

Revision of target price

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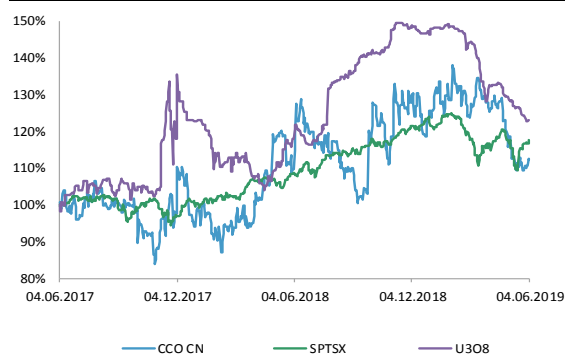
June 7, 2019

Ticker	CCO CN
Recommendation	Hold
Current price, CAD/share	13.5
12M target price, CAD/share	14.9
Upside/Downside	10%
Ticker	CCJ US
Recommendation	Hold
Current price, USD/share	10.1
12M target price, USD/share	11.1
Upside/Downside	10%
No. of ordinary shares (mn)	395.8
Free float (%)	99.8%
3M av. daily volume (CAD mn)	24.3
Market capitalisation (CAD mn)	5 351.1

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	3.09	2.91
EV/EBITDA (x)	n/d	14.16	12.16

Price dynamics	Abs.	Relative SPTSX
1M	-2.5%	-1.5%
3M	-13.5%	-14.9%
6M	-11.5%	-21.2%
52 week high	17.1	
52 week low	12.3	



Source: Bloomberg, Halyk Finance estimates

We maintain our Hold recommendation on Cameco shares, slightly reducing our 12M target price from the previous CAD17.0/share to CAD14.9/share, still not noting the obvious growth triggers in the horizon of one year and evaluating neutral results for 1Q2019. At the same time, our expectations of a strong potential for a rise in uranium prices are strengthened in the long term due to China's interest in nuclear energy, which stimulates the consumption of uranium resources. Without noticing serious risks due to the contractual nature of Cameco sales, we remain neutral with respect to investing in Cameco shares in the near future, whereas in the long term Cameco shares are rated higher than the market due to the high concentration of the uranium producers market.

1Q2019 financial results. Reflecting weaker demand for uranium during 1Q2019, the company's revenue declined by 32% yoy. Operating loss amounted at \$26mn against a profit of \$23mn a year earlier. Net loss was \$18mn versus net profit of 55mn in 1Q2018. The company has maintained its annual income forecast in the range of CAD1650-1800mn and still expects to meet the CAD110-120mn administrative expenses and CAD13mn 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 CAD46.10/lb to CAD44.20/lb and the average unit cost will decrease from CAD41.00-43.00/lb to CAD39.50-41.50/lb.

The conservative price forecast is maintained. We are still laying 60% spot prices, given the contractual nature of Cameco's sales. In terms of CAD, taking into account the forecast value of the USDCAD rate in the range of 1.26-1.29, we expect that the average selling price of uranium from Cameco in the future will grow moderately:

U price	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Ux Consulting, \$/lb	27.8	28.8	29.2	29.0	29.1	35.0	40.0	40.0
HF (spot/contract), \$/lb	35.1	35.7	37.6	38.5	38.6	41.5	44.5	45.0

Despite the downward trend in the number of nuclear reactors around the world, China has seen an increase in commissioned reactors, which is why forecasts for the future development of nuclear energy in China remain optimistic. At the same time, uncertainty about the launch of nuclear reactors on a scale capable of raising spot prices for uranium above \$40/lb, persists, giving ambiguity in the assessment of uranium mining companies.

Recommendation "Hold" with 12M TP of CAD14.9/share. Company's uranium production on currently operating Cigar Lake mine will continue until 2029 y. Production on McArthur River has even longer term of exploitation – until 2041. The dynamics of production at the company's largest assets after the forecast period, according to our estimates, corresponds to a growth rate of 1% after 2026. Our new target price is CAD14.9/share. The low premium (10%) is justified by weak market conditions for Cameco in the current period, while in the long-term horizon the expected increase in demand for uranium gives the company advantages due to the high concentration of the uranium production market. We maintain our "Hold" recommendation on Cameco shares.

yet reached comfortable levels. The actual decision to restart has not yet been made.

Although McArthur River and Key Lake have licensed mining permits for U3O8 at 25mn lbs per year, it is estimated that production will be 4mn lbs per year with a gradual achievement of 18mn lbs and a decrease in production in the last 2 years.

Production in kazakhstani Inkai takes into account by the equity method. According to the updated technical report of the company, the projected life of the mine will last until mid-2045. We are laying an average annual value of 3.3mn lbs of production, taking into account the 40% share of Cameco in the project.

Sales volume and cost of sales

The sales of uranium in 1Q2019 amounted to 4.8mn lbs during the production of 2.4mn lbs in the same period - 50% of the sales were due to the reserves and the purchase volume of 7.2mn lbs for 1Q2019. For the full 2019, it is expected to purchase 19-21mn lbs of uranium at an expected sales level of 20-30mn lbs.

In 2019, we expect sales of uranium at 30mn lbs, which will be achieved at the expense of 9mn lbs of uranium produced and 21mn lbs of acquired volume and reserves. We expect sales growth to 35mn lbs in the period 2023-2026. Due to the timely resumption of work at the McArthur River mine, we appreciate Cameco's high ability to service contracts and maintain sales at an optimal level.

Actual unit cost for 2018 amounted to CAD31.21/lbs and in 2019 we expect growth in production costs to CAD31.81/lbs. We also expect an increase in the cost of purchased uranium to CAD41.16/lbs in 2019.

The state of the uranium market is ambiguous

The average price of uranium on the spot market in 1Q2019 was at the level of \$28.14/lbs, which is 26% higher compared to 1Q2018. At the same time, from the beginning of the year to today, the price of uranium has lost about 16% and is trading at \$23.9/lbs (price as of May 31, 2019).

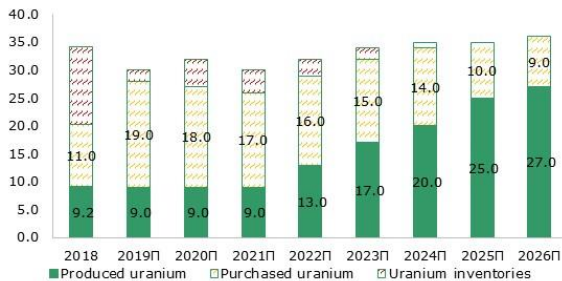
Currently, nuclear power covers about 11.5% of all global energy needs. Kazakhstan (39%) and Canada (22%) retain primacy in the production of uranium resources.

As of May 2019, there are 447 nuclear reactors in the world with a total capacity of 398.154 MW, which is 4 reactors less than in November last year. At the same time, the share of demand from China in May increased compared with November 2018 from 17% to 38%. The acquisition of sufficient uranium resources remains an important condition for the development of China's nuclear power industry. If the total installed nuclear power capacity in China reaches about 491.3 GW in 2050, according to preliminary estimates, China will need more than 90,000 tons of uranium resources. Meanwhile, the extraction of natural uranium in China in the amount of 1600 tons satisfies only a quarter of domestic demand. Thus, China's demand for uranium in 2050 will exceed the current level of global demand.

For comparison, the current level of global uranium production is 59ths, which provides 93% of demand.

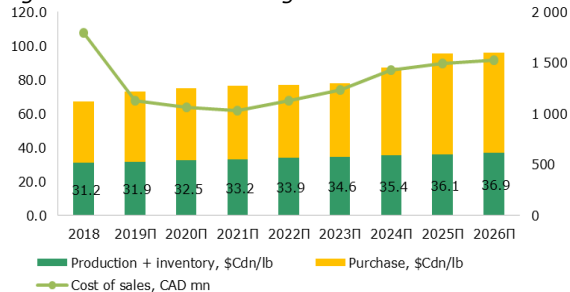
As a more approximate demand perspective from China, we rely on data from the WNA, indicating that only in 2018 in China, 7 reactors were commissioned, and 4 reactors were restarted in Japan.

Fig. 2. Uranium sales, mn lb



Source: HF Forecasts

Fig. 3. Cost of uranium segment



Source: HF Forecasts

Fig. 4. Nuclear power plants in China
Nuclear Power Plants in China



Source: WNA

On the other hand, given the limited maturity and geographical coverage of uranium exploration around the world, given the presence of market signs of an emerging deficit, current uranium producers have significant potential to discover new resources of economic interest.

Meanwhile, the current situation on the spot market is still not benefiting Cameco, restraining investors' appetite for the company's shares. Strong prerequisites for uranium price growth remain interesting only for participants with a long-term investment strategy.

We keep our expectations on the uranium price, estimating the prices projected by UX Consulting, fairly fair. We are still laying 60% spot prices, given the contractual nature of Cameco's sales. In terms of CAD, taking into account the forecast value of the USDCAD rate in the range of 1.26-1.29, we expect that the average selling price of uranium from Cameco in the future will grow moderately:

U price	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Ux Consulting, \$/lb	27.8	28.8	29.2	29.0	29.1	35.0	40.0	40.0
HF (spot/contract), \$/lb	35.1	35.7	37.6	38.5	38.6	41.5	44.5	45.0
USDCAD - Bloomberg	1.3	1.2	1.3	1.3	1.3	1.3	1.3	1.3
HF (spot/contract), CAD\$/lb	44.2	43.9	47.4	48.9	49.0	52.7	56.5	57.2

US imports Canadian uranium

US uranium producers are currently awaiting a presidential decision on the results of an investigation conducted by the Department of Commerce on the impact of uranium imports on national security. The investigation, in accordance with Section 232 of the Trade Expansion Act of 1962, was initiated by the petition of Energy Fuels Inc and Ur-Energy by uranium mining companies in January 2018, in which they sought quotas to limit uranium imports to the country. The decision of the president must be taken no later than July 15.

The total production of uranium concentrate in the USA in 2018 was 1.6mn lbs U3O8, which is 33% less than in 2017. US manufacturers sold 1.5mn lbs of uranium concentrate in 2018 (-35% yoy) at a weighted average price of \$32.51/lbs.

Nearly 10% of the 40 million lbs of U3O8 shipped in 2018 is American-made uranium at a weighted average price of \$45.26/lbs. The remaining 90% of shipments account for uranium of foreign origin at a weighted average price of \$38.11/lbs. Imports of uranium from Australia and Canada together account for 42%, and Kazakhstan, Russia and Uzbekistan - 40%.

We take into account the possible risk of the US government taking protectionist measures as quite significant for Canada, in particular for Cameco, as we note the dynamics of decline in US uranium supplies from Canada by 32% in 2016-2018.

12M TP CAD14.9/share, Hold recommendation.

The life of the only operating Cigar Lake mine is planned to 2029. The license for McArthur River is 22 years to 2041. Production dynamics on the company's largest assets after the forecast period, we estimate, corresponds to a growth rate of 1% after 2026.

The discount rate of 9.09% were calculated used following parameters:

- The risk premium calculated as the difference in the yield return of the Canadian S&P/TSX Composite Index for the last year (9.658%) and the risk-free rate of 1.5% for Canada amounted to 8.158%;

- Adjusted beta value of 0.926 (from the beginning of the year according to Bloomberg data);
- The risk-free rate of 1.5% for Canada and the rate for 10-year Kazakh treasuries (4.5%), weighted by 80% and 20%, respectively, taking into account the presence of Cameco asset in Kazakhstan (Inkai JV 40%) amounted 2%;
- The cost of debt after tax of 3.24% calculated according to Cameco data.

Our new target price is CAD14.9 / share, which implies a premium to the current price of 10%.

The low premium, in our opinion, is justified by the current weak market conditions for Cameco, which constrain the Company's production potential. However, in the long-term horizon, the expected increase in demand for uranium gives the company an advantage due to the high concentration of the main uranium producers. We maintain our **Hold** recommendation for Cameco stock.

Fig. 5. Free cash flows

\$Cdn mn	2020П	2021П	2022П	2023П	2024П	2025П	2026П
Revenue	1 812	1 843	1 991	2 101	2 374	2 592	2 626
Cost of sales	-1 562	-1 524	-1 636	-1 753	-1 889	-1 955	-2 002
Gross profit	250	318	355	347	486	637	624
Operating expenses	-148	-151	-161	-165	-166	-168	-170
EBIT	103	167	194	183	320	469	454
Depreciation and amortization	331	333	335	336	338	340	341
EBITDA	434	500	528	519	658	808	796
-Income tax expense	26	47	58	41	105	155	151
-CAPEX	76	76	103	110	127	155	166
-Change in working capital	-32	-77	-27	20	-21	-57	-34
Free Cash Flows	364	455	394	349	447	556	512
WACC	9.09%						
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						

Source: HF calculations

Appendix 1. Forecasts of financial statements

(\$Cdn mn, except per share)	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Income Statement										
Revenue	2 157	2 092	1 713	1 812	1 843	1 991	2 101	2 374	2 592	2 626
Cost of sales, incl.	1 721	1 796	1 525	1 562	1 524	1 636	1 753	1 889	1 955	2 002
Products and services sold	1 390	1 468	1 239	1 363	1 321	1 359	1 401	1 475	1 441	1 440
Depreciation	330	328	286	200	203	277	353	414	514	562
Gross profit	436	296	188	250	318	355	347	486	637	624
Administration	163	142	145	148	151	161	165	166	168	170
Exploration expenses	30	20	19	18	17	17	16	15	14	13
Research and development	6	2	2	2	2	2	2	2	2	2
Gain/(Loss) on sale of assets	7	2	2	2	2	2	2	2	2	2
Earnings from operations	-128	71	20	80	146	173	103	301	451	437
Finance costs	-111	-112	-58	-46	-46	-37	-28	-16	-5	-5
Gains (losses) on derivatives	56	-81	0	0	0	0	0	0	0	0
Financial income	5	22	25	23	24	25	27	29	33	34
Loss from the share of JV	0	32	30	30	32	33	33	36	38	39
EBT	-207	40	18	87	156	195	136	350	517	505
Income tax (recovery) expense	-3	-126	5	26	47	58	41	105	155	151
Net earnings	-205	167	12	61	109	136	95	245	362	353
Number of shares, mn.	396	396	396	396	396	396	396	396	396	396
EPS	-0.52	0.42	0.03	0.15	0.28	0.34	0.24	0.62	0.91	0.89

(\$Cdn mn, except per share)	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Consolidated statements of financial position										
Cash and cash equivalents	592	712	226	239	243	262	277	313	341	346
Short-term investments	0	391	833	830	934	667	854	566	1 040	1 670
Accounts receivable	397	402	376	323	252	218	230	195	142	108
Inventories	950	468	395	434	421	433	446	470	459	459
Current portion of long-term receivables, investments and other	36	14	11	12	12	13	14	16	17	17
Total current assets	2 136	2 083	1 841	1 838	1 862	1 594	1 821	1 559	2 000	2 600
Property, plant and equipment	4 192	3 882	4 068	3 944	3 816	3 642	3 399	3 112	2 753	2 356
Intangible assets	70	66	66	66	66	66	66	66	66	66
Long-term receivables, investments and other	520	752	752	752	752	752	752	752	752	752
Investments in equity-accounted investees	0	231	231	231	231	231	231	231	231	231
Deferred tax assets	861	1 006	1 006	1 006	1 006	1 006	1 006	1 006	1 006	1 006
Total non-current assets	5 643	5 936	6 122	5 998	5 870	5 696	5 453	5 166	4 807	4 410
Total assets	7 779	8 019	7 963	7 836	7 732	7 290	7 275	6 725	6 807	7 010
Accounts payable and accrued liabilities	258	225	190	209	202	208	214	226	221	220
Current portion of other liabilities	54	579	579	579	579	579	579	579	579	579
Current portion of provisions	39	52	52	52	52	52	52	52	52	52
Total current liabilities	411	876	821	840	834	840	846	857	852	852
Long-term debt	1 494	996	995	995	995	597	597	99	99	99
Other liabilities	126	142	142	142	142	142	142	142	142	142
Provisions	875	1 011	1 011	1 011	1 011	1 011	1 011	1 011	1 011	1 011
Total non-current liabilities	2 508	2 149	2 148	2 148	2 148	1 750	1 750	1 252	1 252	1 252
Total Liabilities	2 919	3 025	2 969	2 988	2 982	2 589	2 596	2 110	2 104	2 104
Share capital	1 863	1 863	1 863	1 863	1 863	1 863	1 863	1 863	1 863	1 863
Contributed surplus	225	235	235	235	235	235	235	235	235	235
Retained earnings	2 650	2 791	2 791	2 645	2 548	2 499	2 477	2 413	2 500	2 703
Other components of equity	121	104	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	0.4	0.4
Total shareholders' equity attributable to equity holders	4 860	4 994	4 994	4 848	4 750	4 701	4 679	4 616	4 702	4 906
Total L&E	7 779	8 019	7 963	7 836	7 732	7 290	7 275	6 725	6 807	7 010

(\$Cdn mn, except for share)	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Consolidated statements of cash flows										
Net cash provided by operations	596	668	230	238	248	410	561	689	887	952
Net cash used in investing	-93	-412	-95	-76	-76	-103	-110	-127	-155	-166
Net cash provided by (used in) financing	-227	-144	-217	-204	-204	-594	-186	-672	-163	-163
Net cash flow	276	112	-82	-42	-32	-287	265	-110	570	623

Source: Company data, HF estimates

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