

Cameco reported 1Q2019 results.

Altynay Ibraimova — May 02, 2019

The company produced 2.4mn lbs of uranium, which corresponds to the level of last year. The main mining site Cigar Lake showed an increase in mining by 9% y/y, while the shutdown of production at the McArthur River and the share of production at Inkai contributed to a decrease in total production. Fuel services in physical volumes amounted to 3.8mn kgU, a decrease of 3% y/y.

The company's total revenue declined by 32%, reaching \$298mn. Uranium sales decreased by 27% y/y and together with a low average selling price of \$32/lbs (-25% y/y), the company's revenue from uranium sales decreased by 42%. At the same time, the sales of fuel services increased by 25% y/y and revenues amounted to \$83mn (+ 30% y/y).

The monetary cost of uranium production decreased by 21% y/y, amounting to \$14.4/lbs, as a result of which the cost was reduced by 24% to \$280mn.

Operating loss was \$26mn against a profit of \$23mn a year earlier. Net loss was \$18mn against net profit of 55mn in 1Q2018.

Cameco's revenue plans remain in the \$Cdn1650-1800mn range, the company still expects to meet \$Cdn110-120mn of administrative expenses and \$Cdn13m of exploration expenditures, without expecting much activity in current projects. At the same time, the average selling price according to the company's expectations will decrease from the previously planned \$46.10/lb to \$44.20/lb and the average unit cost will decrease from \$ 41.00-43.00/lb to \$39.50-41.50/lb.

According to a technical assessment of the McArthur River mine, the company notes an increase in reserves of 9% and an estimated lifetime of 23 years, subject to annual production of 18mn lbs of U3O3 after restarting production. Since 2012, the estimated capital costs for the mine have decreased from \$2.5bn to \$658mn, and the specific average operating costs per pound of uranium will be \$14.97/lbs (\$ 19.23/pound in the technical report for 2012).

In September 2018, the Canadian Tax Court ruled in favour of Cameco, confirming full compliance with legislation of Cameco tax payments in 2003, 2005, and 2006. The total amount of tax revalued for these tax years was \$11mn, and the company aimed a refund of \$38mn in legal proceedings (\$20.5 mn for legal fees and \$17.9 mn for payments). On April 30, Cameco announced the decision of the Tax Court to reimburse expenses in the amount of \$10.25 mn and the amount of payments that has not yet been determined. Cameco expects the remaining \$17.9mn will also be successfully refunded.

Our opinion

We estimate the results of 1Q2019 as neutral, given that we have already estimated low sales volume. Weak market conditions for Cameco, constraining production potential, are not a surprise. We consider plans to reduce unit costs as a timely adaptation of the company to market conditions and do not notice a significant effect on the operating component, given that our forecast for the unit cost for 2019 located at 41.50/lb. We maintain our "Hold" recommendation for Cameco.

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