

## Cameco Corporation Specialty Minerals and Metals

Rating  
**BUY**

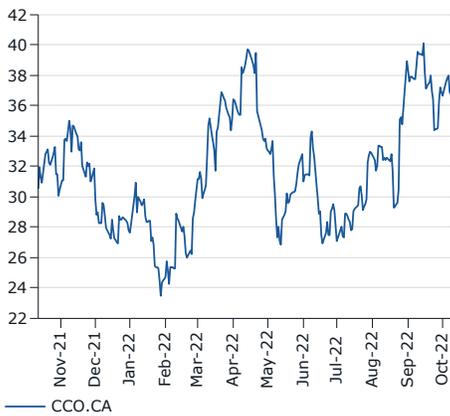
Price Target  
**C\$43.00**

CCO-TSX  
CCJ-NYSE

Price  
**C\$35.62**

### Market Data

52-Week Range (C\$) :	23.03 - 41.05
Avg Daily Vol (000s) :	1,388.44
Shares Out. (M) :	398.4
Market Cap (C\$M) :	14,192.3
Dividend /Shr (C\$) :	0.12
Dividend Yield (%) :	0.3



Priced as of close of business 11 October 2022

Cameco Corporation is one of the world's largest producers of uranium, with tier-one operations in North America and Kazakhstan. The company operates two key business segments: uranium and fuel services.

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## We CANDU It! Cameco and Brookfield Renewable announce acquisition of Westinghouse

Cameco announced after market that it has entered into a strategic partnership with Brookfield Renewable (BEP-NYSE | Not rated) and its institutional partners to acquire Westinghouse Electric Company. Terms of the transaction are detailed below.

**What is Westinghouse?** Westinghouse Electric is one of the world's largest nuclear services businesses with over a century of operational history. As an original equipment manufacturer and servicer for over half of the world's nuclear reactor fleet, Westinghouse plays a very important role in the nuclear sector. Its four key business lines include: 1) Operating Plant Services, 2) Nuclear Fuel (LT contracting for manufacturing and installation), 3) Energy Systems (designing/developing new reactors), and 4) Environmental Services.

**Our take: At first glance we believe this transaction makes long-term strategic sense for Cameco. However, in the short term, we anticipate a negative share price reaction and unease amongst investors due to a number of factors, including:**

- Headline dilution and a significant capital outlay – to fund its US\$2.2 billion share (49%) Cameco will need to tap into cash on hand (~C\$1.4bn), debt, and equity with a US\$650m bought deal having already been announced at a 15% discount to today's close (US\$21.95 per share).
- Limited available disclosure, which makes it difficult to assess the operating and financial performance of Westinghouse and model future projections.
- Shock value - we, like many others, were not expecting this transaction.
- It reduces Cameco's "pure-play" exposure to uranium and spot/term pricing – which could be viewed as a negative by some investors.

**Despite this, we believe there is strong long-term rationale for this transaction and opportunities for Cameco to surface value through all of its business segments. In our view, this transaction provides CCO with:**

- Alignment across the nuclear value chain – by combining Cameco's upstream uranium production with Westinghouse's downstream capabilities, CCO will effectively become a "one stop shop" for utilities, which should give the company a competitive advantage in contract negotiations.
  - We view this as particularly relevant in the current geopolitical environment as utilities, especially those in Europe, look to diversify their supply chain way from Rosatom, which offers similar solutions across the nuclear supply chain (construction/operation of nuclear plants, U<sub>3</sub>O<sub>8</sub> production, conversion, etc.).
  - In this scenario, we expect Westinghouse to be a preferred builder of new nuclear facilities in Europe and a servicer to new and existing plants previously serviced by Rosatom (Russia)
- A predictable cash flow stream – with ~85% of Westinghouse's revenue coming from long-term contracted or highly recurring customer service provisions
- Based on historical segmented information, we estimate that Westinghouse generates ~US\$600-\$700 million in EBITDA per year, which suggests that Cameco paid ~7.0x, below current trading ranges (~11.0x)
- Industry-leading intellectual property and a workforce of ~9,000 employees

**More broadly, we want to highlight the fact that this is arguably the most significant transaction announced in the nuclear industry in over a decade.**

A transaction of this size should act as a clear signal to the market that fundamental demand for nuclear power and uranium remains extremely strong.

**Terms of the transaction:**

- CCO and Brookfield Renewable will acquire Westinghouse from its current owner, Brookfield Business Partners (BBU), who acquired the company out of bankruptcy for \$4.6bn in 2018
- Following the completion of this transaction, **Cameco will own a 49% interest in Westinghouse** and Brookfield Renewable and its partners will own 51%.
- The total enterprise value for Westinghouse is ~US\$7.9 billion and, when adjusted for Westinghouse’s existing debt structure, an estimated US\$4.5 billion equity cost remains (subject to closing adjustments). This cost will be shared proportionately between Brookfield (~US\$2.3 billion) and Cameco (~US\$2.2 billion).
- This transaction is subject to approval by BBU unitholders, as well as other customary conditions and approvals. The transaction is expected to close in the second half of 2023.

**Preliminary Q3 results:** Cameco also provided select operating results in advance of its Q3 earnings release, scheduled for October 27 before market. Highlights from the quarter include:

- Uranium segment: Production at Cigar Lake is estimated to be 2mlb for Q3, a 22% decrease vs our estimates. Operations at Inkai continue to be impacted by delays in shipping on Trans-Caspian route. Restart activities at McArthur River continue on site and first production is now expected in late Q4 2022.
- Fuel services segment: At Port Hope, CCO produced an estimated 1.5m kgU of UF<sub>6</sub>, a 50% decrease vs our estimates and 59% decrease QoQ.
- Contracting: CCO added an additional 5mlbs of long-term uranium contracts to its portfolio during the quarter, bringing the YTD total to 50mlbs. The company also added 7m kgU in conversion during the quarter, allowing CCO to capitalize on continued record-high prices in conversion.

**Maintain BUY rating; C\$43.00/sh target price:** Our estimates are unchanged at this time, pending a more detailed financial review of the Westinghouse transaction and its implications for CCO's future earnings. As a result, we maintain our BUY rating and C\$43.00/sh target price. We continue to view Cameco as a go-to stock for investors seeking exposure to improving nuclear/uranium fundamentals and rising prices. The company is well positioned with proven production, a strong balance sheet (\$1.4B cash + \$1B undrawn revolver), and significant free cash flow growth on deck.

**And just in case you didn't get our title...**

Westinghouse supports the war effort on many fronts, including the creation of the famous “We Can Do It” poster.



Source: Company Reports

# Appendix: Important Disclosures

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## **Investment Recommendation**

Date and time of first dissemination: October 12, 2022, 06:10 ET

Date and time of production: October 12, 2022, 06:10 ET

## **Target Price / Valuation Methodology:**

Cameco Corporation - CCO

Our target price is based on 1.5x NAV, forecast as at July 1, 2023.

## **Risks to achieving Target Price / Valuation:**

Cameco Corporation - CCO

### ***Uranium price and market risk***

Our estimates and valuation are extremely sensitive to the price of uranium, and we can make no assurances that the future price trajectory of the metal will be in line with our estimates. A weaker-than-expected uranium price will impact our projected cash flows and assumed production timelines. Downside risks to the uranium market include another nuclear accident, slower-than-expected growth in nuclear demand, and higher than expected available secondary sources of supply.

### ***Operational risk***

Cameco's uranium mining operations are extremely complex and therefore subject to operational risk. As extremely high-grade uranium mines, McArthur River and Cigar Lake present challenges that are not typical of most mining operations, such as radiation concerns and challenging ground conditions (i.e. risk of flooding).

### ***Geopolitical risk***

Given rising resource nationalism globally, geopolitical risk remains relevant for all mining companies. We note that Cameco's assets are predominantly located in safe jurisdictions, those being Canada, the United States, and Australia. However, exposure to Kazakhstan, through its 40% ownership of the Inkai mine, may give some investors pause. In Kazakhstan, mineral resources belong to the state, therefore, the state has the right to nationalize private property. This right has never been exercised, but the risk still exists.

### ***COVID-19 risk***

Uncertainty remains around the timing of a global recovery from the COVID-19 virus. Worsening case counts of COVID-19 in Saskatchewan and/or Kazakhstan could result a further suspension of production which would impact Cameco's financial performance in 2022, and potentially beyond.

### ***Other risks***

Like most mining companies, CCO is exposed to various other risks including foreign exchange, input pricing, fuel prices, social license, etc.

**Distribution of Ratings:**

**Global Stock Ratings (as of 10/12/22)**

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	640	66.60%	31.56%
Hold	141	14.67%	17.02%
Sell	10	1.04%	10.00%
Speculative Buy	162	16.86%	41.36%
	961*	100.0%	

\*Total includes stocks that are Under Review

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**NOT RATED:** Canaccord Genuity does not provide research coverage of the relevant issuer.

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**SPECULATIVE:** Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

**12-Month Recommendation History (as of date same as the Global Stock Ratings table)**

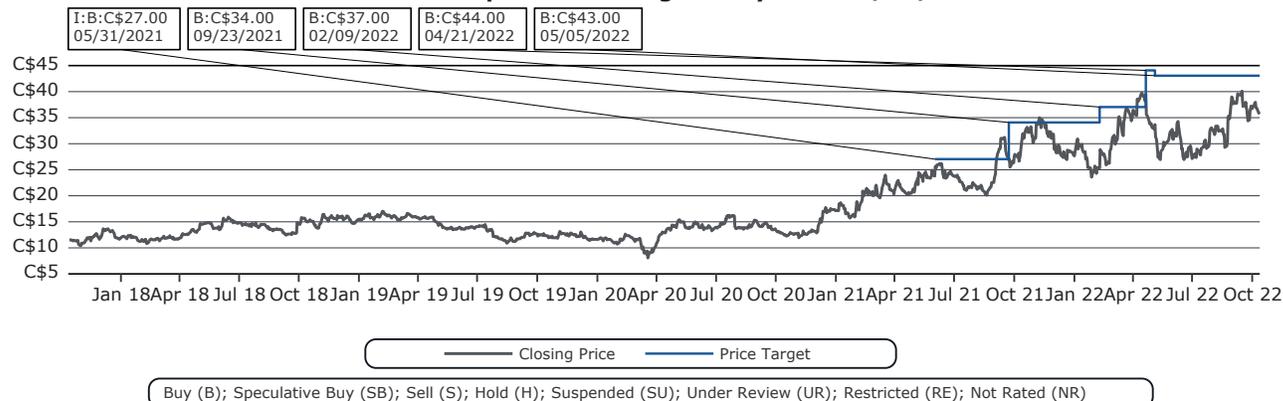
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**Cameco Corporation Rating History as of 10/11/2022**



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