

Action Note

Equity Research

September 28, 2021

Metals & Minerals

Cameco Corp.

(CCO-T, CCJ-N) C\$26.46 | US\$20.95

Signals Increasing that Uranium Market has Shifted

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Event

Ux Consulting (UxC) has lifted its Term uranium price to US\$40.00/lb.

Impact: POSITIVE

The spot uranium price has been volatile over the past few weeks, reaching a high of ~US\$51/lb on September 17 after a steady run of buying from the Sprott Physical Uranium Trust (SPUT). But wider market volatility in the following week resulted in SPUT's share price falling below its NAV, resulting in the Trust backing off its buying activity. The spot price has since declined to ~US\$43/lb. SPUT's share price is again trading at a premium to its NAV and the Trust was buying in the spot uranium market yesterday. SPUT now holds 29.1 million pounds of U3O8, up ~11 million pounds since mid-August.

Last night, UxC increased its term uranium price indicator to US\$40.00/lb, the highest the price indicator has been since mid-2016 and the largest monthly upward move since January 2011. There are indications that utilities are starting to recognize that SPUT is having a significant impact on the market and their ability to access spot market pounds readily at attractive price levels could be over. Term activity has increased, with several utilities actively seeking material, both on- and off-market. YTD >52.6 million pounds have been transacted in the market; 43 term transactions have been completed so far in 2021, which compares with an average of 41 transactions completed annually in the past five years.

Although it is not clear how much, if any, term uranium has been transacted at US\$40/lb to this point, UxC noted that material is no longer available at lower price levels. Cameco has previously indicated that it is looking for term pricing above US\$40/lb to justify committing production pounds from McArthur River to term contracts. With term pricing now entering that range, Cameco is better positioned to rebuild its contract portfolio.

TD Investment Conclusion

We are raising our recommendation to BUY (from Hold); our \$35.00 target price is unchanged. We believe that the investment-driven rally we have seen YTD in the uranium market could be transitioning into a higher price environment that will also be supported by fundamentally tighter supply and improving demand.

Recommendation:

BUY↑

Prior: HOLD

Risk:

HIGH

12-Month Target Price:

C\$35.00

12-Month Dividend (Est.):

C\$0.08

12-Month Total Return:

32.6%

Market Data (C\$)

Current Price	C\$26.46
52-Week Range	\$11.84 - \$33.61
Mkt Cap (f.d.) (\$mm)	\$10,523.1
EV (\$mm)	\$10,460.6
Current Dividend	\$0.08
Dividend Yield	0.3%
Avg. Daily Trading Vol.	2,267,256

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	\$19.16
Working Cap (\$mm)	\$1,788.2

Estimates (C\$)

Year	2019A	2020A	2021E	2022E
EBITDA (\$mm)	372.8	154.9	71.2	118.9
EPS (f.d.)	0.10	(0.17)	(0.30)	(0.02)
CFPS (f.d.)	1.04	0.65	0.38	0.40

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	28.1x	67.5x	146.9x	88.0x
P/E (f.d.)	nmf	nmf	nmf	nmf
P/CFPS (f.d.)	25.4x	40.7x	69.6x	66.2x

Supplemental Data

Year	2019A	2020A	2021E	2022E
U3O8 (US\$/lb)	26	30	36	50
U3O8 Prod. Mlb	9	5	6	9

All figures in C\$, unless otherwise specified



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.

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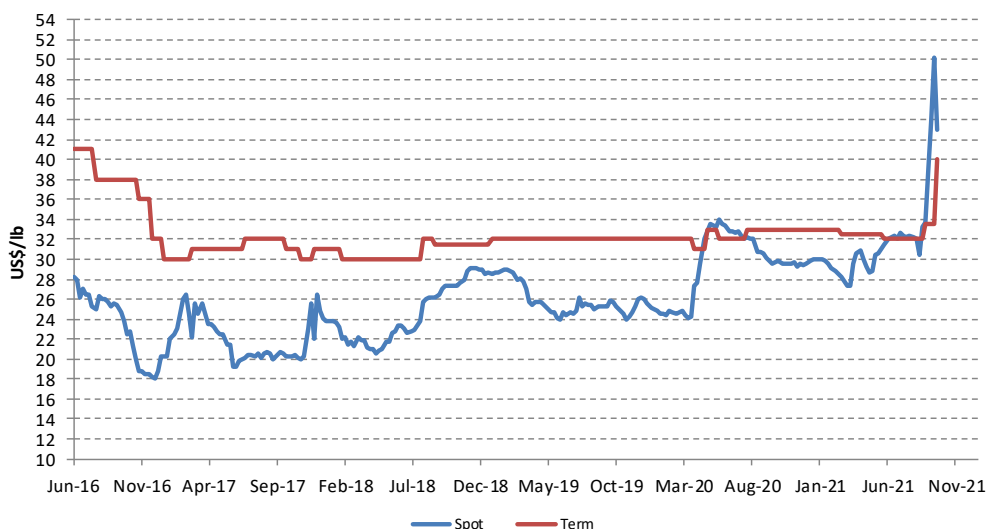
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Details

Uranium pricing is moving into the range that producers have suggested could be high enough to justify restarting curtailed production. We estimate that Cameco and Kazatomprom have combined curtailed annual production capacity of ~33 million pounds. However, a supply response from the larger producers will take time to reenter the market. Cameco has indicated that it would restart McArthur River only when production is committed to long-term contracts. Kazatomprom has also recently reiterated its commitment to supply discipline.

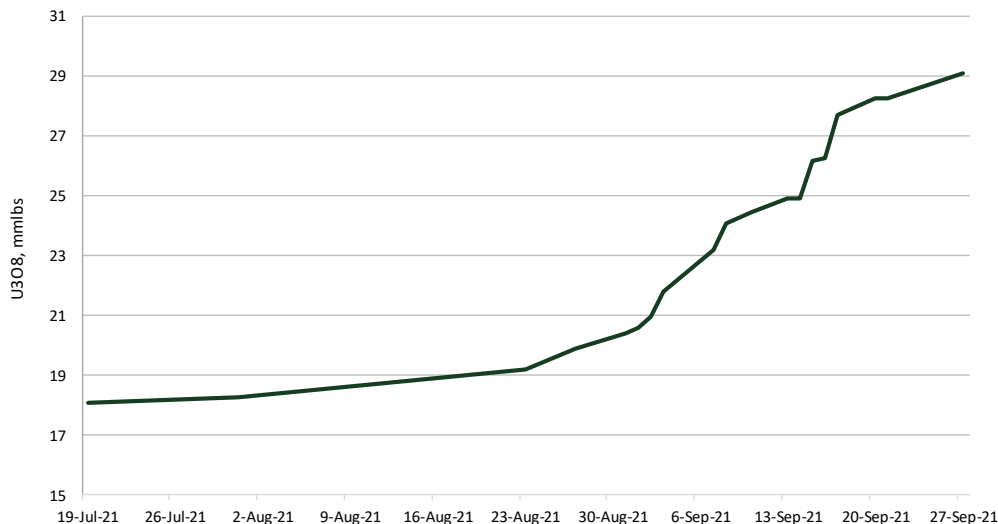
The World Nuclear Association (WNA) recently published its biannual uranium market outlook. The report forecasts that uranium production volumes at existing mines are projected to remain fairly stable until the late-2020s, then decrease by >50% from 2030 to 2040. The WNA believes that intense development of new projects will be needed in the current decade to avoid potential supply disruptions — we believe that the incentive price for new mine development is in the US\$50–US\$60/lb range. According to the WNA report, there will have to be a doubling in the development pipeline for new projects by 2040. We are forecasting an average uranium price of US\$36.49/lb in 2021, US\$50/lb in 2022, and US\$55/lb in 2023.

Exhibit 1. Spot and Term Uranium Prices



Source: Ux Consulting, TD Securities Inc. estimates

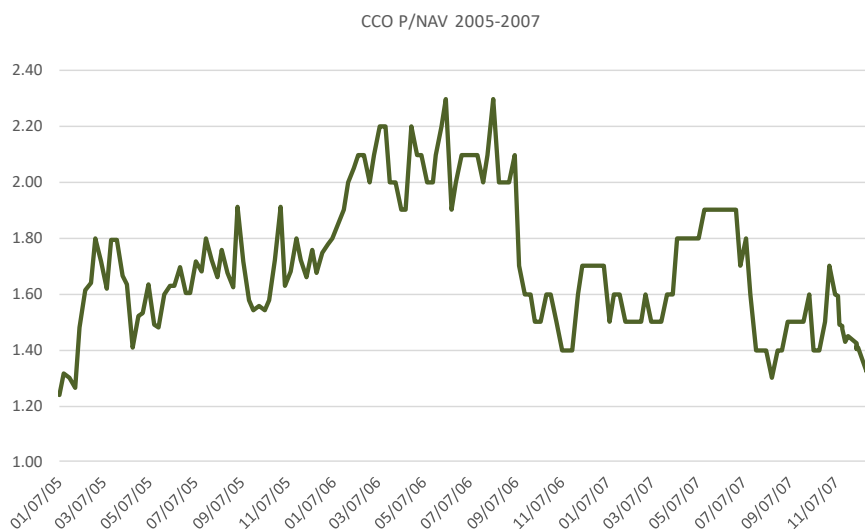
Exhibit 2. Sprott Physical Uranium Trust (SPUT) Uranium Purchases Since Inception



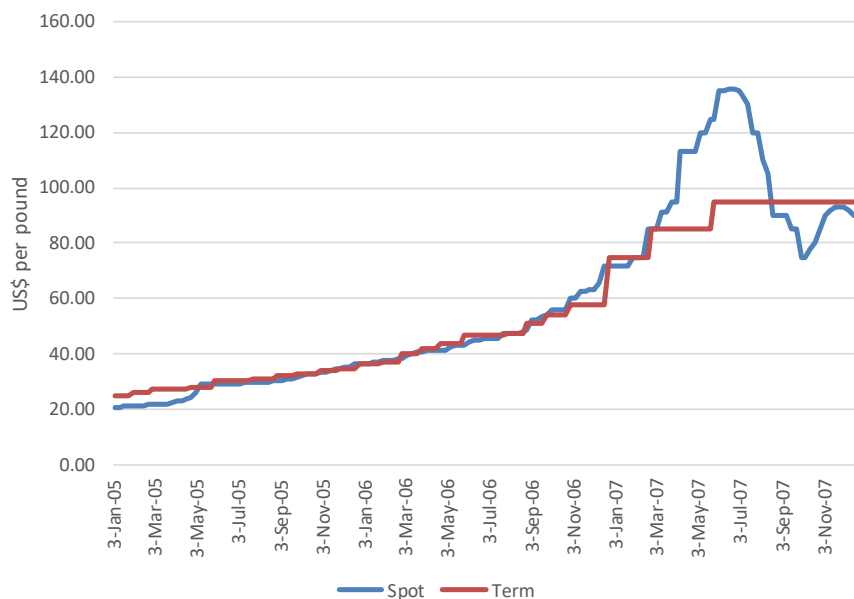
Source: SPUT, TD Securities Inc. estimates

Although the 2005–2007 uranium price rally was driven by fundamental supply/demand drivers and different from the investment-driven demand we are seeing today, we believe that the impact on uranium producer/developer valuations will be similar, given the small size of the sector, combined with a green/decarbonization thematic. We estimate that between 2005 and 2007, Cameco traded at an average P/NAV multiple of ~1.7x, reaching a peak of ~2.3x in H1/06 when the uranium spot price was in the US\$50–US\$60/lb range, on its way to a peak of ~US\$140/lb.

Exhibit 3. Cameco P/NAV 2005–2007



Source: TD Securities Inc. estimates

Exhibit 4. Spot and Term Uranium Prices 2005–2007


Source: UxC, TD Securities Inc. estimates

Outlook

We have made no changes to our forecasts.

Exhibit 5. 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	2,944,754	7.41	2,370,734	5.96
Cigar Lake	50.3% JV	1,112,387	2.80	1,025,796	2.58
Rabbit Lake	100%	200,168	0.50	164,786	0.41
Inkai	40%	1,824,278	4.59	1,446,683	3.64
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		7,085,392	17.82	5,928,888	14.91
Existing Mines (50% inferred resources @ C\$10/lb)		384,500	0.97	384,500	0.97
Pipeline projects (50% total resources @ C\$5/lb) *		652,000	1.64	652,000	1.64
Mining/Project NAV		8,121,892	20.42	6,965,388	17.52
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		7,621,233	19.16	6,499,598	16.34

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

Source: TD Securities Inc. estimates

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Valuation

CCO is currently trading at a P/NAV multiple of ~1.38x, compared with its larger-cap Canadian mining peers at an average of 0.82x.

Justification of Target Price

Our target price is based on 50/50 blend of 2.0x our NAV and 15x our forecast EV/2025 EBITDA (discounted back to 2022 at 5%). We have used 2025 as our base year for EBITDA because that is when we expect all of Cameco's uranium mines to return to full production. Our previous target price was based on a 1.6x multiple to our NAV-8% (100%).

Exhibit 6. Cameco Target Price Calculation

NAV	Weighting	50%
NAV-8%	C\$/sh	19.16
2.00x	C\$/sh	38.33
Per share - C\$		38.33
Average		19.16
EV/2025 EBITDA	Weighting	50%
15.0x	C\$M	14,320
YE 2025 Cash	C\$M	1,748
YE 2025 LT Debt	C\$M	(496)
Total	C\$M	15,573
per share - C\$		39.16
Discounted at 5% to 2022 - C\$		\$32.23
Weighted Target Price - C\$/sh		\$35.28

Source: TD Securities Inc. estimates

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 affect our forecasts.



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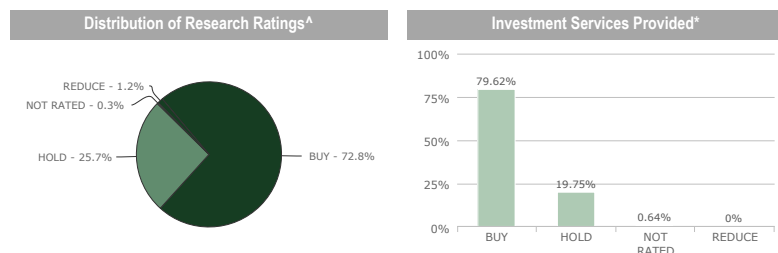
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Cameco Corp.	CCO-T CCJ-N	2, 4, 9

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Current as of: September 28, 2021

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