Equity Research

CAMECO CORPORATION

Wildfire Forces Cigar Lake Shutdown

EVENT

Yesterday afternoon, Cameco temporarily shutdown its Cigar Lake mine in Northern Saskatchewan and evacuated all non-essential personnel as a precautionary measure in response to a wildfire that is burning in the vicinity of the operation.

BOTTOM LINE

Mixed – The situation is highly uncertain and evolving. At this stage, we expect the shutdown to be temporary in nature. In the unlikely and worst-case scenario that the mine is down indefinitely, uranium prices, and the related equities would move considerably higher.

FOCUS POINTS

- **Impact to the Uranium Market** – Cigar Lake is among the largest uranium operations globally, produces 18 MMlb U_3O_8 (nameplate capacity), equating to ~15% of global primary uranium supply. Prior to the temporary shutdown yesterday, Cigar Lake was Cameco's only operating uranium mine. The longer this mine remains shutdown, the more uranium Cameco will be forced to buy in the spot market, and the more upward pressure will build on spot prices.
- **Kazatomprom (KAP-LSE, Not Covered) Production Cut** – Kazatomprom is the world's largest uranium producer, and this morning, it extended a 20% production cut through 2023, effectively removing 13 MMlb U_3O_8 of primary supply from the market (equating to ~11% of global primary uranium supply).
- **Maintaining Buy Rating and Price Target** – Based on a 75/25 blend of 2.0x $NAVPS_{8.0\%}$ and 20.0x 2022E CFPS (unchanged), we continue to rate Cameco a Buy with a price target of US$22.50/$28.00/share.

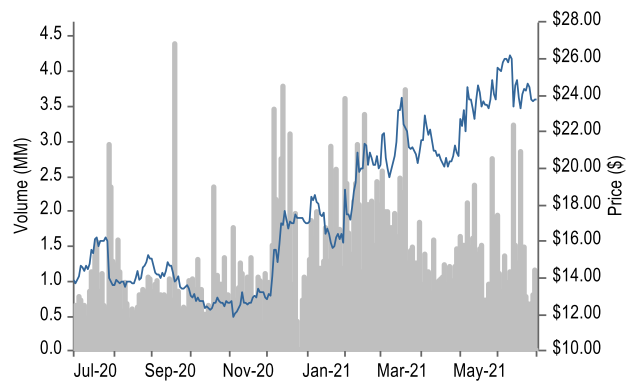
Recommendation:	BUY
Symbol/Exchange:	CCJ-NYSE/CCO-TSX
Sector:	Metals & Mining
All dollar values in C$ unless otherwise noted.	
Current price:	US$19.38/$23.76
One-year target:	US$22.50/$28.00
Return to Target:	16.1%
Cash and Equivalents:	$1,024 MM

Financial summary

Shares O/S (MM)	397.6	52-week range	$11.84 - $26.62
Market cap (MM$)	$9,448.0	30D avg. vol. (000)	6,031.4
Market float (MM$)	$9,428.2	Fiscal year-end	31-Dec

	2019A	2020A	2021E	2022E
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.
Note: All figures in millions, unless stated otherwise.



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.

WILDFIRE FORCES CIGAR LAKE SHUTDOWN

Yesterday afternoon, Cameco temporarily shutdown its Cigar Lake mine in Northern Saskatchewan and evacuated all non-essential personnel as a precautionary measure in response to a wildfire that is burning in the vicinity of the operation. According to the Saskatchewan Public Safety Agency (SPSA), the fire in the vicinity of Cigar Lake is "very active" and "winds will not allow burnout operations" at the present time. The SPSA has deployed air tankers, crews, and heavy equipment to combat the wildfire. At this stage, we expect the shutdown to be temporary in nature, but the situation is highly uncertain and evolving. In the unlikely and worst-case scenario that the mine is down indefinitely, uranium prices, and the related equities would move considerably higher.

IMPACT TO THE URANIUM MARKET

Cigar Lake is among the largest uranium operations globally, produces 18 MMlb U_3O_8 (nameplate capacity), equating to ~15% of global primary uranium supply. Prior to the temporary shutdown yesterday, Cigar Lake was Cameco's only operating uranium mine. The longer this mine remains shutdown, the more uranium Cameco will be forced to buy in the spot market, and the more upward pressure will build on spot prices.

KAZATOMPROM PRODUCTION CUT

Kazatomprom is the world's largest uranium producer, and this morning, it extended a 20% production cut through 2023, effectively removing 13 MMlb U_3O_8 of primary supply from the market (equating to ~11% of global primary uranium supply). Kazatomprom is permitted to produce 71.5-73.0 MMlb U_3O_8 annually, but given persistently low uranium prices, has consistently and deliberately come in well below this over the last several years. Kazatomprom will continue to produce ~20% below permitted capacity now out through at least 2023. According to the Company, "although the uranium market is starting to show signs of improvement, including an increase in long-term contracting interest, a thinning spot market, and slightly improved pricing, we still find ourselves in a position where adding tonnes back into the market in 2023 would be unlikely to maximize returns."

Exhibit 1. 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		1.53x	

Source: Cantor Fitzgerald

URANIUM SENTIMENT CONTINUES TO IMPROVE

Over the last 6-7 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, with the United States pledging to do so by 2035. Most recently, the FY2022 U.S. Federal Government Budget has allocated $14.75 BB over the next 10-years to nuclear, specifically to "procure advanced nuclear power" and "provide allocated credit for electricity generation from existing nuclear power facilities." 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 (notwithstanding temporary shutdowns or setbacks at its various operations).

Exhibit 2. 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:			16.1%

Source: Cantor Fitzgerald

MAINTAINING BUY RATING AND PRICE TARGET

Based on a 75/25 blend of 2.0x $NAVPS_{8.0\%}$ and 20.0x 2022E CFPS (unchanged), we continue to rate Cameco a Buy with a price target of US$22.50/$28.00/share. We will continue to monitor the wildfire in the vicinity of Cigar Lake. Until more information becomes available, we are leaving our numbers and estimates on Cameco unchanged.

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The analyst responsible for this report *has not* visited the material operations of CCJ.

Analyst certification

The research analyst whose name appears on this report hereby certifies that the opinions and recommendations expressed herein accurately reflect his personal views about the securities, issuers or industries discussed herein.

Definitions of recommendations

BUY: The stock is attractively priced relative to the company's fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

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.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.