

Action Note

Equity Research

July 29, 2021

Metals & Minerals

Cameco Corp.

(CCO-T, CCJ-N) C\$22.19 | US\$17.68

Term Market Still Discretionary

Greg Barnes

Derick Ma, CFA, CPA, CA

Event

We have updated our forecasts following the release of CCO's Q2/21 results.

Impact: NEUTRAL

- CCO reported that it added 7mmlbs of uranium to its LT contract portfolio in Q2/21 bringing total contracted material added this year to 16mmlbs; no details were provided about the contract terms (pricing or duration).** Sales volumes under contract through 2025 average 19mmlbs/yr (up from 17mmlbs/yr previously).
- Based on our forecasts, Cameco is trading at ~1.4x-1.5x P/NAV.** Our modeling suggests that Cameco's share price is discounting a LT flat uranium price (realized) of US\$60-\$65/lb starting in 2022, assuming a 1.0x P/NAV multiple. Over the past 20-years, our modeling indicates that Cameco has traded at an average P/NAV multiple of ~1.2x. If we use that as a base, Cameco share price is discounting a LT uranium price of ~US\$50.00-\$55.00/lb.
- Alternatively, we estimate that Cameco's current share price is discounting a 2025 uranium price of ~US\$60/lb based on a 10x EV/2025 EBITDA multiple, discounted back to today and assuming that Cameco's uranium mining operations are all operating at full capacity.** While we believe that the longer term incentive price for greenfield uranium production could be in the US\$55-US\$65/lb range, we also do not expect that new greenfield uranium production capacity will be required until the late 2020's at the earliest given the significant volume of brownfield curtailed uranium production capacity – a view that is reinforced by Cameco's statement that the expected recovery in uranium prices will be one that is enjoyed by incumbent producers rather than new entrants.

TD Investment Conclusion

We are maintaining our HOLD recommendation. Management noted during the Q2/21 conference call that the uranium term contracting market has still not reached the point where utilities are at the point of contracting at an annual replacement level. Utilities continue to see opportunities to use the spot market actively to manage their inventories. As well, some producers are still eager to buy LT contracting business by offering terms that CCO cannot/will not match.



Company Profile

Cameco is one of the world's largest uranium producers. The company's flagship McArthur River and Cigar Lake mines are located in the Athabasca Basin in Saskatchewan, Canada.

Recommendation:	HOLD
Risk:	HIGH
12-Month Target Price:	C\$25.00
12-Month Dividend (Est.):	C\$0.08
12-Month Total Return:	13.0%

Market Data (C\$)

Current Price	C\$22.19
52-Week Range	\$11.84 - \$26.62
Mkt Cap (f.d.) (\$mm)	\$8,825.0
EV (\$mm)	\$8,806.3
Current Dividend	\$0.08
Dividend Yield	0.4%
Avg. Daily Trading Vol.	2,070,989

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	397.7
Float Shares (mm)	397.7
Net Debt/Total Cap	3.1%
NAVPS	\$15.78
Working Cap (\$mm)	\$1,788.2

Estimates (C\$)

Year	2019A	2020A	2021E	2022E
EBITDA (\$mm)	372.8	154.9	71.2	141.8
EBITDA (\$mm) (old)	-	-	20.7	137.3
EPS (f.d.)	0.10	(0.17)	(0.30)	(0.04)
EPS (f.d.) (old)	-	-	(0.43)	(0.06)
CFPS (f.d)	1.04	0.65	0.38	0.38
CFPS (f.d) (old)	-	-	0.09	0.36

EPS (f.d.) Quarterly Estimates (C\$)

Year	2019A	2020A	2021E	2022E
Q1	(0.08)	0.07	(0.17)	-
Q2	(0.04)	(0.16)	(0.09)	-
Q3	(0.01)	(0.20)	(0.05)	-
Q4	0.23	0.12	0.01	-

Valuations

Year	2019A	2020A	2021E	2022E
EV/EBITDA	23.6x	56.9x	123.7x	62.1x
P/E (f.d.)	nmf	nmf	nmf	nmf
P/CFPS (f.d)	21.3x	34.1x	58.4x	58.4x

Supplemental Data

Year	2019A	2020A	2021E	2022E
U3O8 (US\$/lb)	26	30	32	36
U3O8 Prod. Mlb	9	5	6	9

All figures in C\$, unless otherwise specified

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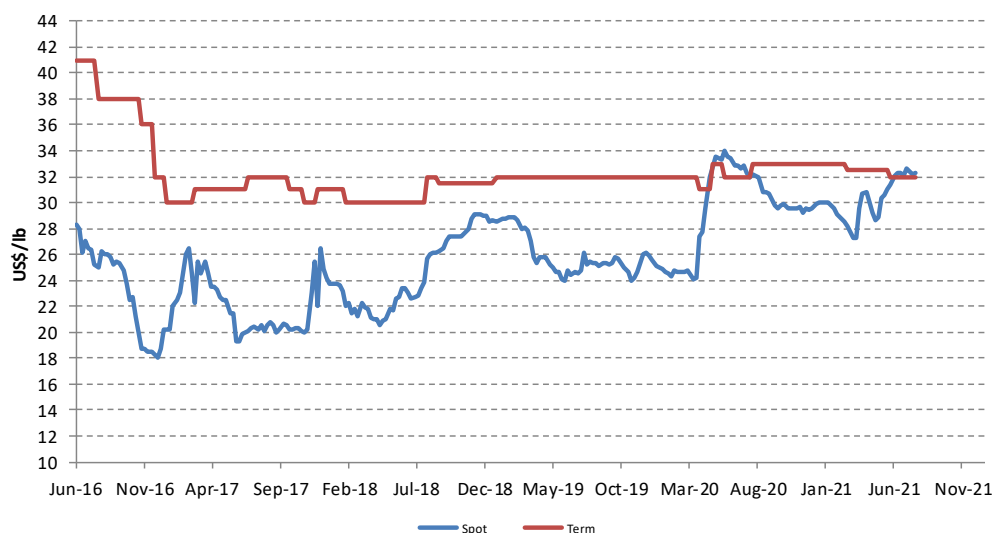
Details

CCO reported uranium sales of 6.0mmlbs (TD 4.2mmlbs), a realized uranium price of US\$33.56/lb (TD US\$34.00/lb) and average unit operating costs of \$46.03/lb (including DD&A). CCO resumed production at Cigar Lake following a suspension at the beginning of July due to the proximity of a forest fire. The company expects to produce up to 12mmlbs on a 100% basis in 2021.

CCO has maintained its guidance for uranium purchases for 2021 at 11-13mm pounds. We note that CCO's planned 2021 uranium purchases for 2021 include related party purchases from Inkai (~5mmlbs) and purchases from Nukem's excess inventory (a few million pounds). For Q2/21, Cameco reported that it has purchased 2.4mmlbs of uranium, which we believe includes 1.4mmlbs purchased from Inkai.

In previous quarters, management has indicated that "it continues to have a large volume of off-market discussions with utilities regarding additional contracting activity". This quarter, the wording changed to "negotiations continue on the business opportunities remaining in our pipeline", which sounds a little less optimistic about the pace of future contracting activity. However, management clarified on its conference call that it expects to continue a high level of contracting activity.

Exhibit 1. Spot and Term Uranium Prices



Source: Ux Consulting; TD Securities estimates

Outlook

We have updated our forecasts to reflect Q2/21 results and guidance.

Exhibit 2. Cameco Net Asset Value

Cameco Net Asset Value		8%		10%	
		C\$000	C\$/sh	C\$000	C\$/sh
Nuclear Operations					
McArthur River	69.8% MRJV, 83.33% KLJV	2,263,863	5.69	1,818,092	4.57
Cigar Lake	50.3% JV	872,369	2.19	804,623	2.02
Rabbit Lake	100%	123,521	0.31	98,177	0.25
Inkai	40%	1,368,766	3.44	1,087,592	2.73
Highland-Smith	100%	190,200	0.48	190,200	0.48
Crow Butte	100%	108,600	0.27	108,600	0.27
Conversion	100%	705,005	1.77	622,089	1.56
Total Operations		5,632,324	14.16	4,729,372	11.89
Existing Mines (50% inferred resources @ C\$8/lb)		515,200	1.30	515,200	1.30
Pipeline projects (50% total resources @C\$4/lb) *		628,200	1.58	628,200	1.58
Mining/Project NAV		6,775,724	17.04	5,872,772	14.77
Plus:					
Working Capital		1,788,237	4.50	1,788,237	4.50
Equity Investments		978	0.00	978	0.00
Minus:					
Corporate G&A		(436,265)	(1.10)	(401,396)	(1.01)
CRA Cash Remittances		206,953	0.52	206,953	0.52
Debt		(995,889)	(2.50)	(995,889)	(2.50)
Reclamation		(1,064,673)	(2.68)	(1,064,673)	(2.68)
Plus/(Minus) balance sheet items		(500,659)	(1.26)	(465,790)	(1.17)
Total NAV		6,275,065	15.78	5,406,982	13.60

* Pipeline projects include: Yeelirrie, Kintyre, Millennium and Fox Lake

TD Metal Price Forecasts	2021E	2022E	2023E	LT
Uranium (US\$/lb)	31.94	36.00	38.00	45.00
US\$/C\$	0.81	0.82	0.82	0.80

Source: TD Securities estimates

Valuation

CCO is currently trading at a P/NAV multiple of ~1.45x, compared with its larger-cap Canadian mining peers at an average of 0.86x. Based on our forecasts, Cameco has traded at an average P/NAV multiple of 1.2x, since 2011 (post the Fukushima accident).

Justification of Target Price

Our \$25.00 target price is based on a NAV-8% multiple of 1.6x (100% weighted). We note that during the last uranium bull cycle between 2006 and 2011, CCO traded at an average P/NAV multiple based on our estimates of ~1.5x, with a peak of ~2.25x and low of 0.75x (during the Financial Crisis).

Key Risks to Target Price

The main risks facing the company include forecast, financial, technical, and political risks. Among other things, these include risks related to uranium prices, input costs, and fuel prices; the governing fiscal and legislative regimes; the timing of key developments; market conditions; capital and operating costs; foreign exchange rates; resources and reserves; operating parameters; permitting; environment; and staffing and key personnel retention. As Cameco is primarily a uranium mining company, it faces heightened environmental risks relative to other mining companies. COVID-19 related operational restrictions could impact our forecasts.



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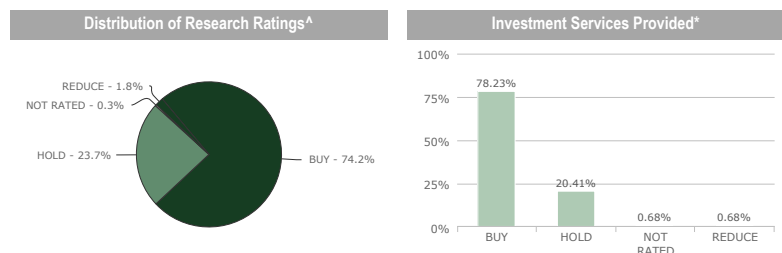
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Cameco Corp.	CCO-T CCJ-N	2, 4, 9

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