



June 22, 2021

Cameco Corporation

Priced to perfection, see downside risk on any bumps along the way

Our view: We continue to believe Cameco is well-positioned for a long-term improvement in the uranium market that is trending in the right direction. However, we think uranium equities may have benefited from increased social media activity and view shares as priced to perfection. We see downside risk if the uranium price trajectory experiences any volatility or is more moderate than the path currently priced into shares.

Key points:

Improving uranium market trends amplified by social media: We believe uranium market fundamentals have improved with increased support for nuclear as a clean energy and renewed financial interest to invest in physical uranium, which should help support a recovery in prices to levels that better reflect production economics. We view the uranium market as balanced through the mid-2020's before entering a more significant deficit in the late-2020's, with prices rising gradually to first incentivize re-starts and then new builds later in the decade. However, we think the improving uranium market trends have been amplified by social media excitement, driving uranium equities ahead of actual fundamentals.

We have raised our uranium price forecast to account for increased financial interest to invest in physical uranium – our price forecasts for the 2021-2025 period are ~10% higher. We see the potential for market backwardation in 2022, with spot prices reaching \$40/lb while term prices only rise to \$35/lb, and then settling at \$40-45/lb through the mid-2020's to incentivize idled production re-starts. Longer-term we see prices rising to \$50/lb to reflect incentive prices required for new mine production.

We believe increased social media attention on uranium may be playing a part in the recent rise in uranium equity valuations and should be taken into consideration by investors evaluating the sector. We think there is the potential that ongoing social media activity may keep valuations elevated compared to actual fundamentals, but we caution investors that social media trends can change quickly, while contributors are unregulated and may present biased views that serve their own interests.

Please see our updated uranium market outlook "[RBC Elements™: Uranium Outlook - Improving trends, but equity values amplified by social media](#)" published on June 22, 2021.

Valuation priced to perfection: We estimate Cameco currently trades at 1.7x P/NAV or 9x EV/EBITDA based on our run-rate EBITDA estimate at \$60/lb uranium (vs. current prices at \$32-33/lb). We think Cameco is currently pricing in a near-term and significant rally in uranium prices that we think is longer-dated and see risk to valuation if the uranium price trajectory is slower than currently priced into shares.

Reiterate Underperform and \$17PT: We are raising our 2021E and 2022E EBITDA to \$103M and \$265M, from \$102M and \$258M, due to our higher uranium price forecast in the medium-term, partially offset by strong CAD.

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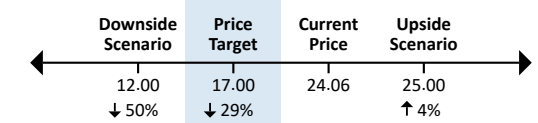
Underperform

TSX: CCO; CAD 24.06; NYSE: CCJ

Price Target CAD 17.00

WHAT'S INSIDE	
<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input type="checkbox"/> News Analysis

Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	397.0	Market Cap (MM):	9,553
Dividend:	0.08	Yield:	0.3%
NAVPS:	14.39	P/NAVPS:	1.67x
		Tr. 12 ROE:	2.90%
		Enterprise Val. (MM):	9,505
		Avg. Daily Volume:	2,422,104
		3-Yr. Est. EPS Growth:	65.00%

RBC Estimates

FY Dec	2020A	2021E	2022E	2023E
EPS, Adj Diluted	(0.17)	(0.12)	0.14	0.42
Prev.			0.13	0.36
P/AEPS	NM	NM	NM	56.7x
EBITDA, Adj	190.4	102.7	265.4	558.6
Prev.		101.8	258.4	526.3
FCFPS	(0.22)	(0.09)	0.07	0.51
Prev.		(0.03)	0.12	0.47
P/FCF	nm	nm	nm	47.0x
EPS, Adj Diluted	Q1	Q2	Q3	Q4
2020	0.07A	(0.16)A	(0.20)A	0.12A
2021	(0.07)A	(0.01)E	(0.03)E	(0.01)E
2022	0.02E	0.02E	0.02E	0.08E
Prev.	0.01E			0.09E
EBITDA, Adj				
2020	65.3A	(2.8)A	(24.0)A	151.9A
2021	17.0A	22.5E	19.5E	43.8E
Prev.		22.2E	18.8E	43.9E
2022	61.1E	60.4E	53.0E	90.9E
Prev.	55.3E	56.8E	51.9E	94.3E

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



Exhibit 1 - RBC Uranium S&D Outlook

S&D (Mlbs U3O8)	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	CAGR 20-30E	CAGR 20-35E
United States	100	100	100	100	99	97	95	94	95	96	95	94	94	94	94	94	0%	0%
West & Central Europe	120	120	120	118	118	115	113	110	102	104	101	97	100	101	103	103	-1%	-1%
Russia	25	26	27	29	29	29	30	29	30	31	30	29	28	28	27	29	0%	0%
Other East Europe	16	16	16	16	16	16	17	19	19	19	19	19	19	19	19	20	2%	2%
China	23	28	33	34	43	48	49	53	55	55	59	67	79	87	94	101	7%	7%
Japan	1	3	7	9	9	6	8	11	12	14	14	16	18	18	19	20	12%	8%
India	5	5	6	6	6	6	7	7	7	9	9	10	11	11	12	12	6%	5%
Other Asia	26	28	28	28	29	28	29	33	36	34	35	35	35	35	35	36	2%	1%
Other	22	21	21	21	21	22	21	21	20	22	23	23	28	28	29	31	3%	3%
Generating Capacity (GWe)	338	346	358	362	371	367	370	376	376	384	386	390	410	421	431	445	2%	2%
Demand (Mlbs U3O8)	168	164	177	181	180	171	176	173	175	185	197	190	195	198	203	208	2%	1%
Africa	20	19	20	23	22	22	20	21	22	22	23	26	26	26	26	21	0%	-2%
Australia	15	16	14	17	16	16	13	13	13	13	13	14	15	16	16	17	0%	-2%
Canada	34	36	34	18	18	10	7	18	27	36	36	36	36	36	36	18	5%	4%
Kazakhstan	61	64	61	56	59	51	59	59	62	64	64	62	62	62	62	62	2%	1%
Russia	8	8	8	8	8	7	7	7	8	9	9	9	9	9	9	9	2%	1%
Ukraine	3	3	3	2	2	2	2	3	3	3	3	3	3	3	3	3	2%	2%
Uzbekistan	8	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	0%	0%
United States	3	3	3	2	0	0	0	0	0	0	0	0	0	0	0	0	NA	NA
Other	7	7	6	6	6	6	7	7	7	7	8	8	8	8	8	8	2%	1%
Mine Supply (Mlbs U3O8)	159	164	157	139	140	123	124	137	150	162	164	167	167	168	169	146	2%	1%
Russia	14	16	18	16	16	15	15	15	15	15	14	13	12	11	11	8	-6%	-5%
United States	8	6	5	4	3	3	1	1	2	1	2	1	2	2	3	1	-11%	-8%
Other	18	17	17	19	17	16	16	15	12	11	9	9	9	9	8	8	-6%	-5%
Secondary Supply (Mlbs U3O8)	40	39	39	38	36	34	32	31	29	27	25	23	23	21	21	17	-6%	-5%
Mine Supply	159	164	157	139	140	123	124	137	150	162	164	167	167	168	169	146	2%	1%
Secondary Supply	40	39	39	38	36	34	32	31	29	27	25	23	23	21	21	17	-6%	-5%
Total Supply (Mlbs U3O8)	199	203	196	178	177	158	156	168	179	189	190	190	190	189	190	164	0%	0%
Surplus/Deficit	32	39	19	-3	-3	-14	-20	-5	5	3	-7	0	-5	-10	-13	-44		
Supply as % of demand	119%	124%	111%	98%	98%	92%	89%	97%	103%	102%	96%	100%	97%	95%	93%	79%		
Spot Price (US\$/lb)	\$37	\$26	\$22	\$25	\$26	\$29	\$33	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$40	\$50	5%	6%
Term Price (US\$/lb)	\$47	\$40	\$31	\$31	\$32	\$32	\$34	\$35	\$40	\$40	\$40	\$40	\$50	\$50	\$50	\$50	5%	4%

Source: UxC, Company reports, RBC Capital Markets estimates



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 2 - Cameco valuation summary

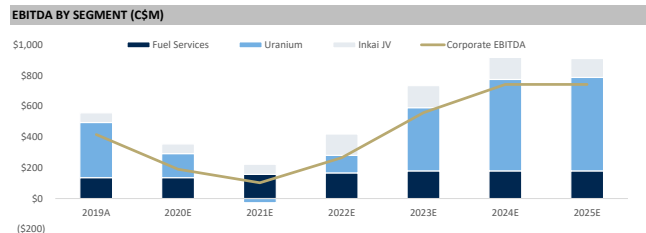
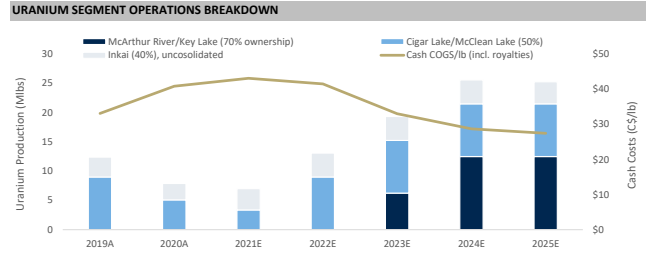
Valuation					
EV/EBITDA valuation	CAD\$M	US\$M	Non-operating assets	CAD\$M	US\$M
Adjusted EBITDA (2022)	\$265	\$199	McArthur River	\$2,415	\$1,808
Multiple	15.0x	15.0x	CRA Restricted Cash	\$303	\$227
Enterprise Value	\$3,982	\$2,981	Total	\$2,718	\$2,035
Balance Sheet (end-21E)			Total Equity Value	\$6,770	\$5,070
Net Debt (CAD\$M)	(\$71)	(\$53)	Shares (M)	397	397
EV/EBITDA Market Cap	\$4,052	\$3,034	Valuation Price	\$17	\$13

Source: Company reports, RBC Capital Markets estimates



Exhibit 3 - RBC Cameco Model

Cameco Corporation										Price Target: C\$17.00					Rating: Underperform					
RBC Capital Markets / Andrew Wong (416) 842-7830																				
TSX: CCO										Market Capitalization (C\$M): \$9,553					Share Price (C\$/sh): \$24.06					
										Enterprise Value (C\$M): \$9,505					Implied Return (%): (29.3%)					
															Net Debt (C\$M): -\$48					
															Issued Shares (diluted): 397.0					
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	\$50	\$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	3.4	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	7	13	19	25												
Sales Volume		Mlbs	31.5	30.5	25.0	25.0	25.0	27.6												
Realized Price		C\$/lb	\$45	\$46	\$42	\$47	\$51	\$52												
Market Purchases		Mlbs	15.0	29.6	13.5	12.0	4.0	2.0												
Ending Inventory		Mlbs	6.1	15.3	9.6	9.6	13.3	13.3												
Cash Production Costs		C\$M	\$164	\$87	\$53	\$135	\$229	\$323												
Cash Production Costs/lb		C\$/lb	\$20	\$29	\$16	\$15	\$15	\$15												
Cost of Product Sold			\$878	\$1,068	\$923	\$888	\$699	\$642												
Royalties			\$32	\$16	\$17	\$40	\$96	\$120												
Care and Maintenance			\$121	\$150	\$129	\$100	\$20	\$20												
Other costs			\$11	\$12	\$9	\$10	\$10	\$10												
Total Cash Costs		C\$M	\$1,042	\$1,245	\$1,078	\$1,037	\$826	\$792												
D&A			\$175	\$97	\$39	\$75	\$229	\$323												
Total COGS		C\$M	\$1,217	\$1,342	\$1,116	\$1,112	\$1,054	\$1,114												
Cash COGS/lb (incl. royalties)		C\$/lb	\$33	\$41	\$43	\$41	\$33	\$29												
Fuel Services Segment																				
Production		M KgU	13.4	11.7	13.4	12.4	12.4	12.4												
Sales Volume		M KgU	14.2	13.5	12.0	12.4	12.4	12.4												
Realized Price		C\$/KgU	\$26	\$27	\$30	\$29	\$31	\$30												
Cash Costs			\$234	\$234	\$200	\$199	\$199	\$199												
D&A			\$46	\$46	\$45	\$50	\$50	\$50												
Total COGS		C\$M	\$280	\$280	\$245	\$249	\$249	\$249												
Cash COGS/KgU		C\$/KgU	\$17	\$17	\$17	\$16	\$16	\$16												
All C\$ millions, unless noted																				
INCOME STATEMENT (C\$M)		2019A	2020A	2021E	2022E	2023E	2024E	2025E												
Revenue		\$1,863	\$1,800	\$1,416	\$1,530	\$1,645	\$1,795	\$1,737												
Operating Costs		\$1,492	\$1,646	\$1,381	\$1,353	\$1,180	\$1,146	\$1,075												
EBITDA		CAD	\$371	\$154	\$35	\$176	\$466	\$649												
EBITDA (incl. Inkai)		CAD	\$417	\$190	\$103	\$265	\$559	\$742												
D&A			(\$276)	(\$209)	(\$107)	(\$125)	(\$278)	(\$372)												
EBIT		CAD	\$512	\$136	\$31	\$317	\$746	\$1,019												
Other Income/Expenses			\$423	\$196	\$93	\$246	\$535	\$716												
EBT (Adj)		CAD	\$89	(\$61)	(\$62)	\$71	\$211	\$303												
Taxes (Adj)			(\$48)	(\$6)	\$14	(\$14)	(\$42)	(\$61)												
Net Income		CAD	\$41	(\$66)	(\$48)	\$57	\$169	\$242												
Earnings - Adjusted (\$/sh)		CAD	\$0.10	(\$0.17)	(\$0.12)	\$0.14	\$0.42	\$0.61												
Weighted average diluted shares (M)			396	396	397	397	397	397												
BALANCE SHEET (C\$M)		2019A	2020A	2021E	2022E	2023E	2024E	2025E												
Cash & Equivalents		\$1,062	\$943	\$1,066	\$1,062	\$1,233	\$1,447	\$1,675												
Other Current Assets		\$745	\$1,002	\$827	\$846	\$962	\$968	\$949												
PP&E and Other		\$5,620	\$5,636	\$5,406	\$5,398	\$5,203	\$5,152	\$5,100												
Total Assets		CAD	\$7,427	\$7,581	\$7,299	\$7,305	\$7,399	\$7,567												
Current Liabilities		\$277	\$304	\$213	\$210	\$204	\$210	\$202												
Long Term Debt		\$997	\$996	\$996	\$996	\$996	\$996	\$996												
Other Long Term Liabilities		\$1,158	\$1,323	\$1,233	\$1,253	\$1,273	\$1,293	\$1,313												
Total Liabilities		CAD	\$2,432	\$2,622	\$2,441	\$2,458	\$2,472	\$2,499												
Non-controlling interest		\$0	\$0	(\$46)	(\$136)	(\$229)	(\$321)	(\$401)												
Shareholder Equity		\$4,995	\$4,959	\$4,905	\$4,983	\$5,155	\$5,390	\$5,614												
Total Liab. & Shareholder Equity		CAD	\$7,427	\$7,581	\$7,299	\$7,305	\$7,399	\$7,567												
CASH FLOW STATEMENT (C\$M)		2019A	2020A	2021E	2022E	2023E	2024E	2025E												
Cash Flows from Operating Activities																				
Net Income			\$74	(\$53)	(\$24)	\$57	\$169	\$242												
D&A			\$276	\$209	\$107	\$125	\$278	\$372												
Non-Recurring/Other		CAD	\$64	\$102	(\$96)	(\$3)	\$5	\$12												
Operating Cash Flow		CAD	\$414	\$258	(\$13)	\$179	\$452	\$626												
Changes in Working Capital			\$113	(\$201)	\$93	(\$21)	(\$123)	\$0												
Net Operating Cash Flow		CAD	\$527	\$57	\$80	\$158	\$329	\$627												
Cash Flows From Investing Activities																				
Net Capital Expenditures			(\$75)	(\$77)	(\$113)	(\$131)	(\$126)	(\$382)												
Other			\$512	(\$24)	\$179	\$0	\$0	\$0												
Net Investing Cash Flow		CAD	\$437	(\$101)	\$65	(\$131)	(\$126)	(\$382)												
Cash Flows From Financing Activities																				
Net Issue/Red. Debt			(\$500)	(\$2)	\$0	\$0	\$0	\$0												
Net Sale/Repur. of Stock			\$0	\$5	\$18	\$0	\$0	\$0												
Other			(\$107)	(\$101)	(\$33)	(\$32)	(\$32)	(\$32)												
Net Financing Cash Flow		CAD	(\$607)	(\$98)	(\$15)	(\$32)	(\$32)	(\$32)												
Increase (Decrease) in Cash		CAD	\$351	(\$144)	\$130	(\$4)	\$171	\$213												
Financial Metrics		2019A	2020A	2021E	2022E	2023E	2024E	2025E												
EV/EBITDA (incl. Inkai)		x	22.8x	49.9x	92.5x	35.8x	17.0x	12.8x												
Free Cash Flow		CAD	\$420	(\$52)	(\$66)	(\$4)	\$171	\$213												
Free Cash Flow per share		CAD	\$1.06	(\$0.13)	(\$0.17)	(\$0.01)	\$0.43	\$0.54												
Free Cash Flow Yield		%	4.4%	(0.5%)	(0.7%)	(0.0%)	1.8%	2.2%												



VALUATION (Balance Sheet Items @ End-21E)					
EV/EBITDA valuation	CAD\$M	US\$M	Non-Op. assets	CAD\$M	US\$M
Adjusted EBITDA (2022)	\$265	\$199	McArthur River (8% disc.)	\$2,415	\$1,808
Multiple	15x	15x	CRA Restricted Cash	\$303	\$227
Enterprise Value	\$3,982	\$2,981	Total Equity Value	\$6,770	\$5,070
Net Debt (CAD\$M)	-\$71	-\$53	Shares (M)	\$397	\$397
EV/EBITDA Market Cap	\$4,052	\$3,034	Valuation Price	\$17	\$13

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.

What are the most material ESG issues facing this company?

Our view

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 CO₂ (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.

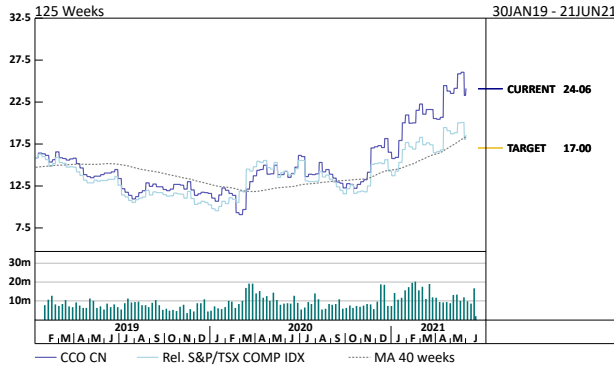
How does Cameco engage the local community?

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.



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.

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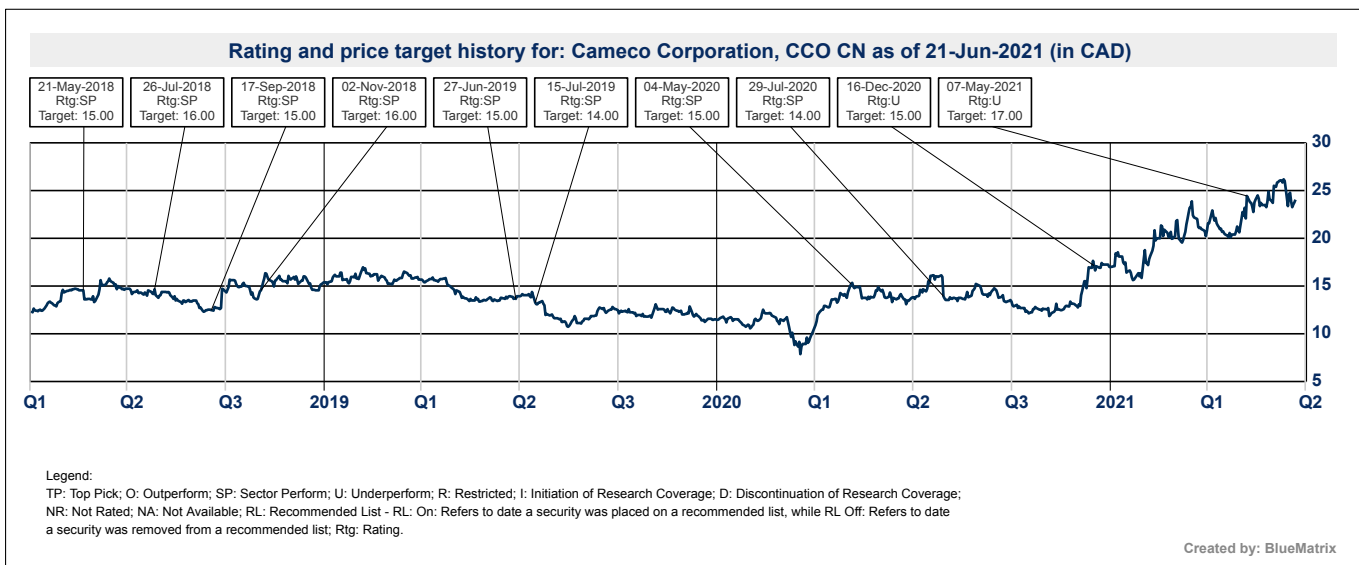
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Cameco Corporation

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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