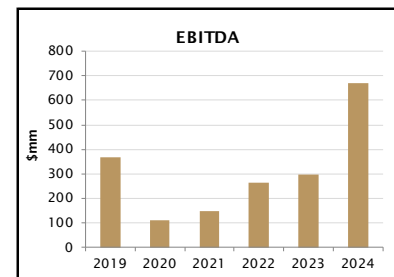
Cash Cost	2019	2020	2021	2022	2023	2024	2025
McArthur River (C\$/lb)	15.37	15.28	15.28	15.91	15.99	16.09	17.25
Cigar Lake (C\$/lb)	14.49	14.42	14.67	14.72	15.66	15.80	15.39
Inkai (C\$/lb)	-	-	-	-	-	-	-
Purchased Uranium (C\$/lb)	26.11	29.84	30.85	33.78	37.39	39.47	45.31
Total (C\$/lb)	15.73	17.54	14.67	18.71	19.40	17.76	18.16

Source: Eight Capital estimates, Company data

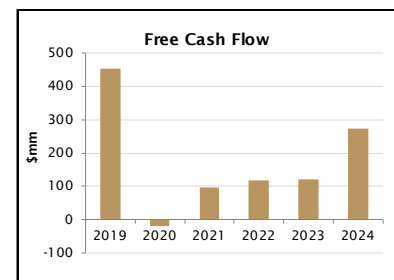
Industrial Metals	
Uranium	
CANADA	
Primary ticker	CCO-TSE
Price	23.80
Target price	22.00
Exchange rate (US\$/C\$)	0.82
Shares outstanding - FD (Mln)	397.6
Market Capitalization (C\$Mln)	9,464
Enterprise Value (C\$Mln)	9,436
Year end	Dec.31
Pricing currency	CAD\$
Accounting currency	CAD\$

Balance Sheet - (C\$ MM)	Most recent quarter
Cash and cash equivalents	1,024
Net working capital	1,709
Net PP&E	3,641
Total assets	7,425
Short term debt	-
Long term debt	996
Total shareholders' equity	4,975
Total liabilities & shareholder equity	7,425
Shares outstanding (Mln)	397
Book value per share	12.51
Net debt/net debt + equity (%)	-0.5%

Net Asset Value Summary		
	C\$Mln	\$/share
McArthur River	2,644	6.65
Cigar Lake	1,018	2.56
Inkai (10%)	931	2.34
Rabbit Lake	150	0.38
Crow Butte	62	0.16
Smith Ranch/Highland	14	0.03
Uranium Mining	4,819	12.12
Uranium Contract Book	225	0.57
Fuel Services	646	1.63
NUKEM	75	0.19
Exploration & Development	780	1.96
Gross Asset Value	6,546	16.46
Long-term Debt	(996)	(2.50)
Working Capital	1,676	4.22
Net Debt	681	1.71
CRA tax remittance	281	0.71
Corporate SG&A	(755)	(1.90)
Reclamation liabilities	(1,033)	(2.60)
Net asset value	5,720	
Shares outstanding	398	
Net asset value per share (C\$)	14.38	



Source: Eight Capital estimates, Company data



Source: Eight Capital estimates, Company data

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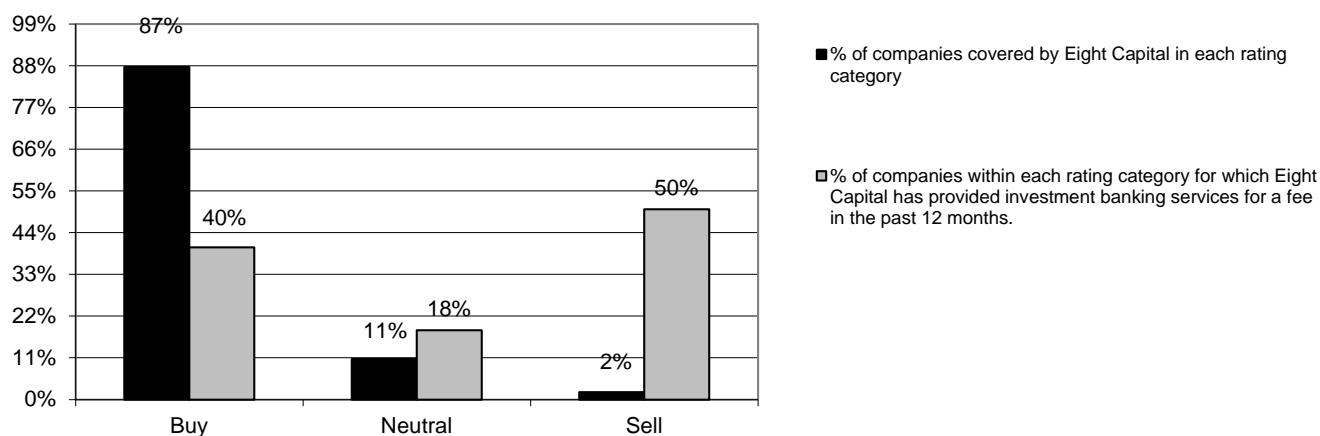
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*As at March 31, 2021
Source: Eight Capital*