TD Securities Inc.

Action Note

Equity Research

February 10, 2022

Metals & Minerals

Cameco Corp.

(CCO-T, CCJ-N) C$28.94 | US$22.78

Contracting Cycle Gaining Momentum

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Event

We have updated our forecasts following the release of Q4/21 results, 2022 guidance, and the announcement of a phased restart of production at McArthur River/Key Lake.

Impact: POSITIVE

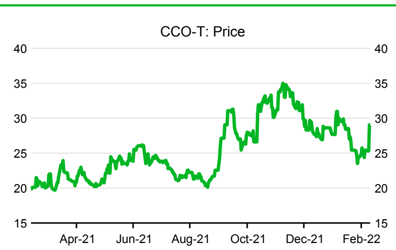
Strategic decisions reflect market optimism and continued discipline and conservatism. We would characterize management's Q4/21 conference call commentary as highly optimistic on the future of the nuclear industry, uranium demand, and Cameco's ability to capture additional long-term contracting opportunities. We believe the strategic decision announced to restart production at McArthur River reflects management's view that the market is transitioning into a security of supply, utility term contracting cycle (as highlighted by the 40mmlbs of contracting completed already in 2022), and the company is positioning itself to take advantage of those opportunities. Despite the restart decision, management emphasized that CCO will continue to be supply-disciplined indefinitely into the future.

In our view, the resumption of significant volumes of long-term contracting in the uranium market has been long overdue; utilities have been contracting at lower than replacement rates for almost a decade. Based on UxC estimates, utilities now have ~1.4 billion pounds of uncovered demand through 2035, which contrasts with uranium mine supply from current operations starting to decline by the late-2020s.

Cameco noted that it is seeing three significant signposts in its contract discussions with utilities that indicate increasing concern about long-term supply: (1) contract durations are increasing beyond five years and in certain cases up to 10 years; (2) utilities are requesting greater contract volumes into the millions of pounds; and (3) utilities are requesting delivery contracts that extend into the 2030s. The resumption of a term contract cycle is the final indicator we have been looking for to suggest that uranium pricing is setting the stage for another leg higher.

TD Investment Conclusion

We are maintaining our BUY recommendation. Our target price is unchanged at $39.00. We believe that Cameco management has delivered a phased restart plan for McArthur River and production curtailment strategy at Cigar Lake that will successfully manage increased production over a period of time while also mitigating concerns that a flood of restarted production would upset market dynamics.



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:	**BUY**
Risk:	**HIGH**
12-Month Target Price:	**C$39.00**
12-Month Dividend (Est.):	**C$0.12**
12-Month Total Return:	**35.2%**

Market Data (C$)	
Current Price	C$28.94
52-Week Range	$18.41 - $35.47
Mkt Cap (f.d.) ($mm)	$11,512.3
EV ($mm)	$11,153.5
Current Dividend	$0.12
Dividend Yield	0.4%
Avg. Daily Trading Vol.	2,573,822

Financial Data (C$)	
Fiscal Y-E	December
Shares O/S (f.d)(mm)	397.8
Float Shares (mm)	397.8
Net Debt/Total Cap	3.1%
NAVPS	$19.33
Working Cap ($mm)	$1,727.8

Estimates (C$)

Year	2020A	2021A	2022E	2023E
EBITDA ($mm)	154.9	49.6	60.7	222.3
EBITDA ($mm) (old)	–	*(20.5)*	*179.2*	*91.1*
EPS (f.d.)	(0.17)	(0.25)	(0.23)	0.18
EPS (f.d.) (old)	–	*(0.49)*	*0.06*	*0.15*
CFPS (f.d)	0.65	0.37	0.17	0.63
CFPS (f.d) (old)	–	*0.22*	*0.50*	*0.31*

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

Year	2020A	2021A	2022E	2023E
Q1	0.07	(0.07)	(0.08)	–
Q2	(0.16)	(0.10)	(0.10)	–
Q3	(0.20)	(0.14)	0.05	–
Q4	0.12	0.06	(0.10)	–

Valuations

Year	2020A	2021A	2022E	2023E
EV/EBITDA	72.0x	224.9x	183.7x	50.2x
P/E (f.d.)	nmf	nmf	nmf	nmf
P/CFPS (f.d)	44.5x	78.2x	nmf	45.9x

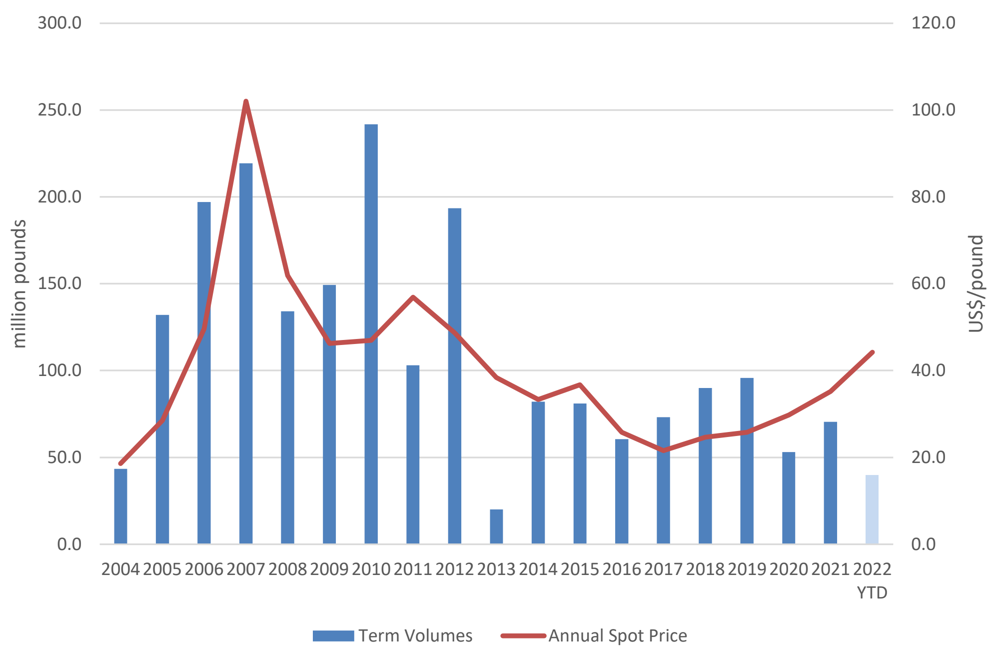
Supplemental Data

Year	2020A	2021A	2022E	2023E
U3O8 (US$/lb)	30	35	50	55
U3O8 Prod. Mlb	5	6	11	15

All figures in C$, unless otherwise specified

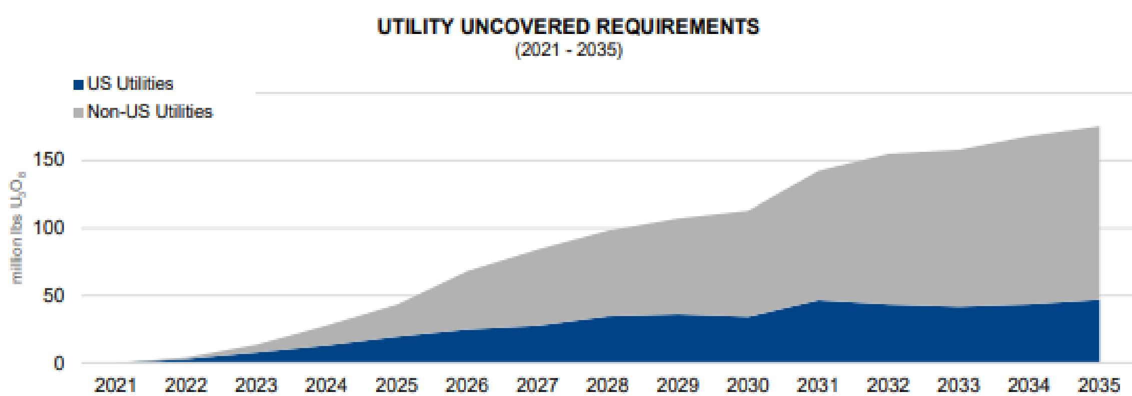
Details

Exhibit 1. Term Contract Volumes and Average Annual Spot Price



Note: January 2022 term volume reflects only Cameco's reported contracting
Source: Ux Consulting, Cameco, TD Securities Inc. estimates

Exhibit 2. Unfilled Utility Uranium Requirements

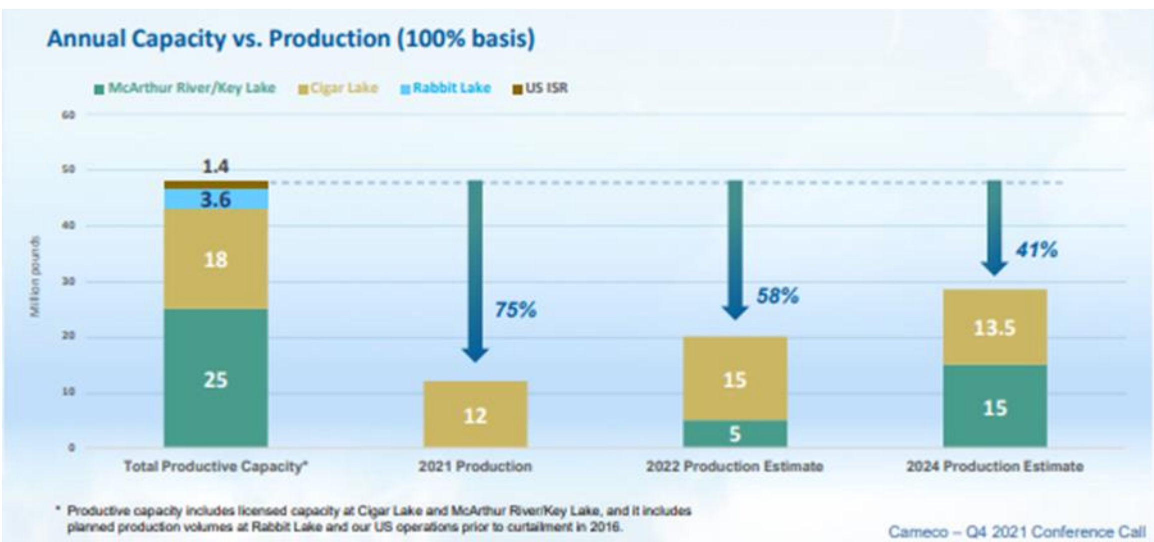


Source: UxC, Cameco

McArthur River/Key Lake restarting production in 2022/2023. CCO is targeting annual production of 15mmlbs (100% basis) from McArthur River/Key Lake by 2024 (~60% of production capacity), 2022 production is expected to be ~5mmlbs (100% basis). The ramp up of McArthur River/Key Lake to the targeted 2024 production level is expected to happen over 2022 and 2023, during which time CCO expects $17mm/month of 'operational readiness costs' until 'reasonable production rates' are achieved. Cigar Lake production capacity will be curtailed to balance production and optimize the Northern Saskatchewan portfolio. CCO will reduce its annual production at Cigar Lake to 13.5mmlbs (~75% of production capacity, 100% basis); 2022 production is expected to be ~15mmlbs (100% basis). The reduction of production at Cigar Lake reflects supply discipline, and also allows management more time to assess the future of Cigar Lake beyond the current Phase 1 mine plan. The current life-of-mine plan for Cigar Lake now extends till 2032 (2029 previously).

It is not clear what production costs will be at McArthur River and Cigar Lake over the next several years. However, management indicated that it is planning to target costs that are consistent with those contained in the most recent technical reports — McArthur River LOM costs were forecast at ~C$14.75/lb and Cigar Lake at C$15.98/lb.

Exhibit 3. Northern Saskatchewan Uranium Mines Phased Production Plan Through 2024



Source: Cameco

Outlook

We have adjusted our forecasts to reflect Q4/21 results, updated guidance, and the updated production plans for McArthur River and Cigar Lake. Our consolidated NAV-8% has increased to $19.33/share (from $19.11/share), largely as a result of an earlier restart of production at McArthur River than we had anticipated. We have also adjusted production for Cigar Lake to reflect lower anticipated production going forward and extended the mine life.

Exhibit 4. 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	3,174,380	7.98	2,629,152	6.61
Cigar Lake	50.3% JV	1,226,832	3.08	1,131,307	2.84
Rabbit Lake	100%	186,370	0.47	150,911	0.38
Inkai	40%	1,887,656	4.75	1,509,193	3.79
Highland-Smith	100%	190,200	0.48	190,200	0.48
Crow Butte	100%	108,600	0.27	108,600	0.27
Conversion	100%	627,572	1.58	558,471	1.40
Total Operations		7,401,610	18.61	6,277,835	15.78
Existing Mines (50% inferred resources @ C$10/lb)		234,548	0.59	234,548	0.59
Pipeline projects (50% total resources @C$5/lb) *		652,000	1.64	652,000	1.64
Mining/Project NAV		**8,288,158**	**20.84**	**7,164,383**	**18.01**
Plus:					
Working Capital		1,727,809	4.34	1,727,809	4.34
Equity Investments		0	0.00	0	0.00
Minus:					
Corporate G&A		(448,238)	(1.13)	(416,124)	(1.05)
CRA Cash Remittances		206,953	0.52	206,953	0.52
Debt		(996,250)	(2.50)	(996,250)	(2.50)
Reclamation		(1,090,009)	(2.74)	(1,090,009)	(2.74)
Plus/(Minus) balance sheet items		(599,735)	(1.51)	(567,621)	(1.43)
Total NAV		**7,688,423**	**19.33**	**6,596,762**	**16.58**

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

Source: TD Securities Inc. estimates

Valuation

CCO is currently trading at a P/NAV multiple of ~1.49x, compared with its larger-cap Canadian mining peers at an average of ~0.9x.

Justification of Target Price

Our target price is based on a 50/50 blend of 2.2x our NAV and 18.0x 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 Cameco's Tier One uranium mines to return to near full production.

Exhibit 5. Cameco Target Price Calculation

NAV	Weighting	50%
NAV-8%	C$/sh	19.33
2.20x	C$/sh	42.52
Per share - C$		**42.52**
Average		**21.26**
EV/2025 EBITDA	Weighting	50%
18.00	C$M	15,258
YE 2025 Cash	C$M	1,690
YE 2025 LT Debt	C$M	(496)
Total	C$M	16,452
per share - C$		**41.36**
Discounted at 5% to 2022 - C$		**$35.75**
Weighted Target Price - C$/sh		**$39.13**

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

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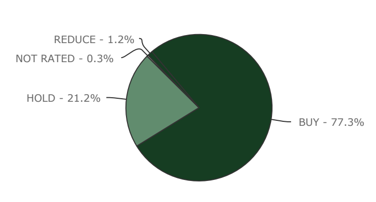

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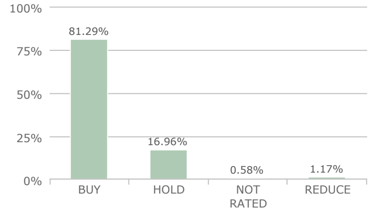

Current as of: February 10, 2022

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