

CAMECO CORPORATION

Reports Q3/21 Results, Uranium Sentiment Continues to Improve

EVENT

Cameco reported its Q3/21 before the open and hosted a management call to discuss the results earlier today.

BOTTOM LINE

Mixed – Q3/21 EPS and CFPS were a miss, almost entirely due to weaker average realized uranium prices, which should now effectively be in the rear-view mirror with spot up +45% Q/Q. Term uranium prices are also heading higher, and any weakness in CCJ shares today should be bought.

FOCUS POINTS

- **McArthur River a Mid-Decade Re-Start (at the Earliest)** – McArthur River/Key Lake has been on care-and-maintenance for over three years. Cameco will need sufficiently priced long-term contracts in place prior to greenlighting a re-start, with an 18–24-month re-development period to follow, putting production at the world’s largest uranium mine a mid-decade event at the absolute earliest.
- **4 MMlb U₃O₈ in New Long-Term Contracts** – Building on the 16 MMlb U₃O₈ in term contracts it signed in H1/21, in Q3/21 Cameco added another 4 MMlb U₃O₈ to its contract portfolio. The Company’s messaging has changed from long-term contracting that was “more discretionary” in Q2/21 to “a lot of long-term contract demand is building up” and “starting to see some urgency in the market” presently.
- **Maintaining Buy Rating and Target Price** – Incorporating the Q3/21 financial results, we are maintaining our Buy rating and US\$32.00/\$40.00 price target on Cameco. This is based on a 75/25 blend of 2.0x NAVPS_{8.0%} and 20.0x 2022E CFPS.

Recommendation:

BUY

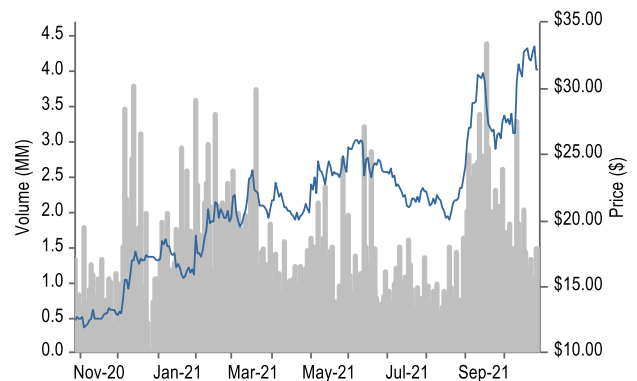
Symbol/Exchange: CCJ-NYSE/CCO-TSX
Sector: Metals & Mining
All dollar values in C\$ unless otherwise noted.
Current price: US\$25.47/\$31.45
One-year target: US\$32.00/\$40.00
Return to target: 25.6%
Cash and equivalents: \$1,215 MM

Financial Summary:

	2019A	2020A	2021E	2022E
Shares O/S (MM)	397.9	52-week range	\$11.84 - \$33.92	
Market cap (MM\$)	\$12,515.5	30D avg. vol. (000)	8,896.8	
Market float (MM\$)	\$12,489.2	Fiscal year-end	31-Dec	
Uranium Production (MMlb)	9.0	5.1	5.8	9.1
Prod'd & Purch'd (MMlb)	28.0	38.7	15.5	19.5
Uranium Sales (MMlb)	31.5	30.5	23.0	19.5
Realized U3O8 Price (\$/lb)	\$43.88	\$45.71	\$45.36	\$64.06
Cash Operating Costs (\$/lb)	\$28.98	\$37.24	\$34.15	\$36.28
EPS, dil., adj.	\$0.11	(\$0.17)	(\$0.21)	\$0.67
Dividends per share	\$0.08	\$0.08	\$0.08	\$0.08
CFPS	\$1.09	\$0.63	\$0.51	\$1.29
Free CFPS	\$1.14	(\$0.05)	\$1.03	\$1.04

Source: Company Reports and Cantor Fitzgerald Estimates.

Note: All figures in millions, unless stated otherwise.



Company profile: Cameco Corporation operates in two primary segments: uranium and fuel services. The Company boasts the world’s largest high-grade uranium reserves and low-cost uranium operations.

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See disclosure and a description of our recommendation structure at the end of this report.

Q3/21 FINANCIAL AND OPERATING RESULTS

This morning, Cameco reported Q3/21 operating and financial results, and provided a macroeconomic outlook for the uranium sector. The Company sold 6.7 MMlb U₃O₈ in the third quarter (ahead of our 5.0 MMlb U₃O₈ estimate) at an average realized price of US\$32.20/lb U₃O₈ (down 4% from Q2/21 levels of US\$33.56/lb U₃O₈, and well below our US\$36.00/lb U₃O₈ estimate). Combined with sales from the Fuel Services division of 3.0 MMkgU, Q3/21 revenue was reported at \$361 MM, driving headline EPS of \$(0.18). Normalizing for non-cash gains/losses on derivatives, reclamation provisions, and deferred taxes, adjusted EPS was reported at \$(0.14), below our \$0.02 estimate and a miss on consensus at \$(0.03). The Company maintained a strong balance sheet exiting the quarter with \$1.4 BB in cash and short-term investments, and uranium in inventory of 8.5 MMlb U₃O₈ equivalent, equating to ~\$480 MM at prevailing spot U₃O₈ prices and foreign exchange rates. During the quarter, Cameco made spot market purchases totaling 2.2 MMlb U₃O₈ and purchases from JV-Inkai totaling 1.6 MMlb U₃O₈. The Company's total debt position is unchanged with no short-term debt, and long-term debt of \$1.0 BB comprised of senior unsecured debentures maturing on June 24, 2024 (\$500 MM at 4.19%), Oct 21, 2027 (\$400 MM at 2.95%), and November 14, 2042 (\$100 MM at 5.09%). Cameco also has access to a \$1.0 BB unsecured revolving credit facility; however, it does not anticipate the need to draw from it in 2021. The Q3/21 headline results are summarized below:

Exhibit 1. Quarterly Results Comparison

Avg. Realized Price:	Q4/20A	Q1/21A	Q2/21A	Q3/21A	Q3/21E
U ₃ O ₈ (US\$/lb U ₃ O ₈)	\$38.43	\$32.35	\$33.56	\$32.20	\$36.00
U ₃ O ₈ (C\$/lb U ₃ O ₈)	\$50.40	\$41.05	\$41.70	\$40.20	\$45.00
U (C\$/kgU)	\$26.29	\$31.91	\$32.57	\$26.42	\$32.00
Uranium Segment:					
U ₃ O ₈ production (MMlb U ₃ O ₈)	2.8	0.0	1.3	2.0	1.9
U ₃ O ₈ purchased (MMlb U ₃ O ₈)	7.3	1.5	2.4	3.8	3.0
Produced & purchased (MMlb U ₃ O ₈)	10.1	1.5	3.7	5.8	4.9
Total uranium sold (MMlb U ₃ O ₈)	8.6	5.0	6.0	6.7	5.0
Cash costs per pound (US\$)	\$30.93	\$37.13	\$30.51	\$31.41	\$36.68
Total costs per pound (US\$)	\$34.99	\$37.13	\$37.73	\$36.64	\$40.70
Uranium cash margin	39%	10%	27%	22%	18%
Fuel Services Segment:					
U production (MM kgU)	3.3	4.0	3.6	1.4	3.3
Sales volume (MM kgU)	4.4	2.6	3.1	3.0	3.3
Avg. unit cost of sales incl. D&A (C\$)	\$19.12	\$21.53	\$20.89	\$23.26	\$20.75
Financials (C\$MM)					
Revenue	\$550.4	\$290.0	\$359.2	\$361.2	\$329.0
Cost of goods sold	(\$441.6)	(\$329.8)	(\$347.2)	(\$387.3)	(\$287.3)
Gross profit	\$108.7	(\$39.8)	\$12.0	(\$26.1)	\$41.7
Operating Income	\$57.9	(\$31.0)	(\$38.2)	(\$64.9)	\$8.3
Total other income / (expense)	\$48.7	\$24.0	(\$3.6)	(\$9.7)	(\$0.0)
Net income (loss)	\$79.8	(\$5.0)	(\$36.8)	(\$72.1)	\$6.0
EPS, dil. (C\$)	\$0.20	(\$0.01)	(\$0.09)	(\$0.18)	\$0.02
EPS, dil. adj. (C\$)	\$0.12	(\$0.07)	(\$0.10)	(\$0.14)	\$0.02
CFPS (before W/C), dil. (C\$)	\$0.48	\$0.03	\$0.19	\$0.01	\$0.16

Source: Cantor Fitzgerald, Cameco Reports

IMPORTANT TAKEAWAYS FROM Q3 AND INVESTOR CALL

While Cameco's Q3/21 earnings were clearly a miss on our numbers and consensus estimates, the macro setup for uranium, and by extension, Cameco, is exceptional. We highlight several key takeaways from the Q3/21 earnings call, and important recent macro developments:

▶ **Term Market Messaging:**

The tone of Cameco's management around long-term contracting has done a 180-degree U-turn Q/Q. The commentary has changed from long-term contracting that was "more discretionary" in Q2/21 to "a lot of long-term contract demand is building up" and "starting to see some urgency in the market" in Q3/21. Cameco was very clear that the uranium industry is likely in the "early innings" of a new long-term contracting cycle. We share this view.

▶ **Spot Market Insight:**

The thinning of uncommitted primary supply in the spot market, in large part due to the Sprott Physical Uranium Trust (U.U/U.UN-TSX, Buy - \$18.50/C\$23.00 target) has been the primary driver of strength in the spot price. According to Cameco, "undisciplined producers" are still "jamming their uncommitted production into the spot market" but with U.U/U.UN's at-the-market (ATM) feature, the Trust is well-positioned to buy and sequester this material. This has also largely cannibalized/terminated the carry-trade, that utilities have been relying on for the last 3-4 years. Cameco notes that as the spot market continues to thin, on-market request for proposals (RFPs) and long-term contracting is picking up. Note the most recent long-term contract reference price has increased from \$35/lb U₃O₈ to \$45/lb U₃O₈ Q/Q.

▶ **New 4 MMlb U₃O₈ in Long-Term Contracts Signed:**

Building on the 16 MMlb U₃O₈ in term contracts it signed in H1/21, in Q3/21 Cameco added another 4 MMlb U₃O₈ to its contract portfolio.

▶ **The Sprott Physical Uranium Trust:**

There was a lot of discussion on the Q3/21 call around the Sprott Physical Uranium Trust, the impact it has had on the spot market, and we note that even CCJ's Q3/21 results presentation included one slide on the Trust. A few points to note here: 1) The Trust's pattern has been to buy material almost solely in the spot market, not out on the forward curve. This is supportive of spot prices. 2) The Trust has no redemption feature, meaning that the material it purchases is permanently sequestered. 3) the ATM feature of the Trust is a natural a seamless way to translate investor interest in uranium directly to spot market purchases (as investor interest increases, U.U/U.UN trades at a premium, enabling activation of the ATM, raising funds to buy U₃O₈ at spot). 4) the Trust is not going away and is a new player in the market that producers and end-users (utilities) will have to get used to. 5) Cameco is not interested in setting up a similar vehicle to either the Sprott Physical Uranium Trust or Yellow Cake PLC (YCA-LSE, Buy - £4.75 target), instead viewing its own in-situ Proven & Probable reserves as the best form of uranium inventory.

▶ **McArthur River/Key Lake (Shuttered in Tier One Supply):**

McArthur River/Key Lake has been on care-and-maintenance for over three years. Cameco will need sufficiently priced long-term contracts in place prior to greenlighting a re-start. The re-development period is then likely 18-24 months, which would put production at the world's largest uranium mine a mid-decade event at the absolute earliest.

Exhibit 2. Cameco NAVPS Breakdown

Asset	Value (\$MM)	\$ Per Share	% of NAV
Cigar Lake	\$1,695	\$4.26	19%
McArthur River / Key Lake Mill	\$4,662	\$11.71	52%
Inkai	\$643	\$1.62	7%
Other mining assets (BV)	\$133	\$0.33	1%
Total Mining Assets	\$7,133	\$17.92	80%
Fuel Services Division	\$1,441	\$3.62	16%
Cash + S/T Investments	\$1,360	\$3.42	15%
Current Debt + S/T Leases	\$0	\$0.00	0%
Long Term Debt + L/T Leases	(\$996)	(\$2.50)	-11%
Future Equity Financing	\$0	\$0.00	0%
Future Debt Financing	\$0	\$0.00	0%
	\$1,805	\$4.53	20%
Net Asset Value, fully diluted	\$8,937	\$22.46	
P/NAV		1.40x	

Source: Cantor Fitzgerald

URANIUM SENTIMENT CONTINUES TO IMPROVE

Over the last year, sentiment in the uranium sector has turned increasingly positive. The narrative has clearly shifted as it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future. We point to a number of positive developments in the last month alone:

- ▶ **October 29:** UK Adopts Nuclear Energy Finance Plan (source: Nuclear Engineering International, link [here](#)).
- ▶ **October 18:** Kazatomprom Announces Physical Uranium Fund (source: World Nuclear News, link [here](#), Cantor note [here](#)).
- ▶ **October 16:** UK Net Zero Emission Plan to Focus on Nuclear Power (source: Bloomberg, link [here](#)).
- ▶ **October 15:** France’s EDF Offers to Build Six Nuclear Reactors in Poland (source: Power Engineering International, link [here](#)).
- ▶ **October 12:** Led by France, 10 EU Countries Call on Brussels to Label Nuclear Energy as Green Source (source: Euronews.com, link [here](#)).
- ▶ **October 11:** Japan’s new PM Defends Pro-Nuclear Stance in Parliamentary Debut (source: Reuters, link [here](#)).

Exhibit 3. Cameco Price Target Methodology

	Weight	Multiple	Target
Target P/NAV, Net Cash, 75% Blend	75%	2.00x	\$33.69
Target P/CFPS (2022E), 25% Blend	25%	20.00x	\$6.43
		Target, rounded:	\$40.00
Upside to Target:			25.6%

Source: Cantor Fitzgerald

MAINTAINING BUY RATING AND PRICE TARGET

Incorporating the Q3/21 financial results, we are maintaining our Buy rating and US\$32.00/\$40.00 price target on Cameco. This is based on a 75/25 blend of 2.0x NAVPS_{8,0%} and 20.0x 2022E CFPS (unchanged). As a global leader in the uranium sector, which has moved closer to the forefront of the “Transitional Energy” movement, Cameco should be a core holding for any/all institutional

investors with a uranium focus, energy allocation, or Environmental, Social, and Governance (ESG) criteria.

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