TD Securities Inc.

Action Note

Equity Research

October 17, 2022

Metals & Minerals

Cameco Corp.

(CCO-T, CCJ-N) C$31.14 | US$21.29

Westinghouse Transforms CCO Into a Nuclear Industry Powerhouse

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Event

On October 11, in partnership with Brookfield Renewable Partners and its institutional partners, CCO announced the acquisition of Westinghouse Electric, a service provider to the global nuclear power industry. CCO will own a 49% stake in Westinghouse and Brookfield Renewable, with its institutional partners, will own a 51% interest.

Impact: MIXED

In our view, the addition of Westinghouse's nuclear services business to CCO's uranium/conversion business creates a nuclear industry powerhouse that provides almost end-to-end solutions for nuclear utilities - the only gap being enrichment (which could be addressed by the late-2020's with the commercialization of Global Laser Enrichment's process).

Investors are concerned that marrying a uranium producer with a services business will reduce CCO's leverage to increasing uranium prices and dilute the company's premium valuation multiples. Historically, based on our estimates, CCO has traded at 1.5x-2.0x NAV-8% and 13x-20x forward EV/EBITDA due to its position as the one the few "pure play" uranium equities globally. However, we note that CCO's "torque" to uranium prices has been mitigated by its term contract uranium portfolio. While the acquisition price for Westinghouse implies a 10x-11x EV/EBITDA multiple, we believe that reflects Brookfield Business Partner's (the current owner) desire to exit the business after making a 5x-6x return on its original investment. We note that BWX Technologies, also a nuclear industry services company with a business model that closely matches Westinghouse's, has traded at an average EV/forward EBITDA multiple of ~15.0x over the past five years.

On a consolidated basis, CCO's balance sheet leverage will be higher than it has been historically. On a pro forma basis, we estimate a ND/EBITDA ratio of ~3.0x in 2024 and ~1.9x in 2025. The recurring revenue stream from Westinghouse is expected to generate run-rate EBITDA of ~$800mm/year (100%); combined with higher uranium mine production and increasing prices, CCO should have the ability to meaningfully reduce debt at the corporate level over the next several years.

TD Investment Conclusion

We have maintained our BUY recommendation; our target price declines to $40.00 (from $45.00). Our target price is based on a blended 15x EV/EBITDA multiple on our pro forma 2025 EBITDA estimates (discounted back to 2023).

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$40.00↓** *Prior: C$45.00*
12-Month Dividend (Est.):	**C$0.12**
12-Month Total Return:	**28.8%**

Market Data (C$)

Current Price	C$31.14
52-Week Range	$23.03 - $41.06
Mkt Cap (f.d.) ($mm)	$13,514.8
EV ($mm)	$12,230.7
Current Dividend	$0.12
Dividend Yield	0.4%
Avg. Daily Trading Vol.	2,521,604

Financial Data (C$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	434.0
Float Shares (mm)	434.0
Net Debt ($mm)	$(97.5)
NAVPS	$25.73
Working Cap ($mm)	$1,865.3

Estimates (C$)

Year	2020A	2021A	2022E	2023E
EBITDA ($mm)	154.9	49.6	250.0	252.5
EBITDA ($mm) (old)	–	–	*256.1*	*247.7*
EPS (f.d.)	(0.17)	(0.25)	0.35	0.21
EPS (f.d.) (old)	–	–	*0.36*	*0.22*
CFPS (f.d)	0.65	0.37	0.98	0.62
CFPS (f.d) (old)	–	–	*1.02*	*0.67*

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

Year	2020A	2021A	2022E	2023E
Q1	0.07	(0.07)	0.04	–
Q2	(0.16)	(0.10)	0.18	–
Q3	(0.20)	(0.14)	0.07	–
Q4	0.12	0.06	0.06	–

Valuations

Year	2020A	2021A	2022E	2023E
EV/EBITDA	79.0x	246.6x	48.9x	48.4x
P/E (f.d.)	nmf	nmf	89.0x	nmf
P/CFPS (f.d)	47.9x	84.2x	31.8x	50.2x

Supplemental Data

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

EBITDA estimate shown above excludes contributions from CCO's investment in Inkai.

All figures in C$, unless otherwise specified

Details

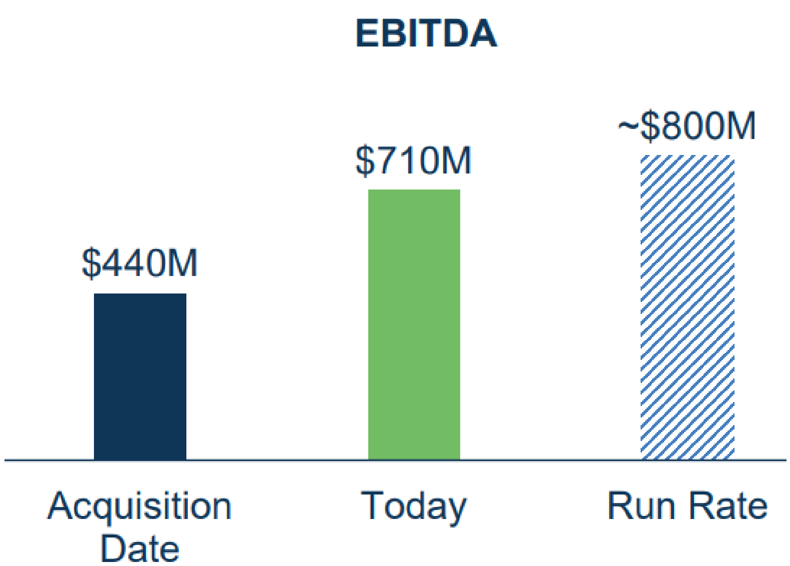
The total enterprise value for the Westinghouse acquisition is US$7.875bln. Westinghouse's existing debt structure will remain in place, leaving an estimated US$4.5bln equity cost to the consortium, subject to closing adjustments. This equity cost will be shared proportionately between Brookfield and its institutional partners (approximately US$2.3bln) and CCO (approximately US$2.2bln). The acquisition is expected to close in H2/23.

CCO will finance the acquisition through a mix of capital sources, including cash, debt, and equity:

- CCO closed an ~US$750mm bought deal share offering on October 17;
- CCO has entered into a commitment letter with a lending syndicate for a senior unsecured term loan facility up to US$600mm and a senior unsecured 364-day bridge loan facility up to US$1bln; and
- CCO had $1.06bln (or ~US$770mm) in cash or cash equivalents as of June 30, 2022.

On a 100% basis, Westinghouse's TTM EBITDA to June 30, 2022 was ~US$700mm; the company has a target of achieving run rate EBITDA of ~US$800mm. We estimate that the acquisition price represents a TTM EV/EBITDA ratio of ~11x and a 10x multiple on run-rate EBITDA. This compares to CCO's average TTM EV/EBITDA ratio between 2001 and 2018 of ~12.7x (we excluded 2019-2022 due to elevated multiples resulting from the closure of the McArthur River mine).

Exhibit 1. Westinghouse EBITDA actual and run rate forecast



Note: Brookfield Business Partners acquired Westinghouse in August 2018
Source: Brookfield Business Partners

Outlook

- We have adjusted our estimates to reflect the closing of the US$750mm equity raise, however, we have not revised our 2023 financial estimates to reflect the impact of Westinghouse given the uncertainty over the timing for the transaction to close.
- We estimate pro forma adjusted 2025 EBITDA (including its 49% interest in Westinghouse) at ~$1.49bln ($971mm from the uranium/conversion businesses and $517mm from Westinghouse). We have assumed CCO's consolidated 2025 pro forma debt at ~$4.9bln and cash at ~$2.1bln.

Exhibit 2. Pro forma CCO EBITDA & ND/EBITDA Including 49% Interest in Westinghouse

C$ x 1,000	2023E	2024E	2025E
CCO Adj. EBITDA (including Inkai)	431,570	723,807	970,878
Westinghouse 49% EBITDA (3% CAGR from 2022)	487,741	502,373	517,444
Total Adj. EBITDA	919,311	1,226,180	1,488,323
Consolidated Debt	5,384,625	4,884,625	4,884,625
CCO Consolidate Cash & Equivalents			
Uranium operations	1,111,113	1,003,815	1,608,623
Cumulative Dividends from WEC		224,325	458,090
Total Cash	1,111,113	1,228,140	2,066,712
Debt/EBITDA	5.86x	3.98x	3.28x
Net Debt/EBITDA	4.65x	2.98x	1.89x

Source: TD Securities Inc. estimates

- Our pro forma NAV-8% has increased to $25.73/sh (from $24.71/sh), or +4.1%. We have included $3.1bln for CCO's 49% interest in Westinghouse in our NAV based on a preliminary dividend discount model assuming a CAGR of 3% for 10 years and 2.5% thereafter for Westinghouse's EBITDA. We assume that Westinghouse distributes dividends from its net FCF (after debt finance costs and capital expenditures) to its shareholders based on their proportionate holdings. We have included the debt funding that CCO will assume at its corporate level to finance the Westinghouse acquisition (~US$1.6bln) in our pro forma NAV estimate.

Exhibit 3. CCO Pro Forma 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	3,575,307	8.24	2,971,548	6.85
Cigar Lake	54.547% JV	1,428,160	3.29	1,306,480	3.01
Rabbit Lake	100%	254,832	0.59	213,642	0.49
Inkai	40%	2,042,018	4.71	1,617,451	3.73
Highland-Smith	100%	190,200	0.44	190,200	0.44
Crow Butte	100%	108,600	0.25	108,600	0.25
Conversion	100%	650,916	1.50	575,871	1.33
Total Operations		8,250,033	19.01	6,983,791	16.09
Existing Mines (50% inferred resources @ C$15/lb)		351,822	0.81	351,822	0.81
Pipeline projects (50% total resources @C$10/lb) *		1,304,000	3.00	1,304,000	3.00
Global Laser Enrichment **		500,000	1.15	500,000	1.15
Mining/Project NAV		**10,405,855**	**23.98**	**9,139,613**	**21.06**
Westinghouse Electric		3,100,000	7.14	3,100,000	7.14
Plus:					
Working Capital		1,865,310	4.30	1,865,310	4.30
Minus:					
Corporate G&A		(457,475)	(1.05)	(425,194)	(0.98)
CRA Cash Remittances		206,953	0.48	206,953	0.48
Debt		(3,096,625)	(7.13)	(3,096,625)	(7.13)
Reclamation		(858,026)	(1.98)	(858,026)	(1.98)
Plus/(Minus) balance sheet items		(2,339,863)	(5.39)	(2,307,581)	(5.32)
Total NAV		**11,165,992**	**25.73**	**9,932,031**	**22.88**

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

**** Value based on market capitalization of Silex Systems (SLX.AX)**

Source: TD Securities Inc. estimates

Valuation

CCO is currently trading at a P/NAV multiple of ~1.21x, compared with its larger-cap Canadian mining peers at an average of ~0.71x.

Justification of Target Price

Our target price is based on 50/50 blend of 1.6x our pro forma NAV (previously 2.2x) and 15x our forecast pro forma 2025 adjusted EBITDA (previously 18x, discounted back to 2023 at 8%).

We have lowered our target NAV multiple to 1.6x to reflect that CCO will no longer be a pure play uranium equity with the addition of the Westinghouse business. However, we expect that the company should retain a premium multiple given its unique position within the uranium/nuclear sector, its global reach, and the scarcity of large capitalization uranium/nuclear investment opportunities for investors.

Our revised 15x EV/2025E EBITDA multiple is based upon a weighted blend of 18x EBITDA for CCO's legacy uranium/conversion business (2/3 weighting) and 10x EBITDA for CCO's proportionate share of Westinghouse (1/3 weighting).

We use 2025 as our base year for pro forma EBITDA as we believe it is the most representative of a 'normalized' level of EBITDA as CCO's tier one uranium mines return to near full production levels. Our 2025 uranium price assumption is US$60/lb.

Exhibit 4. Cameco Target Price Calculation (including pro forma contribution from Westinghouse acquisition)

NAV	Weighting	50%
NAV-8%	C$/sh	25.73
1.60x	C$/sh	41.16
Per share - C$		**41.16**
EV/2025 Pro Forma EBITDA	Weighting	50%
15.00	C$M	22,318
YE 2025 Cash (pro forma)	C$M	2,066
YE 2025 LT Debt (pro forma)	C$M	(4,885)
Total	C$M	19,500
per share - C$		**44.93**
Discounted at 8% to 2023	**C$/sh**	**$38.52**
Weighted Target Price	**C$/sh**	**$39.84**

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. There could be risks associated with closing the Westinghouse transaction that would affect our pro forma forecasts.

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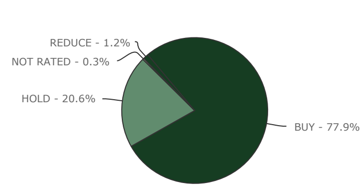

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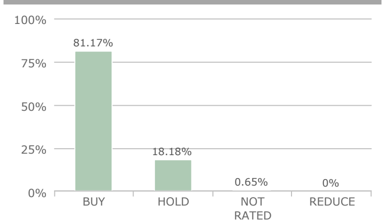

Current as of: October 17, 2022

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