

Cameco: financial and operational results for 2019

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The company produced 9 million pounds of uranium that is 2% lower than last year. The company managed to achieve the planned production volumes for 2019. The ongoing planned shutdown of production at the McArthur River mine supports uranium market prices, reducing supply by approximately 18 million pounds of uranium (on a 100% basis) per year. The fuel services segment showed an increase in production by 27% yoy and amounted to 13.3 million kgU compared to 10.5 million kgU in 2018.

	Units	2019	2018	yoy
Uranium				
Production volume	mln pounds	9.0	9.2	-2%
Sales volume	mln pounds	31.5	37.01	-10%
Average selling price	USD / pound	33.77	37.01	-9%
Revenue	USD million	1414	1684	-16%
Gross margin	USD million	153	268	-43%
Fuel services				
Production volume	mln kgU	13.3	10.5	27%
Sales volume	mln kgU	14.1	11.6	22%
Average selling price	\$Cdn/kgU	26.21	26.78	-2%
Revenue	\$Cdn mln	370	313	18%
Gross profit	USD mln	90	59	53%

Source: Company Data

Over the reporting period, the company's revenue amounted to USD1.863 billion, which is 11% less than in 2018. Gross profit decreased from USD296 million in 2018 up to USD242 million in 2019 (-18% yoy). Net income declined 55% yoy to USD74 million, or to USD0.19 per share.

In the uranium segment, the volume of purchased material, as well as Inkai JV products and NUKEM excess reserves amounted to 19 million pounds, compared with the planned volume of 21-23 million lbs, which is primarily due to the situation on the uranium market in 2019. In 2019 the company paid off USD500 million in debt and USD32 million in dividends to end the year with a net cash position of USD1.062 billion. Operating cash flow amounted to USD527 million, that is 21% lower than the corresponding indicator in 2018. Cash unit cost of uranium for 2019 increased by 3%, to \$15.7/lbs.

Company management forecast for 2020 includes the following indicators:

- Revenues at the level of USD1480-USD1630 million, lower than in 2019 due to a decrease in average selling prices in the uranium segment;
- The average selling price of uranium of USD40.9/lb;
- Average cost of sales (including depreciation expenses): USD38.5-USD40.5/lb for the uranium segment, USD19.7-USD20.7/kgU for the fuel segment;
- Uranium production at the level of 2019 (9 million lbs). Production of fuel segment services 13-14 million kgU;
- Purchases of uranium products in the range of 20-22 million lbs;
- Capital expenditures at the level of USD120 million;

Our opinion:

The decrease in sales and production of the uranium segment is dictated by the deterioration in market conditions. Market access issues and trade policies were among the main factors affecting the market in 2019, which created uncertainty and required a significant amount of time and attention from market participants. Cameco responded to the market situation by reducing costs at all levels, by optimizing the unit cost of production and volume of supply. A stable financial position of

the company, a stable position of liquid assets, cash flow generation and a reduction in the share of borrowed funds in the asset structure should help the company improve profitability in the medium term. We maintain our Buy recommendation on Cameco with 12M CAD14.9 per share.

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