

## Cameco Corporation

# Q4'23 results: earnings solid, 2024 uranium production guide held firm

Maintain Rating: BUY | PO: 76.00 CAD | Price: 62.29 CAD

## Good news for CCJ, uranium price bulls likely disappointed

Cameco (CCJ) reported strong Q4'23 earnings and maintained 2024 production guidance: while positive for CCJ, we suspect uranium price bulls are disappointed there wasn't a volume cut. CCJ also announced a Cigar Lake mine life extension by five years to 2036 and will now evaluate an expansion of McArthur River to 25 million pounds (Mlbs) from 18Mlbs (both 100% basis) but with no specification on timing. While total production under contract fell to 205Mlbs from 215Mlbs as of Q1'23 results, average 2024-28 contracted delivery commitments are a solid 27Mlbs and CCJ continues to have a large and growing pipeline of business under discussion. Q4'23 free cash flow was strong at C\$138 million (mn). With substantial tier 1 production in a tier 1 jurisdiction (Canada) and a suite of downstream uranium fuel offerings, we see CCJ as well placed to benefit from nuclear energy growth. We are bullish uranium. Maintain Buy rating.

## 2024 guidance: higher yoy volumes to support margins

For 2023, CCJ uranium production of 17.6Mlbs was shy of the guidance marker of "up to" 18.7Mlbs. Nevertheless, uranium production guidance for 2024 is unchanged at 22.4Mlbs (vs. BofAe at 22.4Mlbs and VA at 17.5Mlbs). Investor feedback suggests the market is skeptical on the 2024 guide but on the conference call CCJ communicated a reasonable level of confidence. Increased production from its low-cost mines is ultimately positive for CCJ's profitability. Uranium delivery volumes for 2024 are to be 32-34Mlbs, 27% and 28% higher vs. BofAe and Visible Alpha (VA), and up year-on-year (yoy) from 32Mlbs in 2023A. Uranium segment average unit cost guidance of C\$57-C\$60 per pound (/lb) is higher vs. BofA at \$44.27/lb, a function of 2023 market purchase volume guidance of up to 11Mlbs vs. BofA at 3.6Mlbs. Fuel services 2024 production guidance is in line to BofAe at 12-13 million (mn) kilograms (kg) while average unit costs of \$24.50-\$25.50/kg are 6% higher vs. BofAe. Westinghouse (WEC) adjusted EBITDA guidance of C\$445-C\$510mn is below BofAe at C\$540mn. (See exhibit 2, page 2).

## Q4'23 financial results beat on higher pricing

CCJ reported Q4'23 EBITDA of C\$278 million (mn), above BofAe at C\$202mn, and Bloomberg at C\$226mn. The beat versus BofAe was mainly due to higher realized pricing (both sales volume and unit costs were in-line but production was lower). Realized pricing in Q4'23 of C\$71.65/lb was 8% higher vs. BofAe at \$66.57/lb. Q4'23 adjusted EPS of C\$0.21 beat BofAe at C\$0.13 but was slightly below Bloomberg EPS of C\$0.24. Q4'23 free cash flow of C\$138mn was well above BofAe at negative C\$113mn (mainly due to working capital release of \$68mn vs our expectation of \$155m build), and largely in-line Bloomberg consensus at C\$140mn. Post closing the acquisition of WEC, the balance sheet remains solid with net debt of C\$1.22 billion (bn), below BofAe at C\$1.47bn, and in-line Bloomberg at C\$1.16bn. Last quarter was net cash of C\$1.67bn.

08 February 2024

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### Stock Data

Price (TOR / NYS)	62.29 CAD / 46.24 USD
Price Objective	76.00 CAD / 55.50 USD
Date Established	7-Jan-2024 / 7-Jan-2024
Investment Opinion	B-1-7 / C-1-7
52-Week Range	32.65 CAD - 69.18 CAD
Market Value (mn)	27,036 CAD
Free Float	99.8%
Average Daily Value	99.44 USD
Shares Outstanding (mn)	434.0 / 434.0
BofA Ticker / Exchange	YCCO / TOR
BofA Ticker / Exchange	CCJ / NYS
Bloomberg / Reuters	CCO CN / CCO.TO
ROE (2023E)	5.1%
Net Dbt to Eqty (Dec-2022A)	-22.0%
ESGMeter™	Medium

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**Refer to important disclosures on page 4 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 2.**

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Timestamp: 08 February 2024 10:52AM EST

## Q4'23 results overview

### Exhibit 1: Q4'23 results summary

Q4'23 results beat mainly on higher realized pricing. Production was below BofAe but unit costs were in-line.

Q4 2023 (C\$mn, C\$/sh)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4 2023E	Var.	Bloomberg	Var.
Realized pricing (C\$/lb)	71.65	57.87	24%	70.30	2%	66.57	8%	69.7	3%
Sales	844	524	61%	575	47%	816	3%	782	8%
EBITDA	63	(31)	-307%	192	-67%	37	73%	226	-72%
EBITDA margin	8%	-6%	-2pp	33%	-1pp	4%	1pp	28.9%	-74%
Adjusted EBITDA	278	64	334%	217	28%	202	37%		
Depreciation	46	28	65%	56	-18%	82	-44%	82	-44%
Adjusted earnings (loss)	90	36	NM	137	NM	57	57%	97.3	NM
Adjusted EPS / (loss per share)	0.21	0.09	NM	0.32	NM	0.13	56%	0.24	NM
Cash flow from ops (before w/c changes)	134	99	35%	149	-10%	82	63%	185.3	-28%
FCF to equity holders	138	25	461%	140	-1%	(113)	-222%	140	-2%
Cash and short-term investments	567	2,282	-75%	2,668	-79%	341	66%		
CapEx	44	34	28%	43	1%	41	7%	45	-3%
Net cash / (Net debt)	(1,217)	1,285	-195%	1,670	-173%	(1,473)	-17%	(1,155)	5%
Uranium volume (Mlbs)	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4 2023E	Var.	Bloomberg	Var.
McArthur River (69.805%)	3.1	0.8	288%	1.6	94%	3.5	-11%		
Cigar Lake (54.547% 50.025%) (LoM 84.4Mlbs attr.)	2.6	2.9	-10%	1.4	86%	3.3	-21%		
Inkai (40% / 60.0% prior to Q1'18)	0.0	0.0	NM	0.0	NM	0.0	NM		
Rabbit Lake (100%)	0.0	0.0	NM	0.0	NM	0.0	NM		
US operations	0.0	0.0	NM	0.0	NM	0.0	NM		
Total production	5.7	3.7	54%	3.0	90%	6.8	-16%	4.3	34%
3rd party purchases - other	6.3	5.8	9%	0.8	688%	6.0	5%		
Produced + purchased (Mlbs)	12.0	9.5	26%	3.8	216%	12.8	-6%		
Net inventory build (draw) & other	2.2	2.6	NM	-3.2	NM	3.0	-27%		
Sales	9.8	6.9	42%	7.0	40%	9.8	0%	7.0	40%
	Q4 2023A	Q4 2022A	YoY	Q3 2023A	QoQ	BofA Q4 2023E	Var.	Bloomberg	Var.
Cash costs (C\$/lb)									
Cash cost/lb produced	21.07	19.50	8%	32.37	-35%	21.15	0%		
Purchase price	89.89	57.02	58%	79.14	14%	87.47	3%		
Cash costs - produced+purchased	62.40	47.27	32%	51.88	20%	53.02	18%		

Source: BofA Global Research, Bloomberg, Company reports

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## 2024 Guidance

### Exhibit 2: CCJ 2024 guidance vs. BofAe

2024 uranium production guidance was unchanged. Uranium sales was 27% higher than BofAe at 32-34mn lbs

	Cameco guidance			BofA Estimates			% diff (CCJ vs. BofA)		
Uranium	Uranium	Fuel Services	Consolidated	Uranium	Fuel Services	Consolidated	Uranium	Fuel Services	Consolidated
Production, owned/operated (mn)	22.4	13.5 - 14.5	na	22.4	14.0	na	0%	0%	na
Purchases (market + committed) (mn)	11.0	na	na	3.6	na	na	206%	na	na
Sales/delivery volume (mn)	32 - 34	12.0 - 13.0	na	26.0	14.0	na	27%	-11%	na
Realized price (C\$/unit)	74.70	na	na	80.38	na	na	-7%	na	na
Revenue (C\$mn)	2,410 - 2,530	430 - 460	2,850 - 3,000	2,089	685	2,789	18%	-35%	5%
Unit cost of sales (C\$/unit)	57 - 60	24.50 - 25.50	na	44.27	23.50	na	32%	6%	na
Direct G&A (C\$mn)	na	na	190 - 200	na	na	165	na	na	18%
Exploration (C\$mn)	20	na	20	10	na	10	100%	na	100%
Capex (C\$mn)	na	na	215 - 250	na	na	175	na	na	33%
Westinghouse adj. EBITDA (49%) (C\$mn)	na	na	445 - 510	na	na	540	na	na	-12%

Source: BofA Global Research, Company reports

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## Price objective basis & risk

### Cameco Corporation (YCCO / CCJ)

Our US\$55.50 (C\$76) PO is based on 1.0x our NAV, and 13.5x 2024E & 13x 2025E EV/EBITDA (all three equally weighted). We use a CADUSD FX rate of 1.37. The 1.0x P/NAV is above the longer term avg around 0.9x but below peak of 1.35x. We think 1.0x is justified given Cameco's world-class tier one assets in favorable jurisdictions (Canada) partially offset by the fact one of those tier-one assets has been voluntarily idled (but is in the process of restarting).

Downside risks: 1) slower-than-expected global energy demand growth, 2) continued push-out of a Japanese nuclear fleet restart, 3) any worsening in sentiment toward nuclear or more favorable sentiment toward alternative power fuel sources, and 4) any production problems at Cameco's only operating mine, Cigar Lake. Upside risks: 1) additional potential mine disruptions that may further improve supply-demand dynamics, 2) better pace of reactor development in key future demand countries (China, Japan, and India), 3) more stringent carbon emissions restrictions in key countries, encouraging nuclear power as an environmentally friendly base line energy source, 4) a material rise in NatGas prices making nuclear power generation competitive in the US.

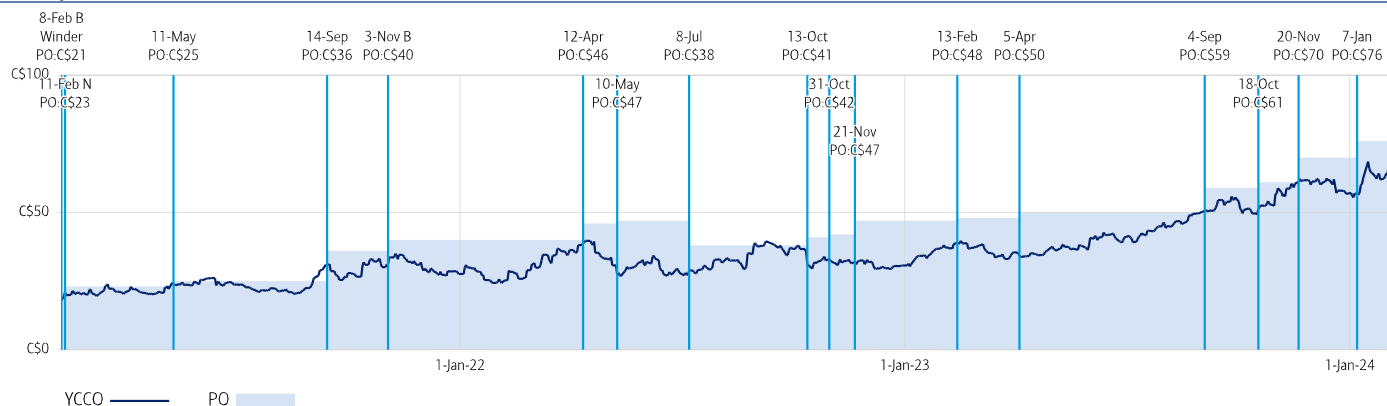
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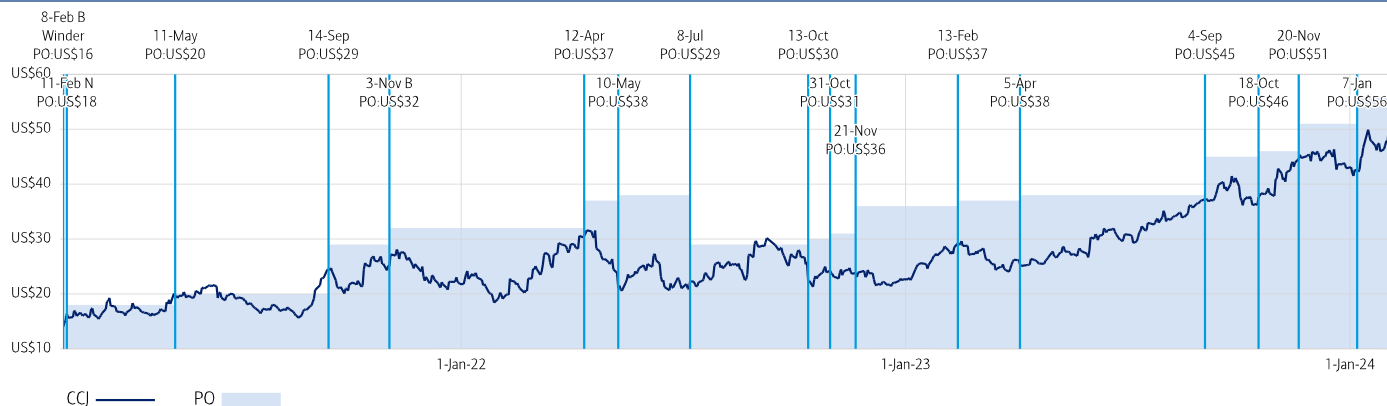
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	58	53.70%	Buy	26	44.83%
Hold	24	22.22%	Hold	10	41.67%
Sell	26	24.07%	Sell	13	50.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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