

### Recommendation upgrade to BUY

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Ticker	CCO CN
Recommendation	<b>Buy</b>
Current price, CAD/share	12,2
12M target price, CAD/share	14,9
<b>Upside/Downside</b>	<b>22%</b>

Ticker	CCJ US
Recommendation	<b>Buy</b>
Current price, USD/share	9,2
12M target price, USD/share	11,1
<b>Upside/Downside</b>	<b>21%</b>
No. of ordinary shares (mn)	395,8
Free float (%)	99,8%
3M av. daily volume (CAD mn)	23,9
Market capitalisation (CAD mn)	3 649

Financials (mn \$Cdn)	2018	2019F	2020F
Revenue	2 092	1 713	1 812
EBITDA	483	373	434
Net profit	167	12	61
EPS	0,42	0,03	0,15
Equity	4 994	4 994	4 848
Net debt	-106	-64	-74

Valuation	2018	2019F	2020F
Net Debt/EBITDA (x)	-0,22	-0,17	-0,17
Debt/Equity	0,20	0,20	0,20
EV/Sales (x)	n/d	2,09	1,97
EV/EBITDA (x)	n/d	9,60	8,24

Price dynamics	Abs.	Relative SPTSX
1M	-12,8%	-13,9%
3M	-20,3%	-19,5%
6M	-24,5%	-31,8%
52 week high	17,1	
52 week low	12,0	



Source: Bloomberg, Halyk Finance estimates

**We raise our recommendation on Cameco shares from Hold to Buy:** after the publication of 1H2019 results price correction contributes to an increase of the premium to our 12M TP to 22%. Keeping our assumptions about strong long-term growth catalysts in the form of the demand for nuclear energy from China and Cameco's leading positions in the highly concentrated market of uranium producers, we believe that lowering the stock price provides a good opportunity to buy. We maintain our 12M TP of CAD14.9/share, noting the absence of significant changes in our forecasts.

**Operational results 1H2019 within expectations.** Uranium sales in 1H2019 amounted to 11.5mn lbs which is 3% lower yoy. The lack of work at McArthur River and US ISR caused a decrease in uranium production by 6% yoy to 5mn lbs but the plan for the whole year, as we expected, is 9mn lbs. About 12.7mn lbs were purchased additionally, as a result the volume of produced and purchased uranium exceeded the 1H2018 indicator by 92%.

**Financial results under the pressure of selling prices.** Although in 1H2019 the average spot price for uranium increased by 19% yoy, due to a lower share of contract sales, price of which exceeds the market, the average Cameco selling price was at USD32.64/lbs which is 17% below yoy (CAD43.67/lbs -13% yoy). The unit cost of production was at the level of CAD28.63/lbs (-6% yoy). In this case the unit procurement cost exceeded the price by 10% yoy. The total unit costs were at the level of CAD34/lbs showing an increase of 8% yoy. In 1H2019 total revenue decreased by 11%, reaching \$685mn. Cost reduced by 8% yoy. Gross profit margin decreased from 12% in 1H2018 to 9% in 1H2019. The company reduced operating expenses, which, however, could not dampen the growth of operating loss by 47% yoy to CAD43m. Net loss amounted to CAD41mn versus CAD22mn loss in 1H2018.

**The fuel services segment is an additional locomotive of growth.** As a result of the changes described above, the revenue of the uranium segment decreased by 16%, reaching CAD500mn. Gross profit fell by 80% to CAD20mn vs. CAD98mn a year earlier. In contrast, production in the fuel services segment increased by 24% yoy, sales increased by 38% yoy, the average price decreased by 11%, which was offset by a decrease in the average unit cost by 13%. Revenue in the segment of Fuel services in 1H2019 increased by 33% to CAD163m and gross margin rose by 33% to CAD40m.

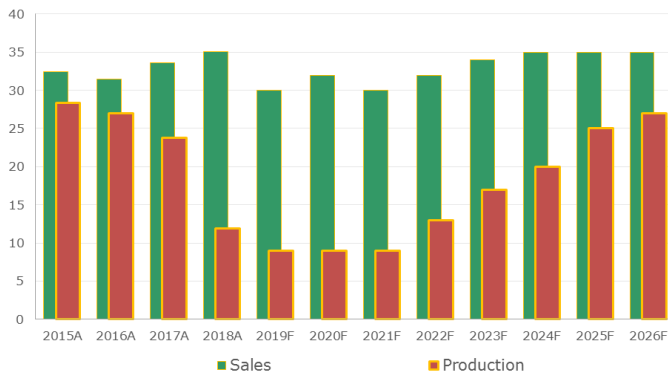
**China's bid for new nuclear power plants is a long-term driver for uranium.** In 1H2019 uranium market looks better than a year earlier. The average price of uranium in the spot market at the end of 1H2019 formed at the level of \$24.6/lbs having consolidated at 8.6%. The average contract prices at the end of June were \$31.5/lbs against \$29/lbs in June 2018. More than 50 reactors are under construction, the connection of which will inevitably lead to an increase in demand for uranium. The fastest growing atomic energy market today represented by China continues to expand. At the beginning of 2018 in China, 37 reactors were operating, during the last year, 7 new nuclear reactors with installed capacity reaching 8.84mn kW (NEA) were commissioned. To date, 45 reactors are operating in the country with a total installed capacity of 45.9mn kW, and 11 power units are under construction. In 2020 China expects to reach the total installed capacity of nuclear reactors at 88 gigawatts, in 2030 - 120 gigawatts, and by 2050 reach 491.3 GW.

**Reducing the risk of restrictions on the import of uranium in the United States.** Positive for Cameco is also the decision of the President of the United States following the results of the Investigation 232, the results of which decided that no new trade restrictions on the import of foreign uranium into the United States are required. This news does not make any changes in Cameco export indicators, but positively perceived by the market due to the absence of negative consequences.

**Results 1H2019 do not make changes to our forecasts.** Based on the actual supply contracts for 2019 Cameco increased its revenue plans for 2019 from the previous CAD1650-1800mn to CAD1730-1880mn, which is in line with our expectations. Revenue forecasts are based on a spot price of uranium at USD24.70/lbs a contract price of USD32.00/lbs and an exchange rate of USD1.00/CAD1.30. The company still expects to meet the \$Cdn110-120mn of administrative expenses and \$Cdn13mn of the costs of geo exploration, not expecting a lot of activity in current projects. Capital expenditures also remain at the previous planned levels of CAD95mn.

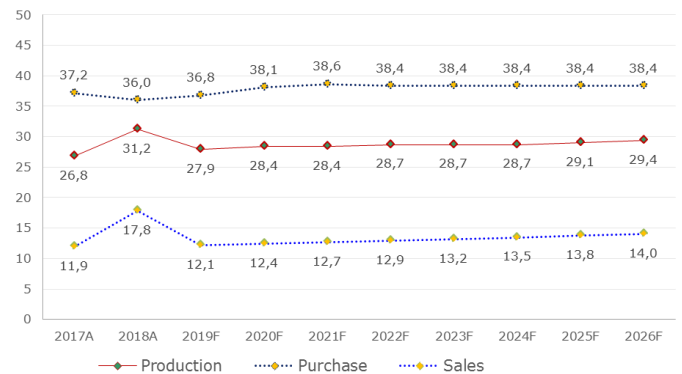
**Restarting McArthur River is a major source of operational risk.** Despite the fact that in its technical report Cameco makes an assumption on restarting McArthur River by early 2020, the company's management notes that "there is a long way to go before it is advisable to restart work at the mine". We agree that current uranium price levels have not yet reached comfortable levels. Over the next three years, we expect more favorable conditions that will help to resume production at the McArthur River mine by 2022. For another large field, the company's 9mn lbs of uranium production at Cigar Lake coincides with our forecasts for 2019. We estimate the subsequent production dynamics at Cigar Lake as stable at about 9mn lbs. until 2026 and we expect a decline to 8.4mn lbs and 1.7mn lbs by the end of the service life in 2026 and in 2027 based on the expected total uranium mining on the project over the entire service life (2016-2028) at 109mn lbs. of U3O8.

Fig. 1. Uranium volumes, mn lbs.



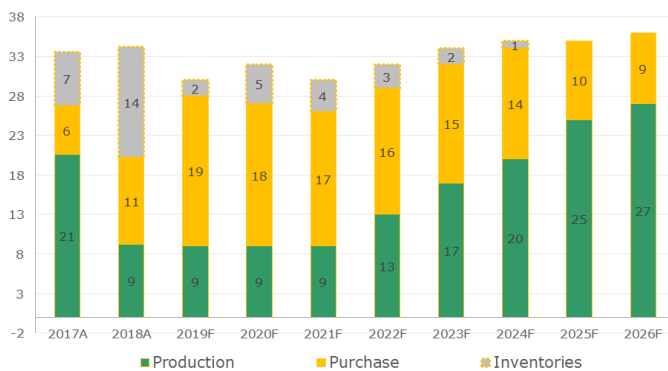
Source: Cameco data, Halyk Finance forecasts

Fig. 2. Uranium unit cost, CAD/lbs.



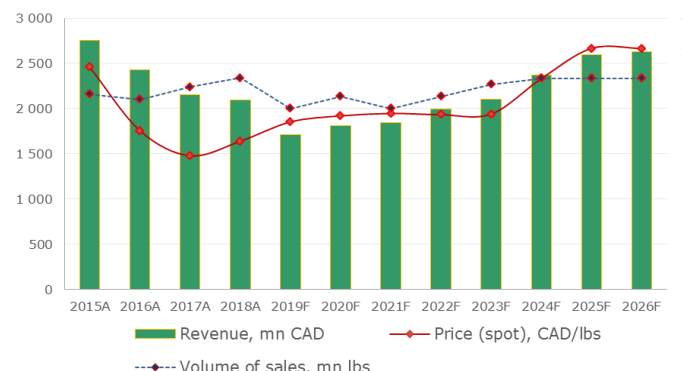
Source: Cameco data, Halyk Finance forecasts

Fig. 3. Source of uranium sales, mn lbs.



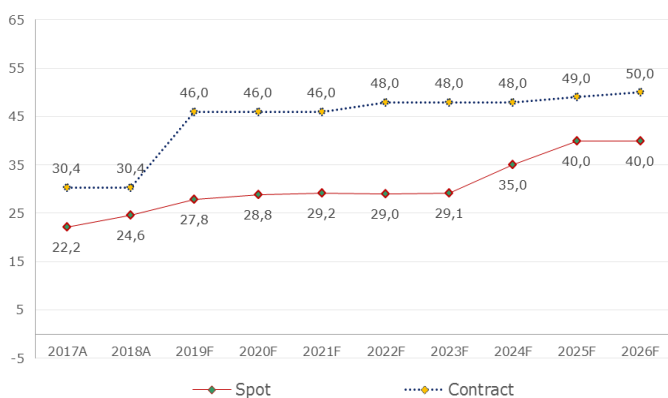
Source: Cameco data, Halyk Finance forecasts

Fig. 4. Revenue is more sensitive to uranium prices



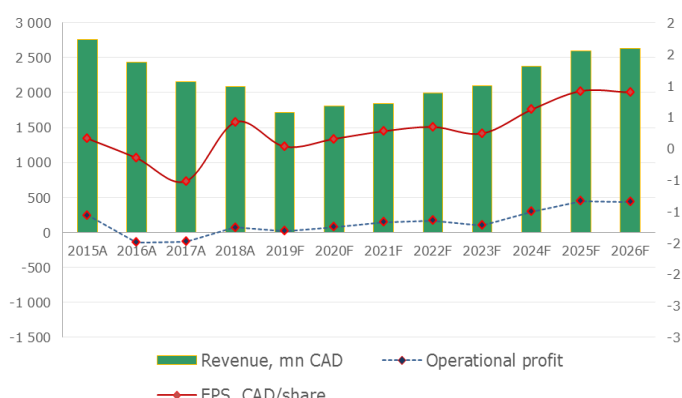
Source: Cameco data, Halyk Finance forecasts

Fig. 5. The uranium price, \$/lbs – optimism remains



Source: Cameco data, Halyk Finance forecasts

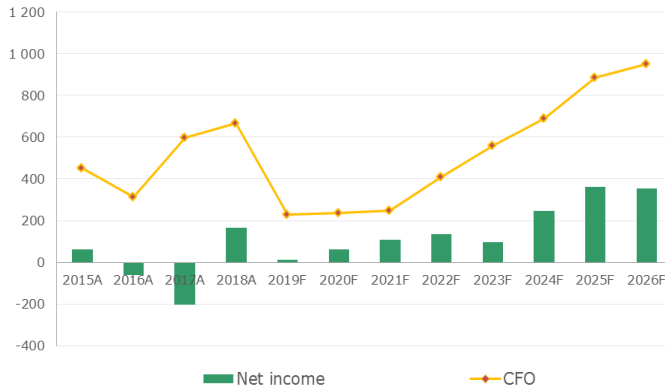
Fig. 6. EBIT growth rate will increase by 2020



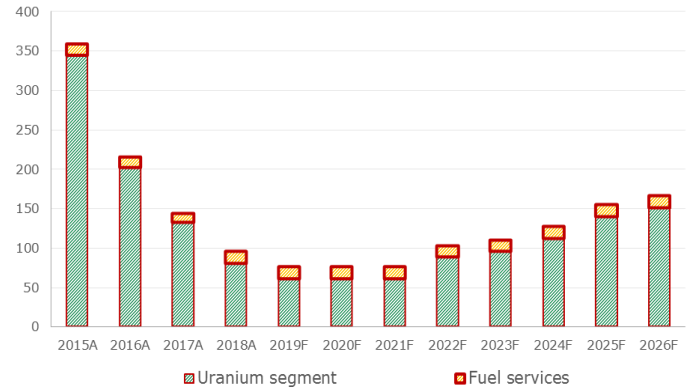
Source: Cameco data, Halyk Finance forecasts

Fig. 7. Net income and CFO (CAD mn) – CFO growth forecast by 1.3% CAGR

Fig. 8. CAPEX by segments - the main increase will come from the entering of new mines



Source: Cameco data, Halyk Finance forecasts



Source: Cameco data, Halyk Finance forecasts

Fig. 9. Financial results

CAD mn	1H2018	1H2019	yoy
<b>Revenue</b>	<b>772.7</b>	<b>685.3</b>	<b>-11%</b>
<b>Cost of sales</b>	<b>678.3</b>	<b>626.0</b>	<b>-8%</b>
Cost of sales	547.2	525.7	-4%
D&A	131.2	100.3	-24%
<b>Gross profit</b>	<b>94.3</b>	<b>59.3</b>	<b>-37%</b>
Administration costs	66.4	66.0	-0.5%
Exploration costs	12.5	7.9	-37%
Research and dev-t	-1.0	2.7	n/d
Other OPEX	44.9	25.6	-43%
Sale of assets	0.7	-0.2	n/d
<b>Operating profit</b>	<b>-29.1</b>	<b>-42.7</b>	<b>47%</b>
Finance costs	55.1	56.2	2%
Derivatives	-52.6	34.5	n/d
Financial income	9.0	15.1	68%
Equity investments	4.5	24.5	446%
Other income	82.8	-14.0	n/d
<b>EBT</b>	<b>-40.6</b>	<b>-38.8</b>	<b>-5%</b>
Income tax	-19.0	2.2	n/d
<b>Net profit</b>	<b>-21.6</b>	<b>-40.9</b>	<b>89%</b>

Source: Cameco data

Fig. 10. Calculation of 12M TP by DCF method

CAD mn	2020П	2021П	2022П	2023П	2024П	2025П	2026П
Revenue	1 812	1 843	1 991	2 101	2 374	2 592	2 626
Gross profit	<b>250</b>	<b>318</b>	<b>355</b>	<b>347</b>	<b>486</b>	<b>637</b>	<b>624</b>
<b>EBITDA</b>	<b>434</b>	<b>500</b>	<b>528</b>	<b>519</b>	<b>658</b>	<b>808</b>	<b>796</b>
-Income tax	26	47	58	41	105	155	151
-CAPEX	76	76	103	110	127	155	166
-Change in WC	-32	-77	-27	20	-21	-57	-34
<b>FCF</b>	<b>364</b>	<b>455</b>	<b>394</b>	<b>349</b>	<b>447</b>	<b>556</b>	<b>512</b>
<b>WACC</b>	<b>9.09%</b>						
First stage DCF	2 059						
Terminal value	6 396						
PV of terminal value	3 310						
Share in JV	410						
Enterprise value	5 778						
Net debt	-106						
Equity value	5 885						
Number of shares (mn)	396						
Fair value, Cdn\$/share	14.9						
Av. CADUSD exchange rate	0.75						
Fair value, \$/share	11.1						

Appendix 1. Financial forecasts, mn CAD, except per share amounts

(\$Cdn mn, except per share )	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Revenue	1 713	1 812	1 843	1 991	2 101	2 374	2 592	2 626
Cost of sales, incl.	1 525	1 562	1 524	1 636	1 753	1 889	1 955	2 002
<i>Products and services sold</i>	1 239	1 363	1 321	1 359	1 401	1 475	1 441	1 440
<i>Depreciation</i>	286	200	203	277	353	414	514	562
<b>Gross profit</b>	<b>188</b>	<b>250</b>	<b>318</b>	<b>355</b>	<b>347</b>	<b>486</b>	<b>637</b>	<b>624</b>
Administration	145	148	151	161	165	166	168	170
Exploration expenses	19	18	17	17	16	15	14	13
Research and development	2	2	2	2	2	2	2	2
Gain/(Loss) on sale of assets	2	2	2	2	2	2	2	2
<b>Earnings from operations</b>	<b>20</b>	<b>80</b>	<b>146</b>	<b>173</b>	<b>103</b>	<b>301</b>	<b>451</b>	<b>437</b>
Finance costs	-58	-46	-46	-37	-28	-16	-5	-5
Gains (losses) on derivatives	0	0	0	0	0	0	0	0
Financial income	25	23	24	25	27	29	33	34
Loss from the share of JV	30	30	32	33	33	36	38	39
<b>EBT</b>	<b>18</b>	<b>87</b>	<b>156</b>	<b>195</b>	<b>136</b>	<b>350</b>	<b>517</b>	<b>505</b>
Income tax (recovery) expense	5	26	47	58	41	105	155	151
<b>Net earnings</b>	<b>12</b>	<b>61</b>	<b>109</b>	<b>136</b>	<b>95</b>	<b>245</b>	<b>362</b>	<b>353</b>
Number of shares, mn.	396	396	396	396	396	396	396	396
EPS	0,03	0,15	0,28	0,34	0,24	0,62	0,91	0,89
<b>(\$Cdn mn, except per share )</b>								
	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Cash and cash equivalents	226	239	243	262	277	313	341	346
Short-term investments	833	830	934	667	854	566	1 040	1 670
Accounts receivable	376	323	252	218	230	195	142	108
Inventories	395	434	421	433	446	470	459	459
Current portion of long-term receivables, investments and other	11	12	12	13	14	16	17	17
<b>Total current assets</b>	<b>1 841</b>	<b>1 838</b>	<b>1 862</b>	<b>1 594</b>	<b>1 821</b>	<b>1 559</b>	<b>2 000</b>	<b>2 600</b>
Property, plant and equipment	4 068	3 944	3 816	3 642	3 399	3 112	2 753	2 356
Intangible assets	66	66	66	66	66	66	66	66
Long-term receivables, investments and other	752	752	752	752	752	752	752	752
Investments in equity-accounted investees	231	231	231	231	231	231	231	231
Deferred tax assets	1 006	1 006	1 006	1 006	1 006	1 006	1 006	1 006
<b>Total non-current assets</b>	<b>6 122</b>	<b>5 998</b>	<b>5 870</b>	<b>5 696</b>	<b>5 453</b>	<b>5 166</b>	<b>4 807</b>	<b>4 410</b>
<b>Total assets</b>	<b>7 963</b>	<b>7 836</b>	<b>7 732</b>	<b>7 290</b>	<b>7 275</b>	<b>6 725</b>	<b>6 807</b>	<b>7 010</b>
Accounts payable and accrued liabilities	190	209	202	208	214	226	221	220
Current portion of other liabilities	579	579	579	579	579	579	579	579
Current portion of provisions	52	52	52	52	52	52	52	52
<b>Total current liabilities</b>	<b>821</b>	<b>840</b>	<b>834</b>	<b>840</b>	<b>846</b>	<b>857</b>	<b>852</b>	<b>852</b>
Long-term debt	995	995	995	597	597	99	99	99
Other liabilities	142	142	142	142	142	142	142	142
Provisions	1 011	1 011	1 011	1 011	1 011	1 011	1 011	1 011
<b>Total non-current liabilities</b>	<b>2 148</b>	<b>2 148</b>	<b>2 148</b>	<b>1 750</b>	<b>1 750</b>	<b>1 252</b>	<b>1 252</b>	<b>1 252</b>
<b>Total liabilities</b>	<b>2 969</b>	<b>2 988</b>	<b>2 982</b>	<b>2 589</b>	<b>2 596</b>	<b>2 110</b>	<b>2 104</b>	<b>2 104</b>
Share capital	1 863	1 863	1 863	1 863	1 863	1 863	1 863	1 863
Contributed surplus	235	235	235	235	235	235	235	235
Retained earnings	2 791	2 645	2 548	2 499	2 477	2 413	2 500	2 703
Other components of equity	104	104	104	104	104	104	104	104
Non controlling interest	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4
<b>Total shareholders' equity attributable to equity holders</b>	<b>4 994</b>	<b>4 848</b>	<b>4 750</b>	<b>4 701</b>	<b>4 679</b>	<b>4 616</b>	<b>4 702</b>	<b>4 906</b>
<b>Total L&amp;E</b>	<b>7 963</b>	<b>7 836</b>	<b>7 732</b>	<b>7 290</b>	<b>7 275</b>	<b>6 725</b>	<b>6 807</b>	<b>7 010</b>
<b>(\$Cdn mn, except for share )</b>								
	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Net cash provided by operations	230	238	248	410	561	689	887	952
Net cash used in investing	-95	-76	-76	-103	-110	-127	-155	-166
Net cash provided by (used in) financing	-217	-204	-204	-594	-186	-672	-163	-163
<b>Net cash flow</b>	<b>-82</b>	<b>-42</b>	<b>-32</b>	<b>-287</b>	<b>265</b>	<b>-110</b>	<b>570</b>	<b>623</b>

Source: Company data, Halyk Finance estimates

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