

Cameco Corp.

(CCO-T: C\$33.06)

BUY
Target: C\$46.00

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Advanced Contracting Discussions for Additional 27Mln Lbs of Term Uranium Business

	Current
Rating:	BUY
Target:	C\$46.00

Company Data	
Last Price (TSX)	C\$33.06
52-Week Range:	C\$19.68 - C\$41.05
Market Capitalization (C\$Mln):	13,173
Enterprise Value (C\$Mln):	13,227
Shares Outstanding - Basic (Mln):	398
Shares Outstanding - Diluted (Mln):	398
Dividend Yield:	0.4%
Cash (C\$Mln)	942
Net Debt (C\$Mln)	55
Fiscal Year End	Dec 31

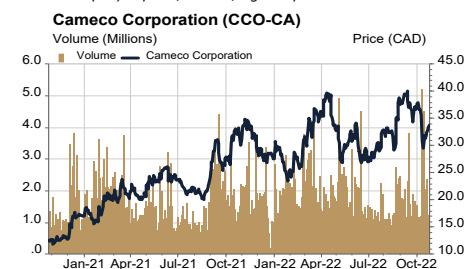
Sales Summary				
	2021 A	2022 E	2023 E	2024 E
Uranium (Mln lbs)	30.7	24.3	25.3	26.0
Fuel Services (Mln kgU)	13.5	13.6	12.0	12.0
NUKEM (Mln lbs)	1.3	1.3	1.3	1.3

Financial Summary				
	2021 A	2022 E	2023 E	2024 E
P/E	n/a	104x	110.1x	38.9x
EV/EBITDA	130.8x	259.2x	52.8x	36.0x
CFPS	0.49	0.30	0.97	0.63
P/CF	67.0x	108.7x	34.2x	52.6x
Net Debt/ EBITDA	n/a	0.7x	n/a	6.8x

Quarterly EBITDA				
	2021 A	2022 E	2023 E	2024 E
Q1	18 A	48 A	102 E	175 E
Q2	2 A	145 A	112 E	193 E
Q3	-14 A	30 A	96 E	175 E
Q4	48 A	88 E	144 E	186 E
FY	54 A	311 E	455 E	729 E

Quarterly EPS				
	2021 A	2022 E	2023 E	2024 E
Q1	-0.08 A	0.04 A	0.08 E	0.22 E
Q2	-0.10 A	0.18 A	0.08 E	0.24 E
Q3	-0.14 A	0.03 A	0.05 E	0.21 E
Q4	0.06 A	0.07 E	0.09 E	0.17 E
FY	-0.26 A	0.32 E	0.30 E	0.85 E

Note: All values are in C\$, unless otherwise stated
Source: Company Reports, FactSet, Eight Capital Estimates



Source: Company Reports, Factset, Eight Capital estimates

Company Description

Cameco is one of the world's largest uranium producers with mines in Canada, the U.S. and Kazakhstan, and is also a leading provider of nuclear fuel processing services and uranium trading.

Q3/22 results broadly in-line. Cameco reported lower Q3/22 adjusted EBITDA of C\$31Mln vs. our C\$36Mln and adjusted EPS of C\$0.03 vs. our C\$0.05 (consensus C\$0.00). An additional 5Mln lbs of long-term uranium sales contracts were signed in Q3/22 bringing YTD to 50Mln lbs (+5Mln lbs QoQ) vs. 30Mln lbs in 2021 and 12.5Mln lbs in 2020. We estimate this represents 91% of total long-term uranium contract volume in 2022 of 85Mln lbs (according to UxC). In addition, 27Mln lbs of long-term uranium contracting is in advanced discussions and 7.5Mln kgU of conversion services have moved from initiation to accepted.

We now include Westinghouse (WEC) JV in our estimates beginning in 2024, and terms of recent debt/equity financings. We see the Cameco acquisition of WEC as a strategic move to diversify and vertically integrate along the nuclear value chain as a complement to its high-quality, Tier-one uranium asset base and Fuel Services segment, which combines CANDU fuel manufacturing for heavy water reactors with WEC's global nuclear fuel and plant services platform for light water reactors. Additional revenue potential in the year following closing includes: (1) new customers in Eastern Europe (Bulgaria & Slovakia) as well as existing customers (Czechia, Ukraine, and Finland) seeking integrated fuel supply solutions; (2) additional optionality to source nuclear fuel supplies from North America & Europe; and (3) increased access to uranium and conversion services. **We estimate the transaction reduces NAVPS sensitivity to a 10% change in the uranium price by 5.8% and is 8-10% dilutive to CFPS at our long-term uranium price of US\$65/lb in 2027, when we include McArthur River and Cigar Lake running at full production.**

FY22 guidance unchanged. Operational readiness activities at McArthur River continues with 730 employees (+60 QoQ) vs. 850 employees planned for mine operations resumption later this year. The collective bargaining agreement (CBA) deadline with the United Steelworkers Local 8914 expires in December 2022, which poses a risk to the ramp-up, although during past negotiations, work has continued under the terms of the expired CBA. FY22 attributable uranium production guidance remains unchanged at up to 10.9Mln lbs (including 9.5Mln lbs at Cigar Lake + up to 1.4Mln lbs at McArthur River) while uranium purchase guidance increases +2Mln lbs to 16-18Mln lbs in order to maintain working inventory. CCO still expects C\$1,380-1,470Mln in uranium revenue at average realized price of C\$56.90/lb (from C\$56.60/lb).

Cameco: 3Q22 Results Summary

	3Q22 Actual	Eight Capital estimate	Actual vs. Estimate	
			(Units)	(%)
Uranium Segment				
Average realized price (US\$/lb)	46.30	43.48	2.82	6.5%
Average realized price (C\$/lb)	59.65	56.76	2.89	5.1%
Production ('000s lbs)	2,000	3,334	(1,334)	-40.0%
Sales ('000s lbs)	5,300	5,250	50	1.0%
Unit operating costs (C\$/lb sold)	56.08	51.97	4.11	7.9%
Revenue (C\$Mln)	313	298	15	5.1%
Gross profit (C\$Mln)	19	25	(6)	-25.6%
Revenue (C\$Mln)	389	380	9	2.4%
Adjusted EBITDA (C\$Mln)	31	37	(6)	-16.3%
Adjusted EPS (C\$)	0.03	0.05	(0.02)	
CFPS (C\$)	(0.11)	0.06	(0.17)	

Source: Company data, Eight Capital estimates

Reiterate BUY; TP C\$46. We estimate Cameco shares are pricing in a US\$67/lb uranium price at 1.0x P/NAV, which represents a 29% premium to the current spot price (US\$52.70/lb) and a 39% premium to the long-term price (US\$49.00/lb). Our TP of \$46 is based on 1.8x P/NAV (C\$25.61/share), reflecting historical peak P/NAV multiple during uranium "bull markets" of 1.6-1.8x. CCO ended Q3/22 with cash + short-term investments of C\$1,344Mln (-C\$82Mln QoQ), total debt of C\$997Mln (no maturities until FY24 and beyond) and C\$1.0Bln of undrawn credit facilities. Key risks to our target price and valuation include commodity price risks (uranium), mining operations and technical risks, cost inflation, reserve estimation risk, and geopolitical and regulatory risks associated with nuclear power and exposed jurisdictions.

Industrial Metals

Cameco Corp.

Rating: BUY
Target price: C\$46

Price assumptions		2021	2022	2023	2024	2025	2026	2027
Uranium Spot (US\$/lb)		36.96	53.65	65.00	70.00	65.00	65.00	65.00
Uranium Term (US\$/lb)		38.13	49.38	55.00	60.00	60.00	60.00	60.00
Cameco Realized Price (US\$/lb)		33.18	44.74	53.00	59.40	61.50	61.50	61.50
USD\$/CAD\$ (US\$)		0.797	0.785	0.800	0.800	0.800	0.800	0.800

Summary income statement (C\$Mln)		2021	2022	2023	2024	2025	2026	2027
Sales		1,475	1,845	2,266	2,623	2,871	2,948	3,025
Operating costs		1,283	1,400	1,658	1,716	1,896	1,668	1,488
DD&A		190	209	259	330	353	363	373
EBITDA		54	311	455	729	797	1,092	1,349
EBIT		(136)	102	196	399	445	729	977
EBT		(172)	27	30	250	306	591	841
Net income		(103)	133	130	368	446	655	846
EPS - FD (0.26)		(0.26)	0.33	0.30	0.85	1.03	1.52	1.96
Adjusted EPS - FD (0.26)		(0.26)	0.32	0.30	0.85	1.03	1.52	1.96
Shares outstanding - FD (Mln)		398	403	433	433	433	433	433

Summary cash flow statement (C\$Mln)		2021	2022	2023	2024	2025	2026	2027
Net income		(103)	133	130	368	446	655	846
Non-cash items		224	257	142	100	75	32	(11)
Working capital changes		310	(98)	-	-	-	-	-
Cash from operations		458	292	272	467	521	688	835
Net change in total debt		-	2,000	-	(500)	-	-	(400)
Net change in common equity		27	1,002	-	-	-	-	-
Dividends (32)		(32)	(50)	(52)	(52)	(52)	(52)	(52)
Cash from financing activities (47)		(47)	2,930	(52)	(552)	(52)	(52)	(452)
Property and equipment (99)		(99)	(252)	(155)	(173)	(226)	(535)	(283)
Other investing activities 18		18	(3,353)	-	-	-	-	-
Cash from investing activities (80)		(80)	(3,605)	(155)	(173)	(226)	(535)	(283)
Free cash flow		360	40	116	294	294	152	552
Net change in cash		331	(383)	64	(258)	242	100	100

Summary balance sheet (C\$Mln)		2021	2022	2023	2024	2025	2026	2027
Cash & equivalents		1,247	874	938	681	923	1,024	1,124
Total current assets		2,142	2,159	2,224	1,966	2,209	2,309	2,409
Fixed assets		3,577	6,426	6,322	6,166	6,040	6,212	6,123
Total assets		7,518	10,411	10,372	9,958	10,074	10,347	10,358

Liabilities		2021	2022	2023	2024	2025	2026	2027
STD		-	-	-	-	-	-	-
Total current liabilities		414	437	437	437	437	437	437
LTD		996	2,997	2,997	2,497	2,497	2,497	2,097
Minority Interest		0	0	0	0	0	0	0
Shareholder equity		4,846	5,859	5,937	6,253	6,647	7,250	8,044
Total liabilities & equity		7,518	10,411	10,372	9,958	10,074	10,347	10,358

Valuation Analysis		2021	2022	2023	2024	2025	2026	2027
NAVPS per share		25.61						
EPS per share		(0.26)	0.32	0.30	0.85	1.03	1.52	1.96
CFPS per share		0.30	0.97	0.63	1.08	1.20	1.59	1.93
P/NAV (x)		1.29						
P/E (x)		n/a	>100	>100	38.9	32.1	21.8	16.9
P/CF (x)		108.7	34.2	52.6	30.6	27.5	20.8	17.1
Current EV/EBITDA (x)		264.8	46.2	31.6	19.7	18.0	13.1	10.6
Pro-forma Enterprise Value (Mln)		14,047	16,421	16,357	16,115	15,872	15,772	15,272
Pro-forma EV/EBITDA (x)		259.2	52.8	36.0	22.1	19.9	14.4	11.3
FCF Yield (%)		2.5%	0.3%	0.8%	2.1%	2.1%	1.1%	3.9%
P/BV (x)		2.7	2.3	2.4	2.3	2.2	2.0	1.8

Profitability Metrics		2021	2022	2023	2024	2025	2026	2027
EBITDA Margin (%)		3.7%	16.9%	20.1%	27.8%	27.8%	37.0%	44.6%
Return on Equity (%)		-2.1%	2.5%	2.2%	6.0%	6.9%	9.4%	11.1%
Return on Invested Capital (%)		-1.4%	1.3%	1.3%	3.9%	4.6%	6.6%	8.5%

Balance Sheet Analysis		2021	2022	2023	2024	2025	2026	2027
Debt/Equity (%)		20.6%	51.1%	50.5%	39.9%	37.6%	34.4%	26.1%
Debt/Debt + Equity (%)		13.3%	28.8%	28.9%	25.1%	24.8%	24.1%	20.2%
Net Debt/Equity (%)		-5.2%	36.2%	34.7%	29.0%	23.7%	20.3%	12.1%
Net Debt/TTM EBITDA (x)		n/a	6.8	4.5	2.5	2.0	1.3	0.7
EBIT Interest Coverage (x)		2.2	(0.2)	3.3	1.3	6.8	8.4	2.5

Attributable Production ('000 lbs)		2021	2022	2023	2024	2025	2026	2027
McArthur River (69.8%) ('000 bs)		-	1,440	8,726	10,471	10,471	17,233	17,451
Cigar Lake (50.0%) ('000 bs)		6,100	9,498	7,364	7,364	7,364	7,364	9,818
Inkai (40.0%) ('000 bs)		3,600	3,152	3,328	3,744	4,160	4,160	4,160
US ISR ('000 bs)		0	0	0	0	0	0	2,951
Total		9,700	14,090	19,417	21,579	21,995	28,757	34,381

Revenue by Segment		2021	2022	2023	2024	2025	2026	2027
Uranium Mining (%)		72%	78%	76%	79%	80%	81%	81%
Fuel Services (%)		27%	20%	20%	17%	16%	16%	15%
NUKEM (%)		1%	2%	4%	4%	4%	3%	3%
Other (%)		0%	0%	0%	0%	0%	0%	0%
Total		100%	100%	100%	100%	100%	100%	100%

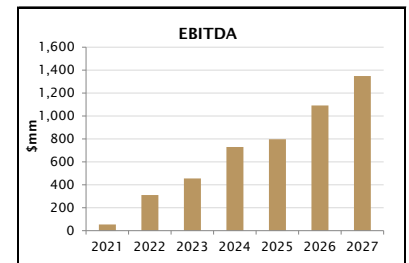
Cash Cost		2021	2022	2023	2024	2025	2026	2027
McArthur River (C\$/lb)		15.28	17.50	17.59	16.09	17.25	17.47	18.75
Cigar Lake (C\$/lb)		14.67	17.00	18.08	15.80	15.39	14.80	16.05
Inkai (C\$/lb)		-	-	-	-	-	-	-
Purchased Uranium (C\$/lb)		33.81	37.97	50.92	59.02	59.07	58.50	58.50
Total (C\$/lb)		16.20	18.77	18.82	16.97	17.48	17.67	20.64

Source: Eight Capital estimates, Company data

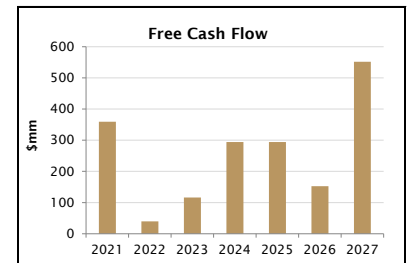
Industrial Metals		
Uranium CANADA		
Primary ticker		CCO-TSE
Price (C\$)		33.06
Target price (C\$)		46.00
Exchange rate (US\$/C\$)		0.737
Shares outstanding - FD (Mln)		432.5
Market Capitalization (C\$Mln)		14,298
Enterprise Value (C\$Mln)		14,353
Year end		Dec.31
Pricing currency		CAD\$
Accounting currency		CAD\$

Balance Sheet - (C\$Mln)	Current
Cash & equivalents	942
Net working capital	1,795
Net PP&E	3,410
Total assets	7,468
Short term debt	-
Long term debt	997
Total shareholders' equity	4,888
Total liabilities & shareholder equity	7,468
Shares outstanding (Mln)	398
Book value per share	12.27
Net debt/net debt + equity (%)	0.9%

Net Asset Value Summary		
	C\$Mln	\$/share
McArthur River	3,790	8.76
Cigar Lake	1,561	3.61
Inkai (10%)	1,622	3.75
Rabbit Lake	723	1.67
Crow Butte	124	0.29
Smith Ranch/Highland	162	0.38
Uranium Mining	7,982	18.46
Uranium Contract Book	154	0.36
Fuel Services	840	1.94
NUKEM	227	0.53
Westinghouse Electric JV	2,685	6.21
Exploration & Development	1,288	2.98
Gross Asset Value	13,176	30.46
Long-term Debt (2,997)	(6.93)	
Working Capital	1,722	3.98
Net Debt	(1,275)	(2.95)
CRA tax remittance	309	0.71
Corporate SG&A (860)	(1.99)	
Reclamation liabilities (274)	(0.63)	
Net asset value	11,075	
Shares outstanding	433	
Net asset value per share (C\$)	25.61	



Source: Eight Capital estimates, Company data



Source: Eight Capital estimates, Company data

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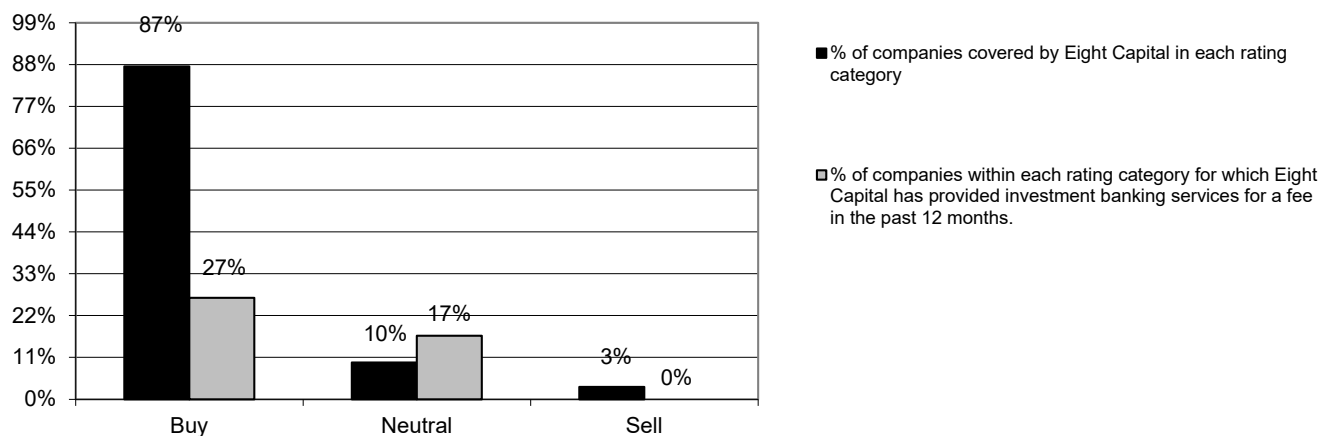
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As at September 30, 2022

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