EQUITY RESEARCH

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Cameco Corporation

Uranium market still in slow recovery

Our view: We continue to view the uranium market recovery as gradual, with the market in balance in the next several years before entering a deficit into the later part of this decade. However, we believe shares are pricing in a more near-term significant recovery, which presents potential downside risk if prices are slower to recover than expected.

Key points:

Uranium market still in gradual recovery: We believe the uranium market remains in balance which supports a gradual recovery in prices to eventually reflect production economics at $40/lb U3O8 in the medium-term, with a longer-term deficit later this decade that may support incentive prices at $50/lb. We note several important points - utility inventories have declined slightly in recent years, but remain high relative to historical levels with the US and EU at ~2.5 years coverage, China and India at >10 years coverage; utility requirements remain relatively covered vs. historical levels for the next several years; term market demand remains relatively muted; and idled production remains on the sidelines, but could re-start at prices in the $40/lb range. While the re-introduction of financial interest to invest in physical uranium is a positive, we think a full recovery requires the return of utility demand.

Contract volumes solidify future deliveries, but at lower price: Cameco announced additional long-term contracted volume of 7Mlbs U3O8, for a total of 16Mlbs so far in 2021. These settlements are the culmination of long-standing discussions with utilities, primarily in the Western regions (North America, Europe). The new signings help Cameco to build out contract portfolio volumes and ensure stable long-term deliveries, but have likely also resulted in lower future realized prices according to the company's price sensitivity table.

Advanced fuels provide future opportunity and risk: We think the ongoing development of advanced nuclear fuels (LEU+ and HALEU) provides both an opportunity and risk to Cameco longer-term. Higher enriched fuels may use less uranium than fuel that is currently being used, but would demand more enrichment services. Earlier this year, Cameco increased the company's ownership in Global Laser Enrichment to 49%, from 29%. GLE is developing advanced laser enrichment technology that could be used to produce fuel for advanced reactors in the future.

Shares continue to price in near-term price lift: We continue to see a disconnect between valuation and fundamentals, and view shares as pricing in significant near-term uranium price strength. We estimate shares are trading at ~1.5x P/NAV and 9x on run-rate EBITDA at our $50/lb long-term price forecast. As a result, we see potential downside risk if uranium prices recover slower than is currently priced into shares.

Maintain Underperform and $17 PT: We have lowered our 2021E and 2022E EBITDA to $92M and $250M, from $103M and $265M, primarily due to lower realized prices.

Underperform

TSX: CCO; CAD 21.46; NYSE: CCJ

Price Target CAD 17.00

WHAT'S INSIDE	
☐ Rating/Risk Change	☐ Price Target Change
☐ In-Depth Report	☑ Est. Change
☐ Preview	☐ News Analysis

Scenario Analysis*

Downside Scenario	Price Target	Current Price	Upside Scenario
12.00	17.00	21.46	25.00
↓ 44%	↓ 20%		↑ 17%

*Implied Total Returns

Key Statistics

Shares O/S (MM):	397.7	Market Cap (MM):	8,534
Dividend:	0.08	Yield:	0.4%
NAVPS:	14.67	P/NAVPS:	1.46x
		Tr. 12 ROE:	2.90%
		Enterprise Val. (MM):	8,768
		Avg. Daily Volume:	1,948,968
		3-Yr. Est. EPS Growth:	65.00%

RBC Estimates

FY Dec	2020A	2021E	2022E	2023E
EPS, Adj Diluted	(0.17)	(0.23)	0.12	0.39
Prev.		(0.12)	0.14	0.42
P/AEPS	NM	NM	NM	55.0x
EBITDA, Adj	190.4	91.7	249.8	541.0
Prev.		102.7	265.4	558.6
FCFPS	(0.22)	0.11	0.01	0.48
Prev.		(0.09)	0.07	0.51
P/FCF	nm	nm	nm	44.7x

EPS, Adj Diluted	Q1	Q2	Q3	Q4
2020	0.07A	(0.16)A	(0.20)A	0.12A
2021	(0.07)A	(0.10)A	(0.05)E	(0.01)E
Prev.		(0.01)E	(0.03)E	
2022	0.02E	0.02E	0.01E	0.07E
Prev.			0.02E	0.08E
EBITDA, Adj				
2020	65.3A	(2.8)A	(24.0)A	151.9A
2021	17.0A	(2.4)A	19.3E	57.8E
Prev.		22.5E	19.5E	43.8E
2022	60.1E	55.8E	47.9E	85.9E
Prev.	61.1E	60.4E	53.0E	90.9E

All values in CAD unless otherwise noted.
Priced as of prior trading day's market close, EST (unless otherwise noted).

Reiterate Underperform rating, maintain $17 price target

We rate Cameco shares Underperform with a $17 price target. We value the company by applying an EV/EBITDA multiple to Cameco's operating assets, a DCF valuation to its McArthur River asset, and then adding the CRA restricted cash. Our EV/EBITDA valuation applies a 15x multiple to 2022 EBITDA estimates — this multiple is above the average multiple post-Fukushima and pre-McArthur shut-down in recognition of greater interest as an ESG and clean energy investment. Our DCF analysis uses an 8% discount rate.

Exhibit 1 - Cameco valuation summary

Valuation

EV/EBITDA valuation	CAD$M	US$M
Adjusted EBITDA (2022)	**$250**	**$187**
Multiple	15.0x	15.0x
Enterprise Value	**$3,746**	**$2,805**
Balance Sheet (end-21E)		
Net Debt (CAD$M)	($135)	($101)
EV/EBITDA Market Cap	**$3,882**	**$2,907**

Non-operating assets	CAD$M	US$M
McArthur River (8% disc.)	$2,413	$1,807
CRA Restricted Cash	$303	$227
Total	**$2,717**	**$2,034**
Total Equity Value	**$6,598**	**$4,941**
Shares (M)	398	398
Valuation Price	**$17**	**$12**

Source: Company reports, RBC Capital Markets estimates

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Exhibit 2 - RBC Cameco Model

Cameco Corporation | **Price Target: C$17.00** | **Rating: Underperform**

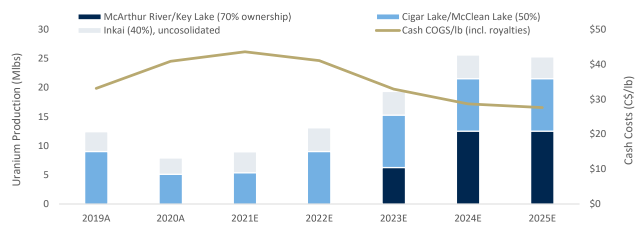
RBC Capital Markets / Andrew Wong (416) 842-7830

	Market Capitalization (C$M):	$8,824	Share Price (C$/sh):	$22.19	Net Debt (C$M):	-$180
TSX: CCO	Enterprise Value (C$M):	$8,645	Implied Return (%):	(23.4%)	Issued Shares (diluted)	397.7

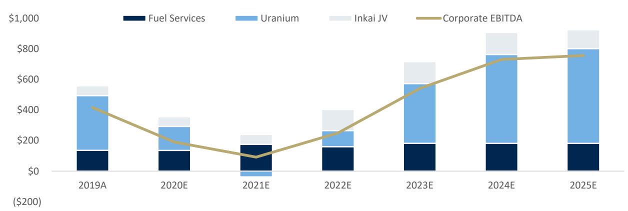
ASSUMPTIONS SUMMARY	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	2036E	2037E
USD/CAD	$0.75	$0.75	$0.80	$0.80	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77	$0.77
Uranium Spot Price (US$/lb U3O8)	$26	$29	$33	$40	$40	$40	$40	$40	$40	$40	$40	$50	$50	$50	$50	$50	$50	$50	$50
Uranium Term Price (US$/lb U3O8)	$32	$32	$34	$35	$40	$40	$40	$40	$50	$50	$50	$50	$50	$50	$50	$50	$50	$50	$50

OPERATIONS		2019A	2020A	2021E	2022E	2023E	2024E	2025E
Uranium Segment								
McArthur River (70% ownership)		0.0	0.0	0.0	0.0	6.3	12.5	12.5
Cigar Lake (50%)		9.0	5.1	5.4	9.0	9.0	9.0	9.0
Inkai (40%)		3.4	2.8	3.6	4.1	4.1	4.1	3.7
Total Attributable Production	**Mlbs**	**12**	**8**	**9**	**13**	**19**	**26**	**25**
Sales Volume	Mlbs	31.5	30.5	24.0	25.0	25.0	27.6	26.2
Realized Price	C$/lb	$45	$46	$42	$46	$50	$51	$52
Market Purchases	Mlbs	15.0	29.6	9.5	12.0	4.0	2.0	1.0
Ending Inventory	Mlbs	6.1	15.3	9.9	9.9	13.7	13.7	13.7
Cash Production Costs	C$M	$164	$87	$92	$135	$229	$323	$323
Cash Production Costs/lb	C$/lb	$20	$29	$18	$15	$15	$15	$15
Cost of Product Sold		$878	$1,068	$829	$878	$699	$642	$572
Royalties		$32	$16	$19	$37	$93	$117	$122
Care and Maintenance		$121	$150	$189	$100	$20	$20	$20
Other costs		$11	$12	$9	$10	$10	$10	$10
Total Cash Costs	**C$M**	**$1,042**	**$1,245**	**$1,045**	**$1,025**	**$822**	**$790**	**$724**
D&A		$175	$97	$74	$75	$229	$323	$323
Total COGS	**C$M**	**$1,217**	**$1,342**	**$1,119**	**$1,100**	**$1,050**	**$1,112**	**$1,046**
Cash COGS/lb (incl. royalties)	C$/lb	$33	$41	$44	$41	$33	$29	$28
Fuel Services Segment								
Production	M KgU	13.4	11.7	13.3	12.4	12.4	12.4	12.4
Sales Volume	M KgU	14.2	13.5	13.4	12.4	12.4	12.4	12.4
Realized Price	C$/KgU	$26	$27	$30	$30	$31	$31	$31
Cash Costs		$234	$234	$227	$208	$199	$199	$199
D&A		$46	$46	$49	$46	$50	$50	$50
Total COGS	**C$M**	**$280**	**$280**	**$276**	**$254**	**$249**	**$249**	**$249**
Cash COGS/KgU	C$/KgU	$17	$17	$17	$17	$16	$16	$16

URANIUM SEGMENT OPERATIONS BREAKDOWN



EBITDA BY SEGMENT (C$M)



VALUATION (Balance Sheet Items @ End-21E)

EV/EBITDA valuation	**CAD$M**	**US$M**	**Non-Op. assets**	**CAD$M**	**US$M**
Adjusted EBITDA (2022)	$250	$187	McArthur River (8% disc.)	$2,413	$1,807
Multiple	15x	15x	CRA Restricted Cash	$303	$227
Enterprise Value	**$3,746**	**$2,805**			
Net Debt (CAD$M)	-$135	-$101	**Total Equity Value**	**$6,598**	**$4,941**
EV/EBITDA Market Cap	**$3,882**	**$2,907**	Shares (M)	$398	$398
			Valuation Price	**$17**	**$12**

All C$ millions, unless noted

INCOME STATEMENT (C$M)		2019A	2020A	2021E	2022E	2023E	2024E	2025E
Revenue		$1,863	$1,800	$1,427	$1,511	$1,624	$1,781	$1,755
Operating Costs		$1,492	$1,646	$1,391	$1,350	$1,175	$1,143	$1,078
EBITDA	**CAD**	**$371**	**$154**	**$36**	**$160**	**$448**	**$638**	**$677**
EBITDA (incl. Inkai)	**CAD**	**$417**	**$190**	**$92**	**$250**	**$541**	**$730**	**$756**
D&A		($276)	($209)	($161)	($121)	($278)	($372)	($372)
EBIT	**CAD**	**$512**	**$136**	**($33)**	**$290**	**$711**	**$996**	**$1,061**
Other Income/Expenses		$423	$196	$82	$229	$517	$704	$741
EBT (Adj)	**CAD**	**$89**	**($61)**	**($115)**	**$61**	**$194**	**$292**	**$320**
Taxes (Adj)		($48)	($6)	$22	($12)	($39)	($58)	($64)
Net Income	**CAD**	**$41**	**($66)**	**($93)**	**$49**	**$155**	**$234**	**$256**
Earnings - Adjusted ($/sh)	**CAD**	**$0.10**	**($0.17)**	**($0.23)**	**$0.12**	**$0.39**	**$0.59**	**$0.64**
Weighted average diluted shares (M)		396	396	398	398	398	398	398

BALANCE SHEET (C$M)		2019A	2020A	2021E	2022E	2023E	2024E	2025E
Cash & Equivalents		$1,062	$943	$1,131	$1,105	$1,264	$1,469	$1,706
Other Current Assets		$745	$1,002	$857	$881	$998	$1,005	$990
PP&E and Other		$5,620	$5,636	$5,311	$5,308	$5,117	$5,068	$5,013
Total Assets	**CAD**	**$7,427**	**$7,581**	**$7,299**	**$7,295**	**$7,380**	**$7,543**	**$7,709**
Current Liabilities		$277	$304	$206	$197	$191	$198	$191
Long Term Debt		$997	$996	$996	$996	$996	$996	$996
Other Long Term Liabilities		$1,158	$1,323	$1,260	$1,280	$1,300	$1,320	$1,340
Total Liabilities	**CAD**	**$2,432**	**$2,622**	**$2,462**	**$2,473**	**$2,487**	**$2,514**	**$2,527**
Non-controlling interest		$0	$0	($33)	($123)	($215)	($308)	($388)
Shareholder Equity		$4,995	$4,959	$4,871	$4,944	$5,108	$5,337	$5,570
Total Liab. & Shareholder Equity	**CAD**	**$7,427**	**$7,581**	**$7,299**	**$7,295**	**$7,380**	**$7,543**	**$7,709**

CASH FLOW STATEMENT (C$M)		2019A	2020A	2021E	2022E	2023E	2024E	2025E
Cash Flows from Operating Activities								
Net Income		$74	($53)	($65)	$49	$155	$234	$256
D&A		$276	$209	$161	$121	$278	$372	$372
Non-Recurring/Other	CAD	$64	$102	($19)	($0)	$7	$13	$13
Operating Cash Flow	**CAD**	**$414**	**$258**	**$77**	**$169**	**$440**	**$619**	**$642**
Changes in Working Capital		$113	($201)	$88	($33)	($123)	($0)	$8
Net Operating Cash Flow	**CAD**	**$527**	**$57**	**$165**	**$136**	**$317**	**$619**	**$650**
Cash Flows From Investing Activities								
Net Capital Expenditures		($75)	($77)	($100)	($131)	($126)	($382)	($382)
Other		$512	($24)	$69	$0	$0	$0	$0
Net Investing Cash Flow	**CAD**	**$437**	**($101)**	**($32)**	**($131)**	**($126)**	**($382)**	**($382)**
Cash Flows From Financing Activities								
Net Issue/Red. Debt		($500)	($2)	$0	$0	$0	$0	$0
Net Sale/Repur. of Stock		$0	$5	$20	$0	$0	$0	$0
Other		($107)	($101)	($54)	($32)	($32)	($32)	($32)
Net Financing Cash Flow	**CAD**	**($607)**	**($98)**	**($33)**	**($32)**	**($32)**	**($32)**	**($32)**
Increase (Decrease) in Cash	**CAD**	**$351**	**($144)**	**$100**	**($26)**	**$159**	**$205**	**$237**

Financial Metrics		2019A	2020A	2021E	2022E	2023E	2024E	2025E
EV/EBITDA (incl. Inkai)	x	20.8x	45.4x	94.3x	34.6x	16.0x	11.8x	11.4x
Free Cash Flow	CAD	$379	($86)	$44	$5	$191	$237	$269
Free Cash Flow per share	CAD	$0.95	($0.22)	$0.11	$0.01	$0.48	$0.60	$0.68
Free Cash Flow Yield	%	4.3%	(1.0%)	0.5%	0.1%	2.2%	2.7%	3.0%

Priced as of July 28 2021 market close
Source: Company reports, RBC Capital Markets estimates

Key ESG questions

This section is intended to highlight key ESG discussion points relevant to this company, as well as our views on the outlook. Both the questions we highlight and our responses will evolve over time as the dialogue between management, analysts and investors continues to advance. We welcome any feedback on the topics.

Our view

What are the most material ESG issues facing this company?

Cameco produces uranium used to generate nuclear energy. Key ESG considerations are carbon emissions from mining and tailings management, relations with the local indigenous community in Saskatchewan, and acceptance of nuclear as a clean energy source. Additionally, a key ESG issue facing the company would be employee exposure to radiation, given the company's operations. Cameco reports on all of these factors – in 2019, the company generated 277kt of CO_2 (scope 1 & 2) in its operations; the average radiation dose was 0.57 mSv, which is well below typical natural background radiation exposure (2-3mSv per Cameco); and had one formal dispute related to Indigenous rights, which was unchanged from 2018.

How does the company integrate ESG considerations into its strategy?

Cameco uses the GRI Global framework, in addition to two corporate indicators that are unique to the company (Public Perception & Employee Radiation Exposure) to measure sustainability performance. Executive compensation is tied to ESG performance through the use of short-term incentives, 50% of which is tied to performance in community initiatives, safety, and environmental goals. Cameco utilizes a Safety, Health, Environment and Quality management system that is governed by one policy, which can be found on the company's website.

What is diversity like at board / management level?

33% (3 of 9) of Cameco's Board of Directors are female while 11% (1 of 9) are Indigenous. Additionally, Cameco has a policy that mandates at least 30% of the BoD be female, and at least one be Indigenous. 20% (1 of 5) of executive officers are female. According to the 2021 Proxy Circular, 28% of the senior management team is female and 6% identify as a visible minority. Across all of Cameco, 25% of the company's workforce are female while 46% are Indigenous. We also note that Cameco has policies in place to promote women in leadership.

Is nuclear, and by extension uranium, considered a clean energy source?

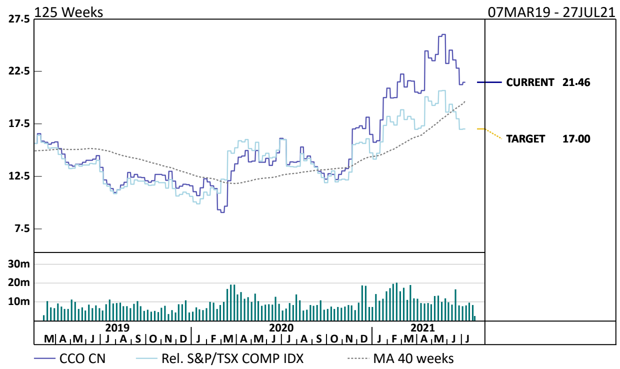
ESG considerations with regards to nuclear energy are, by extension, also relevant to uranium as it is the primary fuel source for nuclear energy generation. Nuclear reactors produce no greenhouse gas emissions, although there are slight emissions from other parts of the nuclear fuel cycle including construction, mining, conversion, and enrichment. Many countries have incorporated nuclear as a critical part of their overall energy mix and consider nuclear as a clean and sustainable energy source that is key to meeting climate goals. However, opponents to nuclear as a clean and sustainable energy source cite the potential risk from nuclear accidents, challenges with nuclear waste disposal, and proliferation concerns.

How does Cameco engage the local community?

Cameco operates primarily in northern Saskatchewan, which has a large Indigenous population and ~45% of the workforce is made up of First Nations and Metis people. Cameco has formal agreements with communities in northern Saskatchewan based on – workforce development, business development, community investment, community engagement, and environmental stewardship. In 2020, Cameco received the "Towards Sustainable Mining" Excellence Award from the Mining Association of Canada for the Community Based Environmental Monitoring Program, which is part of a collaboration between Cameco, Orano, and local communities to engage the local population in environmental monitoring.

Target/Upside/Downside Scenarios

Cameco Corporation



Source: Bloomberg and RBC Capital Markets estimates for Target

Valuation

We value the company by applying an EV/EBITDA multiple to Cameco's operating assets, a DCF valuation to its McArthur River asset, and then adding the CRA restricted cash. Our EV/EBITDA valuation applies a 15x multiple to 2022 EBITDA estimates — this multiple is above the average multiple post-Fukushima and pre-McArthur shutdown in recognition of greater interest as an ESG and clean energy investment. Our DCF analysis uses an 8% discount rate. The implied return to our $17 price target supports our Underperform rating.

Upside scenario

Our upside scenario of $25 assumes that uranium prices recover earlier than expected and higher prices are required to incentivize new mine supply. In this scenario, we increase our price forecasts for 2021 by $5/lb and 2022–30 by $10/lb and use a $60/lb long-term spot price forecast. We increase our EV/EBITDA valuation multiple to 20x to account for increased interest as a clean energy investment. We also assume that the CRA restricted cash is returned, which adds $1/sh to our valuation.

Downside scenario

Our downside scenario of $12 assumes that uranium prices take longer than expected to recover and less new mine supply is required due to weak demand. In this scenario, we decrease our price forecasts for 2021 by $5/lb and 2022–30 by $10/lb and use a $40/lb long-term spot price forecast. We decrease our EV/EBITDA valuation multiple to 10x to reflect the historical average. We also assume that the CRA restricted cash is not returned.

Investment summary

We believe the company is well positioned to benefit from an eventual long-term recovery in uranium prices, while strong operations support a very robust financial position in the near term. However, we expect a uranium price recovery to be gradual and view the shares as fully valued with downside risk and limited upside potential.

Potential catalysts

Cameco suspended production at McArthur River mine and Key Lake mill starting January 2018 and announced an indefinite extension of the curtailment in July 2018. The company expects to draw down inventories and make spot market purchases to meet sales commitments. Management has stated that McArthur River would come on-line when the company can sign contracts at prices that would provide acceptable returns—we view this price level as ~$40/lb.

Cameco currently has ~$300M in restricted cash set aside (along with lines of credit) for the CRA dispute to satisfy rules that require companies to remit or secure 50% of a tax reassessment. Given the positive ruling for Cameco, we think it is reasonably likely that the company would eventually be able to recover the restricted cash.

Cameco and Kazatomprom have restructured the Inkai JV to provide longer-term stability and potential production increases. Production at Inkai JV may increase according to the resource use contract, although the actual production plan is set annually.

Risks to rating and price target

We highlight several key risks and sensitivities that could be potentially material to our thesis on Cameco including: 1) an earlier outcome in the CRA transfer pricing dispute that results in the release of $300M restricted cash held by the government; 2) stronger-than-expected uranium prices; 3) uranium production disruptions from other producers; 4) an increase in valuation multiples due to rising interest as an ESG/clean energy investment; and 5) currency volatility, primarily CAD/USD.

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Company description

Cameco, headquartered in Saskatoon, Saskatchewan, is focused on uranium mining and nuclear fuel services. The company generated $1.8B revenue in 2020, with the vast majority coming from the uranium segment. Cameco produces uranium from three major properties that are considered among the best assets globally due to high grades and low costs, and it has potential to increase production over the long term as uranium prices improve.

Required disclosures

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RBC Capital Markets has provided Cameco Corporation with non-securities services in the past 12 months.

Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average.

Ratings

Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

Restricted (R): RBC policy precludes certain types of communications, including an investment recommendation, when RBC is acting as an advisor in certain merger or other strategic transactions and in certain other circumstances.

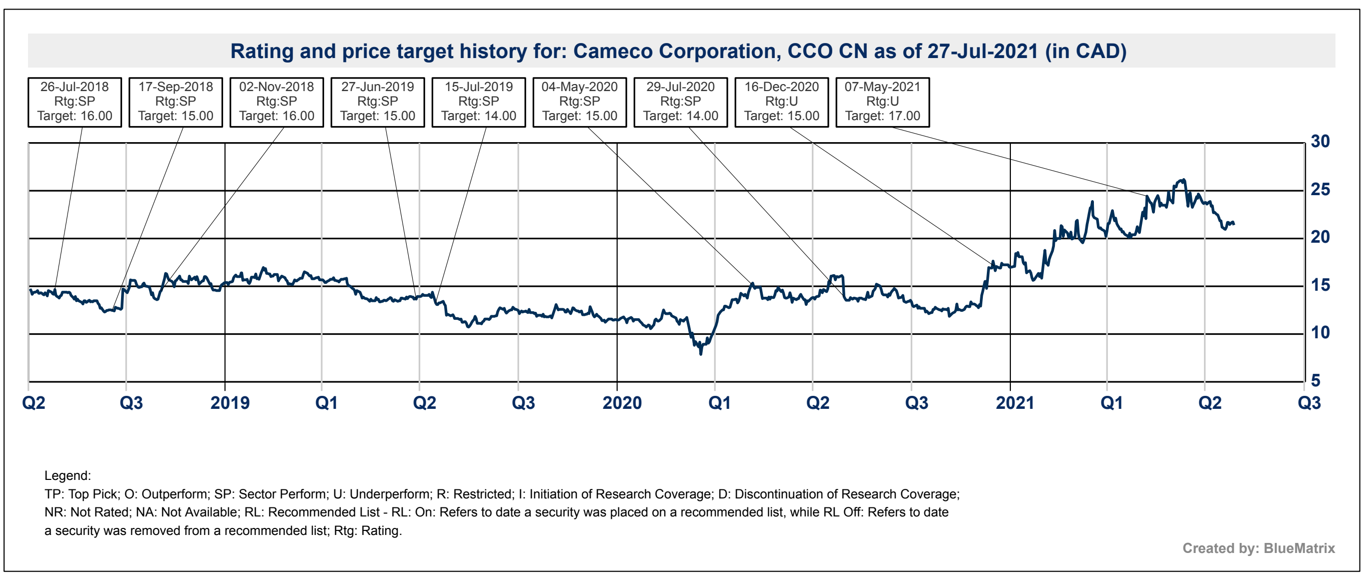
Not Rated (NR): The rating, price targets and estimates have been removed due to applicable legal, regulatory or policy constraints which may include when RBC Capital Markets is acting in an advisory capacity involving the company.
As of March 31, 2020, RBC Capital Markets discontinued its Top Pick rating. Top Pick rated securities represented an analysts best idea in the sector; expected to provide significant absolute returns over 12 months with a favorable risk-reward ratio. Top Pick rated securities have been reassigned to our Outperform rated securities category, which are securities expected to materially outperform sector average over 12 months.
Risk Rating
The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.

Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

Distribution of ratings
RBC Capital Markets, Equity Research
As of 30-Jun-2021

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Outperform]	**787**	**55.70**	**318**	**40.41**
HOLD [Sector Perform]	**575**	**40.69**	**173**	**30.09**
SELL [Underperform]	**51**	**3.61**	**4**	**7.84**



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: All Cap Growth (RL 12). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at www.rbcinsight.com or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

Cameco Corporation

Valuation

We value the company by applying an EV/EBITDA multiple to Cameco's operating assets, a DCF valuation to its McArthur River asset, and then adding the CRA restricted cash. Our EV/EBITDA valuation applies a 15x multiple to 2022 EBITDA estimates — this multiple is above the average multiple post-Fukushima and pre-McArthur shutdown in recognition of greater interest as an ESG and clean energy investment. Our DCF analysis uses an 8% discount rate. The implied return to our $17 price target supports our Underperform rating.

Risks to rating and price target

We highlight several key risks and sensitivities that could be potentially material to our thesis on Cameco including: 1) an earlier outcome in the CRA transfer pricing dispute that results in the release of $300M restricted cash held by the government; 2) stronger-than-expected uranium prices; 3) uranium production disruptions from other producers; 4) an increase in valuation multiples due to rising interest as an ESG/clean energy investment; and 5) currency volatility, primarily CAD/USD.

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