Cameco forecasts for 2019 exacerbating uncertainty about uranium prices

Altynay Ibraimova — February 13, 2019

At the end of 2018 Cameco's revenue decreased by 3% yoy to $Cdn2,092mn, while sales of uranium showed an increase of 7% yoy to $Cdn1648mn, and revenue from the fuel services increased by 0.3% yoy to $Cdn314mn. Revenue decreased due to the stronger decline in income of "Other" segment, where, due to the restructuring of marketing activities, sales in the NUKEM sector (trading) were reduced, which led to a threefold decrease in other income to $Cdn94mn.

The unit cost of uranium production was $Cdn40.33/lbs (+ 15% yoy) and contributed to the cost increase in the uranium segment by 20% yoy. As a result, the total cost of sales in 2018 increased by 4% yoy, which led to a reduction in gross margin from 20% in 2017 to 14% in 2018.

At the same time, by the end of the year, Cameco showed operating income of $Cdn70mn against a loss of $Cdn128mn a year earlier, helped by lower administrative costs (-13% yoy) and exploration expenditures (-32% yoy) impairment versus $Cdn358mn spent by the company in 2017.

The company's net profit amounted to $Cdn166mn against a loss of $Cdn205mn in 2017.

Cameco plans for the current year are based on expectations for revenues in the $Cdn1650-1800mn range, due to expected price cuts based on the company's contract portfolio.

Cameco expects to meet the $Cdn110-120mn of administrative expenses and $Cdn13m of exploration expenditures, without expecting much activity in current projects.

In general, the company in comparison with 2018 predicts weaker results for 2019, reflecting a decrease in uranium production from 9.3 to 9mn lbs and sales from 35mn lbs to 28-30 mn lbs.

Capital expenditures are expected to be Cdn95mln, which exceeds the 2018 level of $Cdn55mn (+ 73% yoy), but is in line with our forecasts.

Our view

Despite the decline in production after the suspension of McArthur River/Key Lake in July 2018, as well as the reduction in trading operations, the company managed to maintain sales levels higher than last year’s levels by 4%. The average uranium selling price of $Cdn47.96/ lb (+ 2% yoy) also contributed to the improvement of the revenue component of the company's main segment. Due to the absence of one-time expenses (impairment of assets), the company's profitability indicators look better compared to 2017. In addition, the company has made significant progress in reducing administrative, exploration and operating costs, which also positively affected the results of 2018, which we consider to be quite strong.

Nevertheless, the company's moderately pessimistic revenue forecasts for the current year in line with our expectations ($Cdn1763mn). Assumptions of lower contract sales prices, which the company expect in 2019, are a significant risk, given the already vulnerable conditions in the spot uranium market. We maintain our Hold recommendation for Cameco, evaluating the company's ability to keep sales at profitable levels, while preserving caution about the current weak market conditions.

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