

CAMECO CORPORATION

Acquiring a 49% Stake in Westinghouse Electric Company

EVENT

After the close on Tuesday, Cameco announced the acquisition of a 49%-interest in Westinghouse Electric, in a partnership with Brookfield Renewable (BEPC-NYSE/TSX, Not Covered) that is acquiring the majority 51%-interest.

BOTTOM LINE

Mixed – We calculate a purchase price valuation on Westinghouse of 10.3x 2024 EV/EBITDA and 1.6x NPV_{8.0%}, which we regard as skewing towards fully valued. To help fund the acquisition, Cameco announced a US\$650 MM equity financing at a punitive 15% discount to its previous closing price.

FOCUS POINTS

- Company Overview** – Westinghouse is one of the world's largest nuclear services businesses servicing ~50% of the world's nuclear reactor fleet. The Company generated US\$3.3 BB in revenue and US\$0.7 BB in adjusted EBITDA in 2021 across its four business segments: operating plant services, nuclear fuel, energy systems and environmental services.
- Transaction Overview** – The BEPC-CCJ transaction values Westinghouse (100%-basis) at US\$7.9 BB (US\$4.5 BB in equity and US\$3.4 BB of its existing debt). This equates to an upfront purchase price of US\$2.2 BB (\$3.0 BB) for CCJ's 49%-interest and will be covered by the US\$650 MM equity financing, CCJ's existing cash, and undrawn capacity on its credit facility. The transaction is expected to close in H2/23.
- Maintaining Buy Rating, Lowering Price Target** – Based on an unchanged 75/25 blend of 2.0x NAVPS_{8.0%} and 20.0x 2023E CFPS, after incorporating the Westinghouse transaction, our target on CCJ is trimmed from \$45/US\$36 to \$41/US\$33/share. We maintain our Buy.

Recommendation:

BUY

Symbol/Exchange: CCJ-NYSE/CCO-TSX
Sector: Metals & Mining
All dollar values in C\$ unless otherwise noted.
Current price: US\$22.30/\$30.82
One-year target: US\$33.00/\$41.00↓
Return to target: 47.9%
Cash and equivalents*: \$2.4 BB

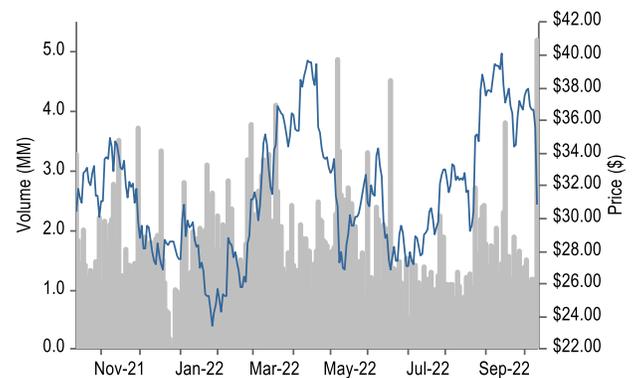
Financial Summary:

	2020A	2021A	2022E	2023E
Shares O/S (MM)*	432.5	52-week range	\$23.03 - \$41.05	
Market cap (MM\$)	\$13,328.9	30D avg. vol. (000)	1,638.4	
Market float (MM\$)	\$13,289.0	Fiscal year-end	31-Dec	
Uranium Production (MMlb)	5.1	6.6	10.3	16.1
Prod'd & Purch'd (MMlb)	38.7	17.7	24.1	28.1
Uranium Sales (MMlb)	30.5	24.2	25.1	28.1
Realized U3O8 Price (\$/lb)	\$45.71	\$43.22	\$59.38	\$71.88
Cash Operating Costs (\$/lb)	\$37.24	\$32.98	\$40.71	\$43.60
EPS, dil., adj.	(\$0.17)	(\$0.25)	\$0.38	\$0.78
Dividends per share	\$0.12	\$0.08	\$0.12	\$0.12
CFPS	\$0.63	\$0.43	\$0.82	\$1.63
Free CFPS	(\$0.05)	\$0.90	\$0.82	(\$5.57)

Source: Company Reports and Cantor Fitzgerald Estimates.

Note: All figures in millions, unless stated otherwise

*adjusted for pending transactions



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.

ACQUIRING 49%-INTEREST IN WESTINGHOUSE

After the close on Tuesday, Cameco announced the acquisition of a 49%-interest in Westinghouse Electric, in a partnership with Brookfield Renewable (BEP:NYSE/TSX, Not Covered) that is acquiring the majority 51%-interest. Westinghouse Electric is one of the world’s largest nuclear services businesses. It acted as the original equipment manufacturer to over 50% of the world’s nuclear reactor fleet, and currently employs over 9,000 individuals servicing approximately 50% of nuclear power generation globally. The Company generated US\$3.3 BB in revenue and US\$0.7 BB in adjusted EBITDA in 2021 and is an industry leader at the apex of the nuclear fuel cycle (fuel design and fabrication, plant operation and maintenance, refueling and repair, engineering and support, proprietary micro-reactor technology, etc.) with ~85% of revenues under long-term contracts and exceptionally high customer retention. Cameco will undoubtedly be able to leverage Westinghouse’s downstream expertise with its dominance at the front end of the nuclear fuel cycle (uranium oxide mining/milling, refining and conversion) in servicing existing customers and targeting new ones. On the conference call Tuesday evening discussing the acquisition, Cameco made specific mention of Eastern Europe, where it may now be able to strategically combine its uranium mining and conversion services with the fuel fabrication offered by Westinghouse to provide customers with alternative solutions for contracting their fuel supplies. At present, the Eastern European countries are almost exclusively serviced by Russia’s state-owned Rosatom. An overview of Westinghouse’s four key business units is provided below:

- ▶ **Operating Plant Services:** Represents the largest segment and is focused on relationships with customers who are seeking long-term solutions for their nuclear plant operations.
- ▶ **Nuclear Fuel:** This segment involves long-term contracting surrounding the manufacturing and installation of fuel assemblies and other ancillary equipment with a focus on light-water reactors and is the original equipment manufacturer for approximately half of nuclear plants globally.
- ▶ **Energy Systems:** Focuses on the designing, engineering, and development of new nuclear reactors including next generation small modular reactors (SMRs).
- ▶ **Environmental Services:** Provides services to government and commercial customers with a focus on nuclear sustainability, environmental stewardship and remediation.

Exhibit 1. Westinghouse Business Unit Overview

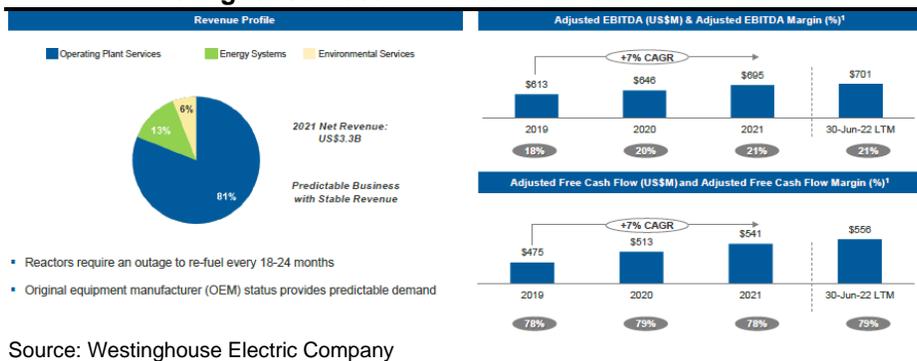
	Operating Plant Services				Environmental Services	Energy Systems	
Business Unit	Outage and Maintenance Services	Engineered Systems and Solutions	Parts	Nuclear Fuel	Government Services	Decontamination & Decommissioning	New Plant Projects
Description	Refueling, maintenance, inspection and repair services	Engineering support for controls equipment, plant modifications, and components	Provides replacement parts (e.g. control rod drives)	Designs and fabricates fuel	Provides site management services to government customers, primarily the U.S. and U.K.	Decontamination, dismantling and waste management services	Designs, develops and procures equipment for new plants on a cost-plus basis
Business Profile	Strong, long-term customer relationships – predictable revenue streams	Core business with room for growth	Stable demand	Strong, long-term customer relationships – predictable revenue streams	Growth area		Multi-year projects with no fixed price construction risk
Demand Drivers	Safety-related maintenance and regulatory compliance; asset performance	Long-term customer relationships, emergent and new plants	Largely consumables needed on recurring basis for plants to maintain safe and efficient operation	18-24 month refueling cycle	Government environmental management budget	Waste mgmt. through life of operations and permanent plant retirements at end of life	New nuclear power plants and MWRs (eVinci)
Recurring	✓	✓	✓	✓	✓	✓ (decommissioning)	✗ Highly visible and multi-year projects

Source: Westinghouse Electric Company

TRANSACTION OVERVIEW

Brookfield Renewable and Cameco are jointly acquiring Westinghouse (51% and 49%, respectively) at an enterprise value of US\$7.9 BB (100%-basis) comprised of US\$4.5 BB in equity value and US\$3.4 BB of its existing debt. This equates to an upfront purchase price of US\$2.2 BB (\$3.0 BB) for Cameco’s 49%-interest. The transaction is expected to close in H2/23. BEPC and CCJ are purchasing Westinghouse from Brookfield Business Partners (BBU-NYSE/BBU.UN-TSX, Not Covered), the industrial services business of Brookfield Asset Management (BAM-NYSE/BAM.A-TSX, Not Covered) that originally acquired Westinghouse out of bankruptcy in 2018 for US\$4.6 BB.

Exhibit 2. Westinghouse Recent Financial Performance



CAMECO LAUNCHES US\$650 MM EQUITY FINANCING

To partially fund its share of the Westinghouse acquisition, Cameco concurrently announced a US\$650 MM bought deal equity financing and will issue 29.6 MM common shares (plus a 15% overallotment option) at US\$21.95/share, representing a ~15% discount to its closing share price the previous day. Cameco emphasized it has sufficient liquidity and committed financing facilities already in place to support the transaction but is opting to pursue a permanent financing mix that will potentially include cash, debt, and equity in order to maintain the current strength of its balance sheet.

VALUATION AND OUR TAKE ON THIS TRANSACTION

Based on disclosure provided by Brookfield Renewable and Cameco, we estimate the Westinghouse business unit will generate \$510 MM in adjusted EBITDA net to CCJ’s 49%-interest in 2024, its first full year under 51%/49% Brookfield Renewable/Cameco joint-venture ownership. We calculate an NPV_{8.0%} of CCJ’s 49%-interest in Westinghouse at \$1.9 BB, equating to a purchase price valuation of 10.3x 2024 EV/EBITDA and 1.6x NPV_{8.0%}, which we regard as skewing towards fully valued. Incorporating the Westinghouse transaction into our pro-forma Cameco model results in 7% dilution to our 2023E CFPS estimate (\$1.75 to \$1.63), 23% accretion to our 2024E CFPS estimate (\$2.39 to \$2.93) and 10% dilution to our NAVPS estimate (\$24.48 to \$21.99). While the Westinghouse transaction has the potential to generate significant value to Cameco over the long-term, on balance, our view on it today is “mixed” given, 1) the substantial size of the equity raise (US\$650 MM) at a punitive cost of capital (15% discount), 2) the purchase price which we view as effectively “fully valued,” and 3) to fully fund the equity component of this transaction will place additional stress on CCJ’s balance sheet upon closing in H2/23. That said, our pro-forma estimates at

present do not include any new revenue opportunities that will likely become available to Cameco as it leverages its legacy business (uranium oxide production, refining, and conversion) into Westinghouse’s existing customer base and complementary areas of expertise elsewhere in the nuclear fuel cycle. These synergies are wide ranging in scope and have the potential to be considerable at the top and bottom lines in the coming years for Cameco, but we are unable to quantify them with any degree of accuracy at present.

Exhibit 3. Cameco Updated NAVPS, Pro-Forma Westinghouse

Asset	Value (\$MM)	\$ Per Share	% of NAV
Cigar Lake	\$1,703	\$3.94	18%
McArthur River / Key Lake Mill	\$5,089	\$11.77	54%
Inkai	\$718	\$1.66	8%
Other mining assets (BV)	\$133	\$0.31	1%
Total Mining Assets	\$7,644	\$17.67	80%
Fuel Services Division	\$1,609	\$3.72	17%
Westinghouse - 49% interest	\$1,856	\$4.29	20%
Cash + S/T Investments*	\$2,399	\$5.55	25%
Current Debt + S/T Leases	\$0	\$0.00	0%
Long Term Debt + L/T Leases	(\$997)	(\$2.30)	-10%
Future Equity Financing	\$0	\$0.00	0%
Future Payment to BBU	(\$3,000)	(\$6.94)	-32%
	\$1,868	\$4.32	20%
Net Asset Value, fully diluted	\$9,511	\$21.99	
P/NAV		1.40x	

*updated for pending transactions

Source: Cantor Fitzgerald

OPERATIONS AND LONG-TERM CONTRACTS UPDATE

Concurrent with the Westinghouse purchase and US\$650 MM equity raise press releases, Cameco also provided a preliminary operating update for Q3/22. The Company expects Q3/22 deliveries of 5.0-5.5 MMLb U₃O₈ and 2.1-2.4 MMkgU, bringing Q1-Q3 deliveries to ~18.5 MMLb U₃O₈ and ~7.1 MMkgU. These results are tracking within annual uranium delivery guidance of 24.0-26.0 MMLb U₃O₈ and slightly below annual fuel services delivery guidance of 10.5-11.5 MMkgU. Quarterly production was reported at 2.0 MMLb U₃O₈ (-29% Q/Q) and 1.5 MMkgU (-59% Q/Q), bringing Q1-Q3 production to 6.7 MMLb U₃O₈ and 9.3 MMkgU, tracking slightly below annual uranium production guidance of “up to” 11.0 MMLb U₃O₈ and fuel services production guidance of 12.5-13.5 MMkgU. The Company reiterated that first production at McArthur River/Key Lake is expected in Q4/22. Shipping delays from Inkai through the Trans-Caspian route continue to be a problem, and CCJ warned that its share of earnings from the joint venture may be adversely affected. Year-to-date, Cameco has signed 50 MMLb U₃O₈ of new long-term contracts, up a modest +5 MMLb U₃O₈ from the 45 MMLb U₃O₈ it had signed under contracts reported back in July of this year.

Exhibit 4. Cameco Price Target Methodology

	Weight	Multiple	Target
Target P/NAV, Net Cash, 75% Blend	75%	2.00x	\$32.99
Target P/CFPS (2023E), 25% Blend	25%	20.00x	\$8.15
		Target, rounded:	\$41.00
Upside to Target:			47.9%

Source: Cantor Fitzgerald

MAINTAINING BUY RATING, TRIMMING PRICE TARGET

Based on an unchanged 75/25 blend of 2.0x NAVPS_{8.0%} and 20.0x 2023E CFPS, after incorporating the Westinghouse transaction, our target on CCJ is lowered from \$45/US\$36 to \$41/US\$33/share. We maintain our Buy rating on the Company. As a global leader in the uranium sector, which has moved 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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BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

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