Cameco

Materials
TSX: CCO
Market Outperform | Buy

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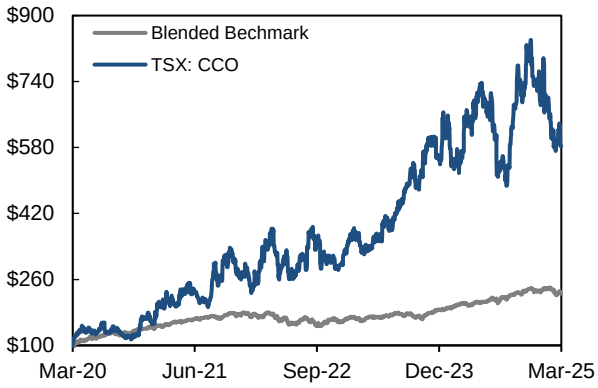
Max Konwitschny, Portfolio Manager
Sohil Agrawal, Portfolio Manager
Caitlin Heggerud, Investment Analyst
James Altamirano, Investment Analyst

Return on Investment	
Current Share Price	$59.24
Target Price	$70.00
Dividend Yield	0.27%
Implied Return	18%
Conviction Rating	2

Market Profile	
52-Week Range	$48.71 - $88.18
Market Capitalization ($mm)	$25,788
Net Debt ($mm)	$681
Enterprise Value ($mm)	$26,469
Beta (5-Year Monthly)	1.03

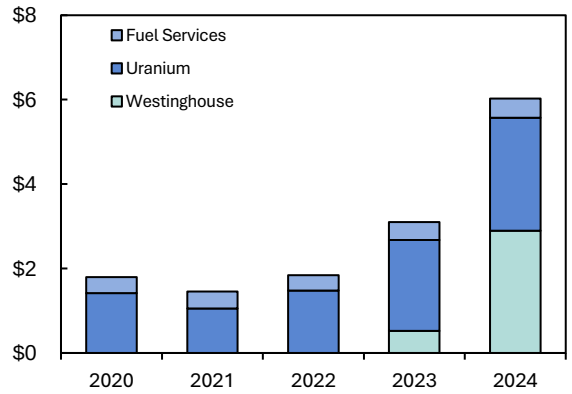
Metrics	2024A	2025E	2026E
Revenue ($mm)	$3,136	$3,379	$3,738
EBITDA ($mm)	$791	$922	$1,430
FCF ($mm)	$694	$507	$962

Historical Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: Revenue Segmentation ($B)



Source: S&P Capital IQ

Business Description

Cameco (TSX: CCO) is a Canadian-based, international producer, refiner, and marketer of uranium and nuclear fuel. The Company engages in the mining, refining, and conversion of uranium for use in nuclear power generation through its primary operations in northern Saskatchewan and JV interests in Kazahkstan. Additionally, CCO supplies technology, specialized products, and services to the nuclear power sector through its minority interest in the Westinghouse JV with Brookfield Renewables (TSX: BEP.UN). The Company operates through the following three segments:

Uranium: CCO is the world's second largest uranium producer after Kazatomprom, producing over 33mm pounds in FY2024, representing ~18% of global production. The Company's primary uranium assets include its high-grade underground mines in northern Saskatchewan, Cigar Lake and McArthur River, as well as its JV interest in Kazakhstan.

Fuel Services: CCO refines, converts, and manufactures fuel through its Blind River refinery and Port Hope facility. The Blind River refinery is the world's largest commercial uranium refinery with 24.0mm kgU of licensed capacity. Port Hope is Canada's only Uranium conversion facility, representing ~20% of the world's conversion capacity with 13.5mm kgU of production in 2024.

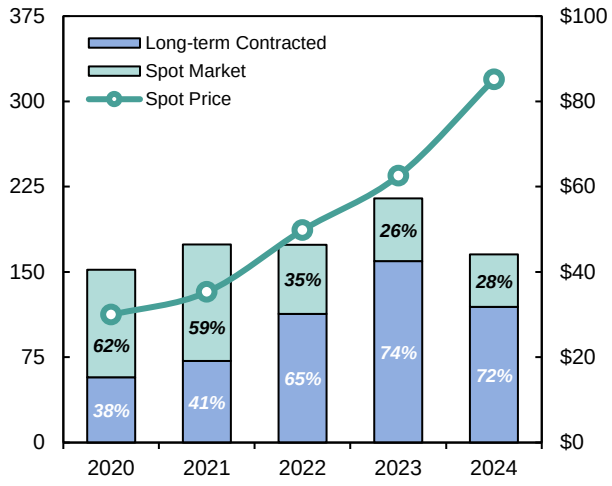
Westinghouse: CCO owns 49% of Westinghouse, a provider of fuel, nuclear services, technology, plant design, and equipment to utility and industrial clients globally.

Industry Overview

Following a wave of consolidation in the 1990s, the global uranium industry is largely dominated by state-owned and integrated majors. Majority state-owned Kazatomprom (Kazakhstan), Orano (France), and CGN (China) account for ~50% of global production, with CCO being the largest solely publicly-listed entity. These companies operate in a highly regulated and centralized industry, as uranium production and enrichment capabilities remain a strategic national interest for producing countries and their allies. With Kazakhstan producing 40% of the world's uranium, these national interests have driven heightened energy security concerns, particularly amidst the Russia-Ukraine conflict and China's nuclear expansion.

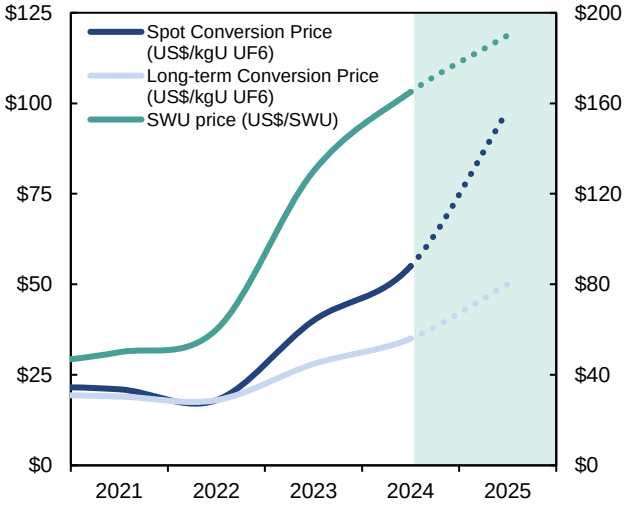
Uranium is extracted through a variety of methods, classified into open pit, underground, and in-situ recovery. In-situ leach (ISL) methods account for most of the world's production, involving the injection of acid or alkali solutions into sandstone aquifers to dissolve the ore-bearing rock. This method is primarily used in permeable, low-grade formations. Other in-situ methods, such as Cigar Lake's Jet boring and Key Lake's Boxhole boring, are more efficient for the high-grade, unconsolidated rock found in Northern Saskatchewan. After extraction, Uranium-bearing material is crushed and grounded to maximize surface area for leaching. The uranium is dissolved, separated, and precipitated as yellowcake (U_3O_8). Yellowcake accounts for the majority of contracted and traded uranium volume due to geographically centralized enrichment and fuel fabrication sites. Yellowcake is converted into uranium hexafluoride (UF_6) for enrichment, where gas centrifuges are used to increase the (cont.)

Figure 2: LHS U_3O_8 Contract Vol. (mmlbs) vs RHS Spot Price



Source: Company Filings, Street Estimates

Figure 3: LHS Conversion Price vs RHS Enrichment Price



Source: Company Filings

Figure 4: Tier 1 Uranium Reserves

	Tier 1 Uranium Properties	Cigar Lake	McArthur River	JV Inkai
Mineral 2P Reserves	*Working Interest*	*54.5%*	*69.8%*	*40.0%*
	Grade (% U_3O_8)	*15.87%*	*6.72%*	*0.03%*
	Average Cost per lb U_3O_8	*$21.12*	*$20.31*	*$12.62*
	NPV ($B)	***$2.9B***	***$5.2B***	***$2.3B***

Canadian Mine
Kazakhstani Mine

Source: Company Filings, Street Research

U-235 concentration from natural levels of ~0.7% to reactor-grade specifications of 3.5 - 4.5% for use in light water reactors. Enriched UF_6 is then converted to uranium dioxide (UO_2) powder, which is pressed into pellets and assembled into fuel rods. These fuel assemblies are sent to nuclear reactors to enable the electricity-generating fission process. Nuclear reactors account for ~90% of UO_2 end-market demand, with militaristic and research purposes comprising ~9% and ~1% of the remaining supply, respectively.

Uranium production is forecasted to increase by ~10% YoY in FY2025, with inventories in the U.S. and EU elevated slightly from 2024 levels, driven by purchases ahead of the U.S. ban on Russian uranium imports. However, these stockpiles are expected to decline as a percentage of overall demand in FY2025 as contracting activity rebounds. The uranium market is projected to remain in a deficit through 2027, supporting a structural term pricing floor.

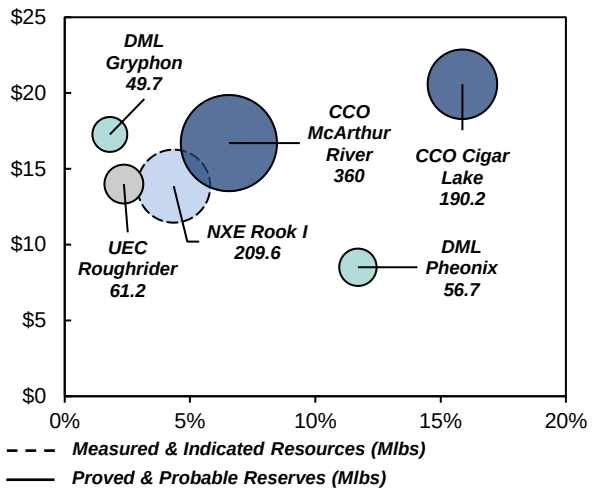
Long-term forecasts suggest a surplus into 2030, contingent on overcoming significant logistical and policy challenges to new greenfield supply projects. 2025 is estimated to set record nuclear power generation levels (~420 GWe), with utilities facing procurement challenges amidst the current concentrated supply market and the Trump administration's uncertainty regarding uranium tariffs and trade. However, U.S. and EU pro-nuclear energy policy, structural production deficits, and accelerating reactor construction efforts reinforce a bullish long-term outlook for nuclear energy. Notably, in the U.S., Amazon's (NYSE: AMZN) investment in X-energy for the development of small modular reactors (SMRs) and the restarting of Three Mile Island to power Microsoft's (NASDAQ: MSFT) data centres point toward a revitalization of the nuclear power generation industry in western nations.

Mandate Fit

Quality Management: CCO is led by President and CEO Tim Gitzel, who assumed the role in 2011 after serving as the Senior Vice-President and COO of the Company. Prior to joining CCO, Gitzel served as Orano's Canadian subsidiary President and CEO and has over 30 years of senior management and legal experience in the Canadian and international uranium mining industry. Under Gitzel's leadership, the Company has significantly expanded its net capacity through acquisitions and investments in key mines. Executive compensation is tied to operational, financial, ESG, and realized uranium price targets, with at-risk pay representing 84% and 75% for the CEO and NEOs, respectively.

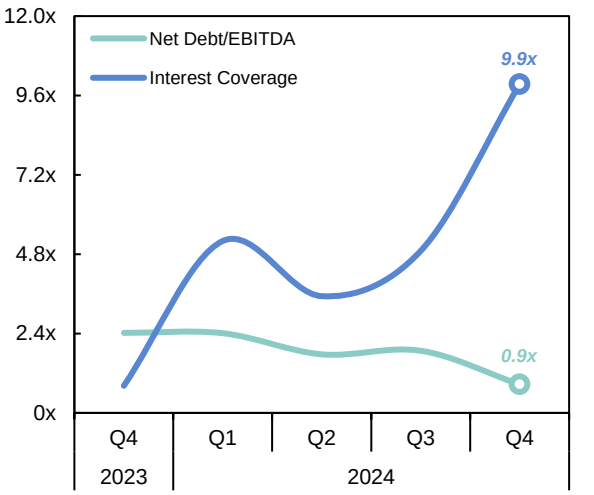
Competitive Advantage: CCO's industry-leading position in the nuclear fuel cycle is driven by the West's reliance on the Company as the world's largest high-grade uranium and nuclear fuel supplier. CCO's portfolio consists of tier-one, licensed, permitted, and long-lived assets with significant expansion potential, complemented by idle tier-two assets and a robust exploration pipeline of 457mm lbs 2P reserves. The Company's long-term purchase agreements span over a decade, allowing for supply flexibility through inventory management, strategic procurement, and licensed storage facilities, including the ability to borrow product under specific agreements. CCO's operational strategy balances high-quality production in Canada with low-cost output from JV Inkai in Kazakhstan, positioning it to be the major beneficiary of China's expanding reactor fleet, which accounts for 28 of the 62 reactors under construction worldwide. With the ability to scale production and leverage historical low-price purchase agreements, the Company remains in a favourable position to capitalize on structural production deficits, decarbonization initiatives, and trade disruptions.

Figure 5: LHS Mine Cash OPEX per lb U_3O_8 vs 2P Grade



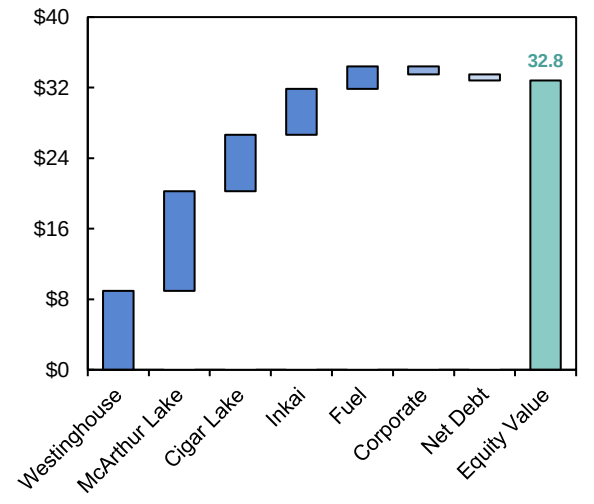
Source: Company Filings

Figure 6: Net Debt/EBITDA vs Interest Coverage



Source: Bloomberg

Figure 7: Sum-of-the-Parts Valuation ($B)



Source: CPMT Estimates, Street Research

Strong Balance Sheet: CCO holds a Net Debt/EBITDA ratio of 0.9x and an interest coverage ratio of 9.9x. Although 31% ($400mm) of the Company's debt matures in 2027, CCO has strong liquidity with $600mm in cash and equivalents and $1B undrawn on its credit facility. Additionally, the Company holds a BBB- positive rating from S&P, supported by the Company's strong FCF generation, low leverage, and strong secular tailwinds.

Growing Free Cash Flow: CCO has grown its FCF at a five-year CAGR of 10% driven by strong demand and realized prices due to a renewed focus on a low-carbon energy mix. This shift in uranium demand facilitated the reopening of the McArthur River mine in FY2022, contributing to a five-year uranium production CAGR of ~21%. McArthur River has yet to reach its full production output of ~18mm pounds, producing only ~16mm pounds in FY2024. Continued production growth, along with stronger realized prices as the Company enters new long-term contracts, should contribute meaningfully to FCF growth. CCO's capital return strategy is focused on its dividend, which has grown at a five-year CAGR of 16%.

Risks

Geopolitical Risk: Uranium remains a politically sensitive commodity, with anti-nuclear initiatives in key geographic areas influencing supply and demand. Furthermore, CCO is vulnerable to geopolitical tensions, as seen in the U.S. – Canada tariff dispute.

Supply Chain Constraints: CCO's long-term offtake agreements require it to fulfill uranium sales commitments regardless of production challenges. The Company is a net spot buyer of Uranium, exposing CCO to spot volatility, particularly during supply chain disruptions and input constraints. This is seen in the recent instability of sulfuric acid deliveries to JV Inkai, resulting in reduced production estimates, exhibiting CCO's reliance on a streamlined supply chain.

JV Inkai: The majority owner of JV Inkai is Kazatomprom, a state-controlled entity of the Kazakhstani government. This ownership structure presents a risk to CCO as a minority stakeholder, with potential exposure to adverse governmental actions, such as dividend restrictions, unfavorable tax policies, or forced asset sales. CCO has attempted to mitigate this and protect its minority stake through a favourable restructuring of JV Inkai in 2018.

Investment Thesis

CCO was valued at $70 using a sum-of-the-parts valuation, implying an 18% implied return. This consists of (1) a NAV model on its McArthur River, Cigar Lake, and Inkai assets with a P/NAV premium of 2.2x, (2) an NPV on its Fuel Services and Corporate segments, and (3) its Westinghouse segment using a five-year DCF with an EV/EBITDA exit multiple of 16.3x.

The CPMT favours CCO's dominant position in uranium production, conversion, refinement, and fuel manufacturing. The Company's controlling interests in the world's largest high-grade and low-cost uranium reserves, along with its high-growth, vertically integrated fuel service exposure, position CCO for significant EBITDA growth. The Company's interest in Westinghouse offers strategic exposure to accelerating nuclear reactor build-out, downstream fuel services, and stable, recurring cash flows from global utility clients. CCO's strong track record of innovative resource extraction, site expansion, base-escalated offtake contracts, and flexible production and conversion capacity offer significant downside protection throughout the commodity cycle. As such, the CPMT believes that CCO's world-class assets and strong fundamentals amidst structural, long-term secular tailwinds present a highly attractive investment opportunity.