

CAMECO CORPORATION

Strong Q3/22 Results, Advancing Another 27 MMlb U3O8 Under LT Contracts

EVENT

Cameco reported its Q3/22 results before the open and hosted a management call to discuss earlier today.

BOTTOM LINE

Positive – Cameco posted a revenue and EPS beat, in-line CFPS, and advanced discussions on 27 MMlb in new U₃O₈ long-term contracts. This is a step-change higher from the 50 MMlb U₃O₈ signed year to date as of the last update less than two weeks ago.

FOCUS POINTS

- **Strong Q3/22 Results** – Sales volumes totaled 5.3 MMlb U₃O₈ at an average realized price of US\$46.30/lb (unchanged Q/Q) driving EPS, adj. and CFPS of \$0.03 and \$0.12 vs. our estimates of \$(0.00) and \$0.13, and consensus at \$0.00 and \$0.12, respectively.
- **Term Contract Update** – With the Q3 results, Cameco reported that it has “advanced contracting discussions” on another ~27 MMlb U₃O₈ and ~7.5 MM kgU, that if finalized by year-end, would bring total material contracted in the year up to 77 MMlb U₃O₈ and 14.5 MM kgU.
- **Guidance Increased** – For the 2022 year, CCJ increased its average realized U₃O₈ price outlook from \$56.60/lb to \$56.90/lb and its spot volume purchase outlook from 14-16 MMlb U₃O₈ to 16-18 MMlb U₃O₈ supported by its expanding long-term contract book.
- **Maintaining Buy Rating and Price Target** – Incorporating the Q3/22 financial results, we are maintaining our Buy Rating and \$41.00/US\$33.00 price target on Cameco. This is based on a 75/25 blend (rounded) of 2.0x NAVPS_{8,0%} and 20.0x 2023E CFPS.

Recommendation:

BUY

Symbol/Exchange: CCJ-NYSE/CCO-TSX
Sector: Metals & Mining
All dollar values in C\$ unless otherwise noted.
Current price: US\$24.98/\$33.92
One-year target: US\$33.00/\$41.00
Return to target: 32.1%
Cash & ST investments*: \$2,317 MM

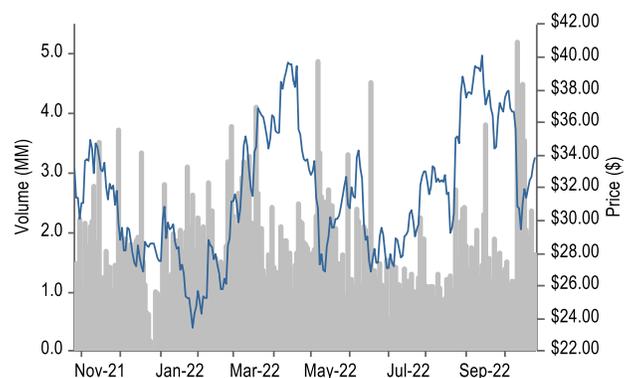
Financial Summary:

	2020A	2021A	2022E	2023E
Shares O/S (MM)*	432.5	52-week range	\$23.03 - \$41.05	
Market cap (MM\$)	\$14,670.4	30D avg. vol. (000)	2,019.5	
Market float (MM\$)	\$14,626.5	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	25.7	28.1
Uranium Sales (MMlb)	30.5	24.2	24.0	28.1
Realized U3O8 Price (\$/lb)	\$45.71	\$43.22	\$56.72	\$71.88
Cash Operating Costs (\$/lb)	\$37.24	\$32.98	\$37.51	\$43.60
EPS, dil., adj.	(\$0.17)	(\$0.25)	\$0.32	\$0.77
Dividends per share	\$0.12	\$0.08	\$0.12	\$0.12
CFPS	\$0.63	\$0.43	\$0.70	\$1.68
Free CFPS	(\$0.05)	\$0.90	\$0.07	(\$5.52)

Source: Company Reports and Cantor Fitzgerald Estimates.

Note: All figures in millions, unless stated otherwise

*adjusted for post Q3/22 transaction



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.

STRONG Q3/22 RESULTS

Cameco reported its Q3/22 results before the open and hosted a management call to discuss the results earlier today. We characterize the third quarter as positive, with Cameco reporting that it has “advanced contracting discussions” on another ~27 MMlb U₃O₈ and ~7.5 MM kgU, that if finalized by year-end, would bring total material contracted in the year up to 77 MMlb U₃O₈ and 14.5 MM kgU. This is a step-change higher from the 50 MMlb U₃O₈ and 7.0 MM kgU signed year to date as of the last update provided less than two weeks ago. On the conference call, Cameco management noted that, likely referring to utilities, “companies are turning to nuclear with an appetite that [Cameco] has not seen in four decades in the business.” In addition to the strong contract build, CCJ posted a revenue and EPS beat, in-line CFPS, and increased its average realized U₃O₈ price outlook and spot volume purchase outlook for the year. The Q3/22 headline results are summarized below:

Exhibit 1. Quarterly Results Comparison

	Q4/21A	Q1/22A	Q2/22A	Q3/22A	Q3/22E
Avg. Realized Price:					
U ₃ O ₈ (US\$/lb U ₃ O ₈)	\$39.65	\$43.24	\$46.30	\$46.30	\$43.00
U ₃ O ₈ (C\$/lb U ₃ O ₈)	\$49.94	\$55.05	\$58.74	\$59.65	\$58.11
U (C\$/kgU)	\$28.80	\$34.49	\$35.09	\$33.43	\$30.00
Uranium Segment:					
U ₃ O ₈ production (MMlb U ₃ O ₈)	3.0	1.9	2.8	2.0	2.0
U ₃ O ₈ purchased (MMlb U ₃ O ₈)	3.3	2.3	5.5	4.6	3.0
Produced & purchased (MMlb U ₃ O ₈)	6.4	4.2	8.3	6.6	5.0
Total uranium sold (MMlb U ₃ O ₈)	6.5	5.9	7.6	5.3	5.0
Cash costs per pound (US\$)	\$34.95	\$38.93	\$37.57	\$38.92	\$47.82
Total costs per pound (US\$)	\$42.81	\$47.69	\$42.48	\$44.28	\$50.90
Uranium cash margin	30%	29%	36%	35%	18%
Fuel Services Segment:					
U production (MM kgU)	3.1	4.1	3.7	1.5	1.5
Sales volume (MM kgU)	4.9	2.2	2.8	2.3	2.1
Avg. unit cost of sales incl. D&A (C\$)	\$19.45	\$22.58	\$20.75	\$29.43	\$20.75
Financials (C\$MM)					
Revenue	\$464.5	\$398.0	\$557.6	\$388.7	\$355.7
Cost of goods sold	(\$408.7)	(\$348.2)	(\$464.6)	(\$363.5)	(\$330.8)
Gross profit	\$55.8	\$49.8	\$92.9	\$25.1	\$24.9
Operating Income	(\$2.2)	\$6.9	\$84.0	(\$17.3)	(\$10.4)
Total other income / (expense)	\$21.6	\$31.9	\$26.6	(\$27.4)	\$7.9
Net income (loss)	\$11.2	\$40.3	\$83.9	(\$19.5)	(\$1.9)
EPS, dil. (C\$)	\$0.03	\$0.10	\$0.21	(\$0.05)	(\$0.00)
EPS, dil. adj. (C\$)	\$0.06	\$0.04	\$0.18	\$0.03	(\$0.00)
CFPS (before W/C), dil. (C\$)	\$0.19	\$0.08	\$0.25	\$0.12	\$0.13

Source: Cantor Fitzgerald, Cameco Reports

FINANCIAL AND OPERATING RESULTS OVERVIEW

The Company sold 5.3 MMlb U₃O₈ in the third quarter (ahead of our 5.0 MMlb U₃O₈ estimate) at an average realized price of US\$46.30/lb U₃O₈ (unchanged from Q2/22 levels but above our US\$43.00/lb U₃O₈ estimate). Combined with third quarter sales from the Fuel Services division of 2.3 MMkgU (ahead of our 2.1 MMkgU estimate) at an average realized price of \$33.43/kgU (-5% from Q2/22 levels but above our \$30.00/kgU estimate) Q3/22 revenue was reported at \$389 MM, a solid beat on consensus at \$331 MM and our estimate of \$356

MM. The top line beat drove headline EPS of \$(0.05) but normalizing for non-cash gains/losses on derivatives, provisions, and deferred taxes, adjusted EPS was reported at \$0.03, a sizeable beat on our \$(0.00) estimate and consensus at \$0.00. Q3/22 CFPS, before changes in non-cash working capital, came in at \$0.12, in-line with our estimate of \$0.13 and consensus at \$0.12.

BALANCE SHEET OVERVIEW

The Company exited the quarter with \$1.3 BB in cash and short-term investments (-\$0.1 BB Q/Q), and uranium in inventory of 8.2 MMlb U₃O₈ equivalent, equating to ~\$583 MM at prevailing spot U₃O₈ prices and foreign exchange rates. Subsequent to quarter-end, to partially fund the \$3.0 BB (US\$2.2 BB) equity component of its 49%-interest in Westinghouse (discussed in more detail below), Cameco completed a ~\$1.0 BB (US\$748 MM) bought deal equity financing. In the disclosure provided in its Q3/22 results this morning, related to the Westinghouse acquisition, Cameco has also secured commitments of up to US\$280 MM on a bridge loan facility and up to US\$600 MM in term loans. The Westinghouse acquisition is expected to close in H2/23 after which point the bridge facility, if utilized, would mature in H2/24, and the term loans (two tranches of US\$300 MM) would mature in H2/25 and H2/26, respectively. Both the bridge facility and term loans will remain undrawn until the Westinghouse purchase closes. Along with its undrawn \$1.0 BB unsecured revolving credit facility, Cameco's total balance sheet liquidity currently stands at \$4.4 BB (US\$3.3 BB). Exiting Q3/22, 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%).

GUIDANCE UPDATE

Cameco reiterated production guidance of up to 11 MMlb U₃O₈ for the 2022 calendar year. First production from the Key Lake mill remains on track for Q4/22. Throughout Q3 and into Q4 thus far, Cameco continues to experience delays in deliveries from JV Inkai to the Blind River refinery via the Trans-Caspian route. This shipping alternative is being utilized to eliminate dependence on Russian rail lines and ports, but transit country authorities along the alternative route are requiring additional shipment details and associated documents from Cameco and its JV-partner Kazatomprom (KAP-LSE, Not Covered), resulting in the delays. With the Q3 results, for the 2022 calendar year, CCJ increased its average realized U₃O₈ price outlook from \$56.60/lb to \$56.90/lb and its spot volume purchase outlook from 14-16 MMlb U₃O₈ to 16-18 MMlb U₃O₈ supported by its expanding long-term contract book.

ACQUIRING A 49% STAKE IN WESTINGHOUSE ELECTRIC

Earlier this month, 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 (note [here](#)). Westinghouse is one of the world's largest nuclear services businesses and acted as the original equipment manufacturer to over 50% of the world's nuclear reactor fleet, currently employing over 9,000 individuals servicing approximately 50% of nuclear power generation globally. The transaction is expected to close in H2/23 and equated to an upfront purchase price of US\$2.2 BB (\$3.0 BB) for Cameco's 49%-interest. Cameco concurrently completed a US\$748 MM bought deal equity financing and issued 34.1 MM common shares (including full exercise

of the 15% overallocation option) at US\$21.95/share, representing a ~15% discount to its closing share price prior to announcing the Westinghouse transaction. 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%}. Our view on the transaction is "mixed" given, 1) the substantial size of the equity raise (US\$748 MM) at a punitive cost of capital (15% discount), 2) the purchase price which we view as effectively "fully valued," and 3) fully funding the equity component of this transaction will place additional stress on CCJ's balance sheet upon closing in H2/23. However, synergies available to CCJ as it leverages its legacy business into Westinghouse's existing customer base and complementary areas 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 2. Cameco Updated NAVPS Breakdown

Asset	Value (\$MM)	\$ Per Share	% of NAV
Cigar Lake	\$1,720	\$3.98	18%
McArthur River / Key Lake Mill	\$5,054	\$11.69	53%
Inkai	\$718	\$1.66	8%
Other mining assets (BV)	\$133	\$0.31	1%
Total Mining Assets	\$7,625	\$17.63	81%
Fuel Services Division	\$1,653	\$3.82	17%
Westinghouse - 49% interest	\$1,856	\$4.29	20%
Cash + S/T Investments*	\$2,317	\$5.36	25%
Current Debt + S/T Leases	\$0	\$0.00	0%
Long Term Debt + L/T Leases	(\$997)	(\$2.30)	-11%
Future Equity Financing	\$0	\$0.00	0%
Future Payment to BBU	(\$3,000)	(\$6.94)	-32%
	\$1,829	\$4.23	19%
Net Asset Value, fully diluted	\$9,454	\$21.86	
P/NAV		1.55x	

*adjusted for post Q3/22 transaction
Source: Cantor Fitzgerald

URANIUM SENTIMENT CONTINUES TO IMPROVE

Over the last two years, 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 most recent calendar quarter:

- ▶ **October 25:** Canada will provide \$970 MM in financing to develop a grid-scale small modular reactor (SMR), offered as low-interest debt from the Canada Infrastructure Bank. It will be the first commercial-scale SMR to be built in the G7 group of countries. (source: Reuters, link [here](#)).
- ▶ **October 18:** The mayor of Higashidori in Aomori called on TEPCO (9501-TY, Not Covered) to resume construction of its reactor there. Work started in 2011 and was halted after two months (Fukushima). (source: NHK World-Japan, link [here](#)).
- ▶ **October 17:** German Chancellor Olaf Scholz asked the economy, environment and finance ministries to lay legal framework to keep the country's three nuclear power plants operational until as late as April 15, 2023. (source: Reuters, link [here](#)).

- ▶ **October 13:** Japan’s government is considering extending the current 60-year limit on the operation of nuclear power plants. (source: Reuters, link [here](#)).
- ▶ **October 7:** French state-controlled uranium producer Orano SA (Private, Not Covered) is considering increasing capacity to enrich radioactive ore into nuclear fuel by ~50% as Western governments and utilities seek to reduce reliance on Russia. (source: Bloomberg, link [here](#)).
- ▶ **September 29:** Ontario announced plans to extend the life of the Pickering Nuclear Generating Station by one year. (source: CBC, link [here](#)).
- ▶ **September 29:** The Biden administration emphasized that the US will redouble efforts to free itself from reliance on Russian nuclear fuel. (source: Bloomberg, link [here](#)).
- ▶ **September 6:** In a Fox Politics interview, U.S. Department of Energy Secretary Jennifer Granholm clearly laid out her position as being in favor of nuclear power. (source: The Issue Is, link [here](#)).
- ▶ **September 1:** California voted in favour of extending its last operating nuclear power plant, Diablo Canyon, by five years. It was previously scheduled to be fully shut down by 2025. (source: The Guardian, link [here](#)).
- ▶ **August 24:** Japan’s Prime Minister Fumio Kishida ordered the development and construction of next-generation nuclear power plants. (source: Nikkei Asia, link [here](#), note [here](#)).
- ▶ **August 16:** Germany announced plans to postpone the closure of the country's last three nuclear power plants as it braces for a possible energy shortage this winter. While temporary, the move would mark the first departure from a policy initiated in the early 2000s to phase out nuclear energy. (source: Wall Street Journal, link [here](#)).
- ▶ **August 15:** Bill Gates-backed TerraPower LLC (Private, Not Covered) raised ~US\$750 MM to advance development efforts of small-scale nuclear reactors, including a major investment from South Korean conglomerate SK Group. (source: Bloomberg, link [here](#)).
- ▶ **August 4:** Philippines President Ferdinand Marcos Jr. revived discussions on proposals to rehabilitate the Bataan Nuclear Power Plant site. (source: Reuters, link [here](#)).
- ▶ **July 18:** Germany’s Ministry for Economic Affairs and Climate Action are evaluating potentially extending the operating life of the country’s three remaining nuclear power plants (source: Reuters, link [here](#)).
- ▶ **July 6:** EU labels nuclear power as “green” and sustainable, enabling investors to label and market investments in certain natural gas and nuclear power plants as “green” (note [here](#)).

Exhibit 3. Cameco Price Target Methodology

	Weight	Multiple	Target
Target P/NAV, Net Cash, 75% Blend	75%	2.00x	\$32.79
Target P/CFPS (2023E), 25% Blend	25%	20.00x	\$8.39
		Target, rounded:	\$41.00
Upside to Target:			32.1%
Source: Cantor Fitzgerald			

MAINTAINING BUY RATING AND PRICE TARGET

Incorporating the Q3/22 financial results, we are maintaining our Buy Rating and \$41.00/US\$33.00 price target on Cameco. This is based on an unchanged 75/25 blend (rounded) of 2.0x NAVPS_{8.0%} and 20.0x 2023E CFPS. 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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The analyst responsible for this report *has not* visited the material operations of CCJ.

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BUY: The stock is attractively priced relative to the company's fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

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.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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