

# Cameco Corp.

(CCO-T: C\$22.19)

**NEUTRAL**

Target: \$22.00

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## FY21 Detailed Guidance Reinstated; Another 7Mln Lbs Added to Contract Portfolio

Rating:	NEUTRAL
Target:	C\$22.00

Company Data	
Last Price (TSX)	\$22.19
52-Week Range:	\$11.84 - \$26.62
Market Capitalization (C\$Mln):	8,823
Enterprise Value (C\$Mln):	8,796
Shares Outstanding - Diluted (Mln):	397
Dividend Yield:	0.4%
Cash	1,024
Net Debt	-28
Fiscal Year End	Dec 31

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

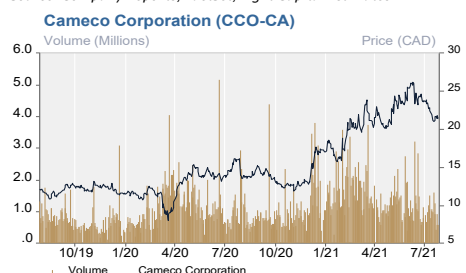
Financial Summary				
	2019 A	2020 A	2021 E	2022 E
P/E	n.m.	n.m.	n.m.	n.m.
EV/EBITDA	23.8x	79.7x	58.6x	34.5x
CFPS	1.05	0.49	0.26	0.51
P/CF	21.1x	45.0x	84.8x	43.8x
Net Debt/ EBITDA	n/a	0.7x	n/a	n/a

Quarterly EBITDA				
	2019 A	2020 A	2021 E	2022 E
Q1	14 A	51 A	18 A	48 E
Q2	43 A	-4 A	19 E	59 E
Q3	34 A	-10 A	51 E	56 E
Q4	277 A	71 A	61 E	91 E
FY	368 A	110 A	150 E	254 E

Quarterly EPS				
	2019 A	2020 A	2021 E	2022 E
Q1	-0.08 A	0.07 A	-0.08 A	0.01 E
Q2	-0.04 A	-0.16 A	-0.08 E	0.01 E
Q3	-0.01 A	-0.20 A	0.01 E	0.00 E
Q4	0.24 A	0.12 A	0.03 E	0.02 E
FY	0.10 A	-0.17 A	-0.12 E	0.03 E

Note: All values are in C\$, unless otherwise stated

Source: Company Reports, FactSet, Eight Capital Estimates



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### 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.

**Summary thoughts:** Cameco maintains a solid liquidity position and continues to strike an increasingly constructive tone on uranium fundamentals. That said, while contracting activity has picked up, mgmt has not seen that translate to more frequent on-market RFP's that would suggest an industry-wide contracting cycle is underway driven by (1) utility restocking; and (2) concerns over security of supply. YTD, Cameco has executed 16Mln lbs in long-term sales contracts (including 9Mln lbs in April-2021) bringing total commitments to deliver an average of 19Mln lbs/year from 2021-2025, with commitment levels higher in 2021-2022 vs. 2023-2025.

**Q2/21 results in-line.** Cameco reported 2Q21 adjusted EBITDA of \$15Mln vs. our \$19Mln (consensus \$27Mln) and adjusted EPS of (\$0.10) vs. our (\$0.08) (consensus (\$0.07)). Positively, Uranium Segment guidance was reinstated as Cigar Lake operations have resumed. Cigar Lake production (which resumed in April) is expected to yield up to 6.0Mln lbs of uranium production in 2021. Mgmt is on target to reach 2021 uranium deliveries guidance of 23-25Mln lbs and maintain desired level of inventories, which at 2Q21 totaled 9.9Mln lbs at an average cost of \$37.59/lb (vs. 1Q21 of 11.3Mln lbs at average cost of \$37.86/lb). CCO expects its 2021 revenue to be \$1.35-1.5Bln (in-line) driven by an average realized price to be \$42.40/lb (in-line).

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

In April, CCO incurred an additional care and maintenance costs of \$8Mln (YTD: \$40Mln) to support employees at Cigar Lake. These costs were partially offset by the government subsidies of \$9Mln. CCO expects to incur \$8-10Mln/month for the suspension of McArthur River/Key Lake as well as \$17-19Mln and \$27-32Mln in FY21 for the ongoing care and maintenance costs of US ISR Operations and Rabbit Lake, respectively.

YTD, junior uranium miners and uranium investment funds have purchased 16Mln 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. We suspect that spot prices <US\$35/lb would be a level enticing junior miners and investment funds as strategic buyers.

As highlighted in our recent industry update, we estimate the uranium market has shifted into physical deficit of 6.7Mln lbs in 2021 ([link](#)). In our view, a sustained recovery would be evidenced by tighter supply-demand conditions and prices >US\$40/lb, whereby an idle McArthur River (Cameco) restart (22-25Mln lbs/year) and KazAtomProm ramp-up (13-15Mln lbs/year) remain the largest potential sources on incremental supply.

Summary Results: 2Q21			Variance (Act - Est)	
	2Q21 Actual	Eight Capital estimates	(Units)	(%)
<b>Uranium Segment</b>				
Average realized price (US\$/lb)	33.56	33.75	(0.19)	-1%
Average realized price (C\$/lb)	41.70	41.47	0.23	1%
Production ('000s lbs)	1,300	563	737	n.m.
Sales ('000s lbs)	6,000	6,250	(250)	-4%
Unit operating costs (C\$/lb sold)	46.03	44.09	1.94	4%
Revenue	252	259	(7)	-3%
Gross profit	(26)	(16)	(10)	n.m.
Revenue	359	383	(24)	-6%
Adjusted EBITDA	15	19	(5)	-26%
Adjusted EPS	(0.10)	(0.08)	(0.02)	n.m.
CFPS	0.19	0.08	0.11	n.m.

Source: Company data, Eight Capital estimates

**Maintain Neutral; TP C\$22.** We estimate Cameco shares are currently pricing in a US\$60/lb uranium price @ 1x P/NAV and US\$50/lb @ 1.2x P/NAV. 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. Q2/21-end cash and short-term investments stands at \$1,176Mln, total debt of \$1Bln (no maturities until FY24 and beyond), and \$1,0Bln of undrawn credit facilities.

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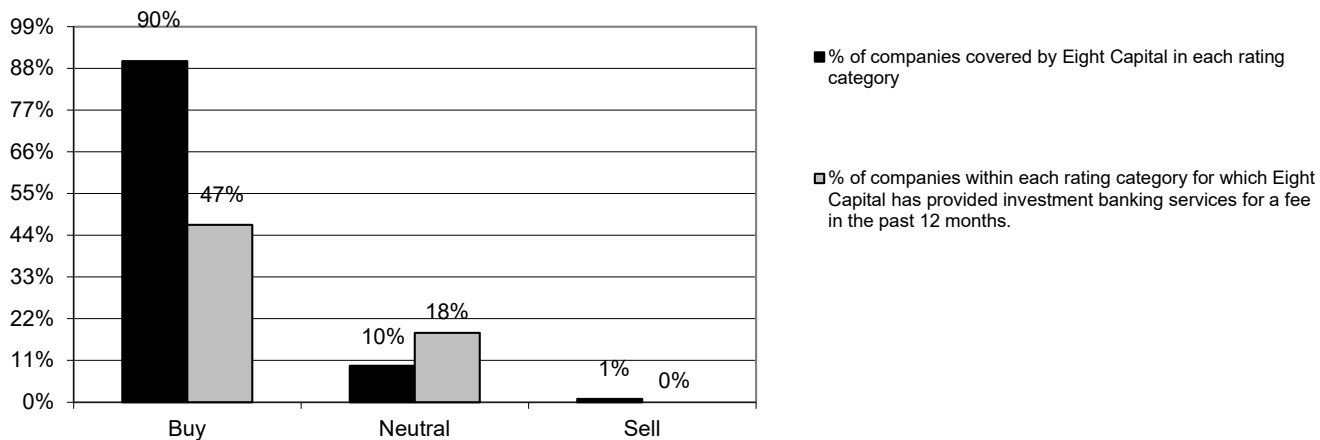
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