

Cameco Corp.

(CCO-T: C\$23.76)

July 2, 2021

NEUTRAL

Target: C\$22.00

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Cigar Lake Evacuated; KazAtomProm Maintains 20% Production Curtailment into 2023

	Current
Rating:	NEUTRAL
Target:	C\$22.00

Company Data	
Last Price (TSX)	\$23.76
52-Week Range:	\$11.84 - \$26.62
Market Capitalization (C\$Mn):	9,448
Enterprise Value (C\$Mn):	9,420
Shares Outstanding - Diluted (Mn):	397
Dividend Yield:	0.3%
Cash	1,024
Net Debt	-28
Fiscal Year End	Dec 31

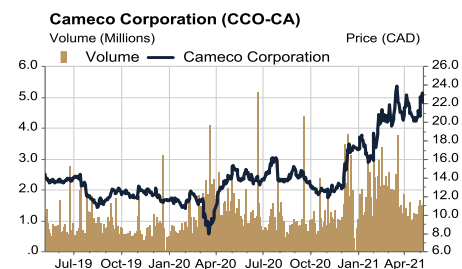
Sales Summary				
	2019 A	2020 A	2021 E	2022 E
Uranium (Mn lbs)	35	32	30	25
Fuel Services (mm kgU)	12	14	14	12
NUKEM (mm lbs)	6	2	1	1

Financial Summary				
	2019 A	2020 A	2021 E	2022 E
P/E	n.m.	n.m.	n.m.	n.m.
EV/EBITDA	25.5x	85.3x	63.2x	35.5x
CFPS	1.05	0.49	0.26	0.53
P/CF	22.6x	48.2x	91.7x	44.5x
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	-0.07 E	0.03 E
Q3	-0.01 A	-0.20 A	0.02 E	0.02 E
Q4	0.24 A	0.12 A	0.04 E	0.04 E
FY	0.10 A	-0.17 A	-0.09 E	0.10 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.

Cigar Lake evacuated. Spot uranium prices (UxC BAP) were up +\$0.21/lb yesterday following Cameco's decision to evacuate all non-essential personnel from the Cigar Lake uranium mine as a precaution due to the proximity of a northern wildfire that is currently burning in the vicinity of the operation. Roughly 80 essential personnel will remain on site to maintain the facility in a safe state. Should the wildfire threat grow considerably at site, a plan is in place to ensure safety. At full capacity, Cigar Lake accounts for 13% of global uranium mine supply (18Mn lbs/year) and 10% of total global uranium supply (including secondary supplies).

This unforeseen supply event comes at a time when Cameco has been expanding its contract portfolio. In April, Cameco added 9Mn lbs of U3O8 to its long-term contract portfolio. We see Cameco continuing to make 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. Expected purchases of 11-13Mn lbs by Cameco (guidance) compares to 33.5Mn lbs in 2020.

We do not expect a meaningful industry supply response to tighter uranium markets and higher prices until \$40/lb (at least). KazAtomProm (KAP-L, not rated) released operating guidance today including plans to maintain 2023 production at a similar level to 2022, extending a 20% production curtailment relative to planned volumes under its Subsoil Use Contracts - and essentially keeping approx. 13Mn lbs of uranium supply out of the market until 2023. As a result, Kazakhstan uranium production will remain essentially flat from 2021-2023 at approx. 59Mn lbs.

KAP CEO Galymzhan Pirmatov commented. "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 for our shareholders". In our view, a sustained recovery would be evidenced by tighter supply-demand conditions and prices >\$40/lb, whereby an idle McArthur River (Cameco) restart (22-25Mn lbs/year) and KazAtomProm ramp-up (13Mn lbs/year) remain the largest potential sources on incremental supply, which compares to the current market (2021) in a 6.7Mn lbs deficit; however, we would expect these two parties would let the price "run" >\$40/lb before making a restart decision.

An extended Cigar Lake shutdown would expand our 2021 market deficit. In our view, improving uranium fundamentals as the physical market transitions to deficit combined with relatively low near-term utility contracting requirements makes timing of a price recovery challenging. Our expectations of a partial rebound in primary mine supply of +3.9% in 2021 to 128Mn lbs (COVID-19 restarts, including Cigar Lake, offset by the planned shutdowns of Energy Resources of Australia's (ERA-AX, not rated) Ranger mine and Orano's (private) COMINAK mine in Niger) combined with lower contribution from secondary supplies as commercial destocking declines materially (which incorporates strategic purchases by junior miners and investment funds) is expected to result in a 6.7Mn lb market deficit when factoring in flat uranium demand.

Maintain Neutral; TP C\$22. A premium valuation has long been part of the Cameco investment narrative. Rising cash flow potential on expectations of tightening uranium markets in the long-term, together with a unique market position, with high industry barriers to entry and lack of investment alternatives, has kept valuation at a premium. We estimate Cameco shares are currently pricing in \$63/lb uranium prices at 1x P/NAV and \$53/lb at 1.2x P/NAV - which compares to the UxC LT price of \$32/lb. Our TP of \$22 is based on 1.5x P/NAV (\$14.38/share) and represents a 10% discount vs. Cameco's historical peak P/NAV during uranium "bull markets" of 1.60x. Cameco remains in a very strong financial position with end-1Q21 cash and investments of \$1,024Mn, total debt of \$1Bn (no maturities until 2024 and beyond), and \$1,000Mn of undrawn credit facilities.

Eight Capital Uranium Supply/Demand Model

<i>all figures in Mln lbs U3O8, unless noted</i>	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Uranium Supply (Mln lbs)														
Africa	20.0	22.9	22.9	22.0	20.2	20.2	20.7	21.2	20.9	17.8	17.8	17.8	17.8	16.4
Australia	15.2	16.6	16.5	15.3	12.5	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0
Canada	34.1	18.2	18.0	10.6	10.2	21.4	21.4	31.8	41.9	41.9	40.4	37.3	40.3	43.3
Kazakhstan	60.6	56.3	59.0	50.0	58.9	58.9	58.9	62.2	66.2	64.8	61.7	61.1	58.1	59.3
China	4.9	4.9	4.9	4.9	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Russia	7.6	7.6	7.6	7.6	8.0	8.0	8.3	8.6	9.0	9.4	9.4	9.4	9.4	9.4
United States	2.5	1.5	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	2.7	5.2	5.0	5.0
Other Countries	12.1	12.2	12.7	12.8	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9	12.9
Primary Supply	156.9	140.1	141.8	123.2	128.0	139.7	140.6	155.0	169.2	165.2	163.1	161.9	161.7	164.4
<i>growth rate</i>	<i>-4.5%</i>	<i>-10.7%</i>	<i>1.2%</i>	<i>-13.1%</i>	<i>3.9%</i>	<i>9.1%</i>	<i>0.6%</i>	<i>10.3%</i>	<i>9.1%</i>	<i>-2.3%</i>	<i>-1.3%</i>	<i>-0.8%</i>	<i>-0.1%</i>	<i>1.7%</i>
Secondary supply	56.0	70.1	60.2	63.6	45.6	41.3	38.3	35.7	34.9	30.8	27.9	26.3	25.2	19.8
Total supply	212.9	210.2	202.0	186.8	173.6	180.9	178.9	190.8	204.1	196.0	191.0	188.1	186.9	184.3
<i>growth rate</i>	<i>0.7%</i>	<i>-1.3%</i>	<i>-3.9%</i>	<i>-7.5%</i>	<i>-7.0%</i>	<i>4.2%</i>	<i>-1.1%</i>	<i>6.6%</i>	<i>7.0%</i>	<i>-3.9%</i>	<i>-2.5%</i>	<i>-1.5%</i>	<i>-0.6%</i>	<i>-1.4%</i>
World Nuclear Generating Capacity (GWe)														
China	39.4	46.6	49.2	47.5	51.5	55.5	59.5	63.5	67.5	72.5	77.5	82.5	87.5	92.5
India	6.3	6.3	6.3	6.3	6.3	7.3	7.3	7.3	8.3	8.3	8.3	8.3	8.3	10.3
Japan	4.2	6.9	8.7	8.7	8.7	10.7	12.7	14.7	16.7	18.7	20.7	22.7	24.7	24.7
Russia	26.1	27.3	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4	28.4
USA	100.0	99.3	98.2	98.2	98.2	99.4	99.4	100.7	100.7	100.7	100.7	100.7	100.7	100.7
Other	182.5	186.2	188.6	185.5	185.4	190.9	193.2	197.0	199.4	200.6	200.4	200.2	200.0	200.8
Total	358.5	372.5	379.3	374.6	378.4	392.2	400.5	411.6	421.0	429.2	436.0	442.8	449.6	457.4
<i>growth rate</i>	<i>0.6%</i>	<i>3.9%</i>	<i>1.8%</i>	<i>-1.2%</i>	<i>1.0%</i>	<i>3.6%</i>	<i>2.1%</i>	<i>2.8%</i>	<i>2.3%</i>	<i>1.9%</i>	<i>1.6%</i>	<i>1.6%</i>	<i>1.5%</i>	<i>1.7%</i>
Uranium demand analysis														
Operating reactors	194.2	191.4	183.8	180.3	180.3	186.5	190.2	195.1	199.2	202.7	205.5	208.3	211.1	214.4
Strategic inventory build	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total demand	194.2	191.4	183.8	180.3	180.3	186.5	190.2	195.1	199.2	202.7	205.5	208.3	211.1	214.4
<i>growth rate</i>	<i>0.5%</i>	<i>-1.4%</i>	<i>-4.0%</i>	<i>-1.9%</i>	<i>0.0%</i>	<i>3.4%</i>	<i>1.9%</i>	<i>2.6%</i>	<i>2.1%</i>	<i>1.8%</i>	<i>1.4%</i>	<i>1.4%</i>	<i>1.3%</i>	<i>1.5%</i>
Market surplus (deficit)	18.7	18.8	18.2	6.5	(6.7)	(5.6)	(11.3)	(4.3)	4.9	(6.7)	(14.5)	(20.2)	(24.2)	(30.1)
<i>Surplus (deficit) as % of global demand</i>	<i>10%</i>	<i>10%</i>	<i>10%</i>	<i>4%</i>	<i>-4%</i>	<i>-3%</i>	<i>-6%</i>	<i>-2%</i>	<i>2%</i>	<i>-3%</i>	<i>-7%</i>	<i>-10%</i>	<i>-11%</i>	<i>-14%</i>
Change in market surplus (deficit)	0.5	0.1	(0.6)	(11.7)	(13.2)	1.1	(5.7)	7.0	9.2	(11.5)	(7.8)	(5.7)	(4.0)	(5.9)
<i>Net contribution - Primary mine supply</i>	<i>(7.4)</i>	<i>(16.8)</i>	<i>1.7</i>	<i>(18.5)</i>	<i>4.8</i>	<i>11.6</i>	<i>0.9</i>	<i>14.5</i>	<i>14.2</i>	<i>(4.0)</i>	<i>(2.1)</i>	<i>(1.3)</i>	<i>(0.1)</i>	<i>2.7</i>
<i>Net contribution - Secondary supply</i>	<i>8.8</i>	<i>14.1</i>	<i>(9.9)</i>	<i>3.4</i>	<i>(18.0)</i>	<i>(4.4)</i>	<i>(2.9)</i>	<i>(2.6)</i>	<i>(0.9)</i>	<i>(4.1)</i>	<i>(2.9)</i>	<i>(1.6)</i>	<i>(1.1)</i>	<i>(5.4)</i>
<i>Net contribution - Uranium demand</i>	<i>(0.9)</i>	<i>2.8</i>	<i>7.6</i>	<i>3.4</i>	<i>(0.0)</i>	<i>(6.2)</i>	<i>(3.6)</i>	<i>(4.9)</i>	<i>(4.1)</i>	<i>(3.5)</i>	<i>(2.8)</i>	<i>(2.8)</i>	<i>(2.8)</i>	<i>(3.3)</i>
Uranium Price Forecast (US\$/lb) - Spot	22.20	24.70	26.00	29.60	32.00	35.00	39.00	42.00	47.00	50.00	50.00	50.00	50.00	50.00

Source: UxC LLC, World Nuclear Association, Eight Capital estimates

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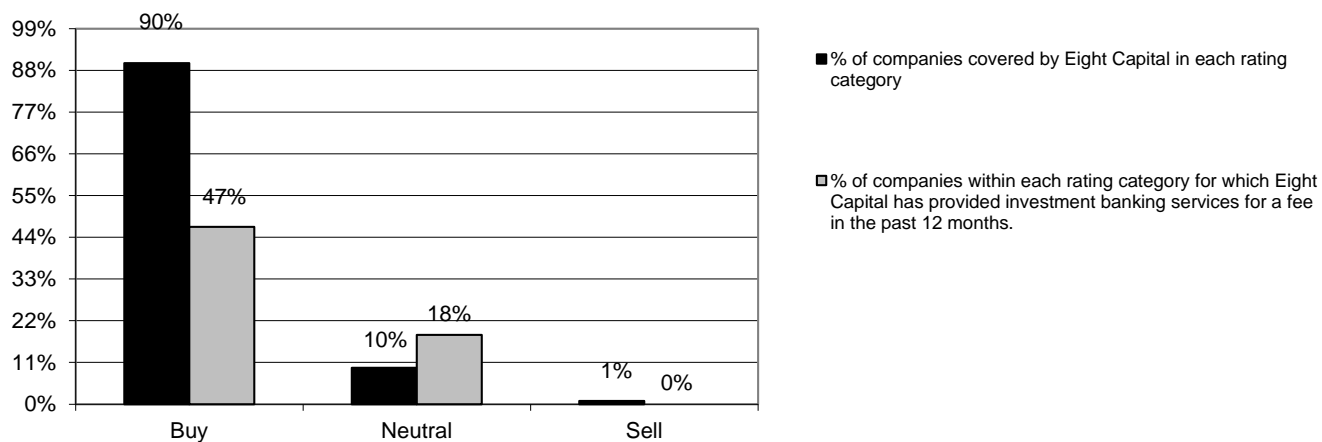
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