

**Recommendation: Buy**  
**Target Price: \$41.00**

## Cameco Corp. (CCO-TSX, CCJ-NYSE)

### Strong Q4, Guidance Adjusted

Current Price	\$23.17	Shares Outstanding (MM)	
52 Wk High	\$44.28	Basic	394.7
52 Wk Low	\$17.25	Diluted	395.6
Cash (MM)*	\$1,203	Mngt. & Dir.	1.1
Total Debt (MM)	\$893	Market Cap.	\$9,146 MM
NAVPS	C\$33.22	Float	\$9,122 MM
Price/NAV	0.70x	EV	\$8,836 MM
Dividend	\$0.40	Reserves	435 MMLb
Dividend Yield	1.73%	Resources	1,007 MMLb

Fiscal YE Dec. 31		2010A	2011A	2012E
Production (MM Lbs)	Q1	6.13	4.70	5.65
	Q2	4.89	5.70	5.65
	Q3	5.56	5.30	5.65
	Q4	6.40	6.60	5.65
	FY	<b>23.0</b>	<b>22.3</b>	<b>22.6</b>
Diluted EPS	Q1	\$0.35	\$0.23	\$0.36
	Q2	\$0.17	\$0.13	\$0.36
	Q3	\$0.25	\$0.10	\$0.36
	Q4	\$0.52	\$0.67	\$0.36
	FY	<b>\$1.30</b>	<b>\$1.13</b>	<b>\$1.45</b>
Prod. y/y chg		10%	-3%	1%
EPS y/y chg		-54%	-13%	28%
P/EPS		17.8x	20.5x	16.0x

\*includes ST investments

Unless otherwise denoted, all figures shown in C\$

#### Investment Thesis:

Cameco remains the premier large-cap vehicle for immediate exposure to the uranium market. It is well positioned as a vertically integrated producer within the nuclear fuel cycle and able to leverage a strong market position with the increasing gap between global uranium demand and the decline in available near-term supply. We continue to believe in the long-term prospects of the uranium industry and that investors wanting exposure to this space should continue to hold Cameco as an integral part of their portfolio.

#### Highlights:

- Q4/11 Results Beat Expectations**  
 On production of 6.6 MMlb U3O8, and sales of 13.8 MMlb U3O8, Cameco reported adjusted EPS of \$0.63, well ahead of both our \$0.47 estimate and consensus of \$0.40. CCO realized an average uranium price of US\$52.09 in Q4/11.
- Production Guidance Given**  
 CCO provided uranium production guidance to 2016. Near-term guidance was lowered modestly while longer term guidance stayed the same. CAPEX for 2012 is expected to be \$700 MM, up from \$630 MM in 2011. The increased capital spending is related to growth plans at Cigar Lake and US ISR and higher sustaining capital at Inkai and US ISR. Capex expectations for uranium and fuel services for 2013 and 2014 of \$650–700 MM and \$600–650 MM, respectively were also provided.
- Maintaining Buy Recommendation And \$41.00 Target**  
 We have incorporated the Q4 results, adjusted for the new guidance and brought our NAVPS calculation ahead one year. As a result, our NAVPS increases modestly to \$33.22, from \$32.43 previously. 2012 CFPS has fallen to \$2.16 from \$2.23. Our \$41.00 target remains based on 1.5x NAVPS and 15x 2012E CFPS. We continue to rate the stock a Buy.

#### Company Description:

Positioned as a vertically integrated nuclear company, Cameco is the world's largest producer of uranium with four operating mines in Canada and the US that provide 20% of the world's uranium demand. Cameco remains a growing dominant player in the conversion and energy production segments of the nuclear fuel cycle.



Source: BigCharts.com, February 10, 2012

**Strong Quarter Surprises To The Upside:** On Thursday evening, Cameco reported its Q4 and year-end financial results, which substantially beat expectations. Headline EPS came in at \$0.67 and after adjusting for a \$22 MM unrealized derivative gain, adjusted EPS was \$0.63. This was well ahead of both our estimate of \$0.47 and consensus of \$0.40. Production in Q4 of 6.6 MMlb U3O8 was ahead of our estimate of 6.0 MMlb as Rabbit Lake and McArthur River performed better than expected. CCO finished the year strongly, driven by solid production numbers and strong sales. Both came in highest relative to the other quarters in 2011. Sales beat our estimates coming in at 13.8 MMlb versus our expectation of 11.9 MMlb, up very meaningfully Q/Q by 92%. This result is especially impressive given the tough uranium environment being faced. Even with lower than expected sales volumes throughout the year, the Company continued to guide to annual sales of 31–33 MMlb all year. Annual sales were 32.9 MMlb. Cameco exited Q4/11 with \$1.2 BB in cash and short-term investments, \$0.9 BB in debt, and finance leases of \$14.9 MM.

**Figure 1: Quarterly Comparison**

(C\$)	Q4 2010A	Q1 2011A	Q2 2011A	Q3 2011A	Q4 2011A	%Q/Q Diff.	Q4/11 Est.
<b>Uranium Production (MM lb)</b>							
McArthur River / Key Lake	4.0	2.4	3.7	3.8	<b>3.9</b>	3%	3.4
Rabbit Lake	1.3	1.0	0.7	0.5	<b>1.6</b>	220%	1.4
Smith Ranch / Highland	0.4	0.4	0.5	0.3	<b>0.2</b>	-33%	0.3
Crow Butte	0.2	0.2	0.2	0.2	<b>0.2</b>	0%	0.2
Inkai	0.5	0.7	0.6	0.5	<b>0.7</b>	40%	0.7
<b>Total Production (MM lb)</b>	<b>6.4</b>	<b>4.7</b>	<b>5.7</b>	<b>5.3</b>	<b>6.6</b>	<b>25%</b>	<b>6.0</b>
<b>Sales (MM lb)</b>	9.1	6.1	5.8	7.2	<b>13.8</b>	92%	11.9
Realized Price (\$ / lb U3O8)	US\$49	US\$48	US\$46	US\$47	<b>US\$52</b>	8%	US\$48
Gross Profit (MM \$)	\$181	\$100	\$86	\$168	<b>\$314</b>	87%	\$320
Profit Margin (%)	39%	34%	34%	50%	<b>43%</b>	-15%	56%
<b>Fuel Services Division</b>							
Production (MM kgU)	3.9	4.3	4.5	2.8	<b>3.1</b>	11%	3.0
Sales (MM KgU)	6.3	2.4	4.0	4.6	<b>7.2</b>	57%	5.4
Revenue (MM \$)	\$93	\$49	\$70	\$80	<b>\$106</b>	32%	\$94
<b>Bruce Power Division</b>							
Output (TW)	6.5	6.4	5.6	6.7	<b>6.2</b>	-7%	6.6
Capacity Factor (%)	91%	91%	78%	93%	<b>86%</b>	-8%	89%
EBT to CCO (MM \$)	\$38	\$30	\$10	\$38	<b>\$21</b>	-44%	\$35
<b>Financials</b>							
EPS, \$ diluted	\$0.52	\$0.23	\$0.14	\$0.10	<b>\$0.67</b>	570%	\$0.47
Balance Sheet Cash (MM \$)*	\$1,260	\$1,383	\$1,219	\$1,194	<b>\$1,203</b>	1%	\$1,218
Balance Sheet Debt (MM \$)	\$1,026	\$1,034	\$874	\$887	<b>\$893</b>	1%	\$793

\* Includes ST investments

Sources: Cormark Securities Inc., Cameco

**Additional Commentary On December Quarter:** Consolidated uranium production was 6.6 MMlb versus our estimate of 6.0 MMlb. The McArthur River mine produced 3.9 MMlb in Q4/11, 0.5 MMlb higher than we had projected. Rabbit Lake production levels for the quarter were 0.2 MMlb higher than projected at 1.6 MMlb, 220% above Q3/11 production levels of 0.5 MMlb. Being that Cameco optimizes operations through ore supply management this variation is not out of the ordinary. Fuel Services saw strong Q4/11 sales of 7.2 MM KgU versus our estimate of 5.4 MM KgU and Q3/11 levels of 4.6 MM KgU. Production levels of 3.1 MM KgU fell in line with our estimate of 3.0 MM KgU. We regard the operation of CCO's Bruce Power division as being in line with our forecasts. Cameco exited 2011 with \$1.2 BB in cash and short-term investments, and \$0.9 BB in debt, of which only \$105 MM is short term. The Company continues to be well funded to complete the development of Cigar Lake with no further funding necessary.

**Near-Term Production Guidance Adjusted Modestly:** Cameco has provided detailed guidance for all its operations. Overall revenues are expected to be flat to down 5% relative to 2011. This outcome is driven by expected lower sales in the fuel services business (10–15% versus 2011) and lower realized prices in the uranium business (0–5% versus 2011), which will be offset by higher sales in the electricity business. U3O8 estimated realized prices as well as production guidance were provided through 2016 and incorporated in our model. Total production has been lowered slightly for the next four years as is illustrated in Figure 2. This was led by US ISR and Inkai as well as a 70% decrease in planned production from Cigar Lake in its first year.

**Figure 2: Revised Production Guidance**

<b>Production Guidance (MMlb U3O8)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Current</b>					
McArthur River / Key Lake	13.1	13.1	13.1	13.1	13.1
Rabbit Lake	3.7	3.7	3.7	3.7	3.4
US ISR	2.4	3.0	3.1	3.7	3.8
Inkai	2.5	2.9	2.9	2.9	2.9
Cigar Lake	-	0.3	1.9	5.5	7.9
<b>Total</b>	<b>21.7</b>	<b>23.0</b>	<b>24.7</b>	<b>28.9</b>	<b>31.1</b>
<b>Previous</b>					
McArthur River / Key Lake	13.1	13.1	13.1	13.1	N/A
Rabbit Lake	3.6	3.6	3.6	3.6	N/A
US ISR	3.1	3.1	3.7	3.8	N/A
Inkai	3.1	3.1	3.1	3.1	N/A
Cigar Lake	-	1.0	2.0	5.6	N/A
<b>Total</b>	<b>22.9</b>	<b>23.9</b>	<b>25.5</b>	<b>29.2</b>	<b>N/A</b>
<b>% Change</b>					
McArthur River / Key Lake	0%	0%	0%	0%	N/A
Rabbit Lake	3%	3%	3%	3%	N/A
US ISR	-23%	-3%	-16%	-3%	N/A
Inkai	-19%	-6%	-6%	-6%	N/A
Cigar Lake	N/A	-70%	-5%	-2%	N/A
<b>Total</b>	<b>-5%</b>	<b>-4%</b>	<b>-3%</b>	<b>-1%</b>	<b>N/A</b>

Sources: Cormark Securities Inc., Cameco

**Cameco Continuing To Invest In Its Future:** Capex for the year came in under budget at \$630 MM versus \$655 MM, mainly due to cancellations and revisions of projects at the fuel services division and deferral of upgrades to infrastructure and slower than expected progress on approvals for block 3 at Inkai. Cameco expects to spend a combined total of \$700 MM in 2012. This owes itself to higher capital plans of \$215 MM in development capital at Cigar Lake, \$80 MM in development and sustaining capital at US ISR and \$30 MM in sustaining capital at Inkai. Capex guidance for 2013 and 2014 was also provided for the uranium and fuel services businesses and has been adjusted for in our model. Capex guidance was higher than expected and relates to the Company's plans of doubling production by 2018. That said, 2013 capex spending is expected to range \$650–700 MM, while 2014 is expected to be \$600–650 MM. In Figure 3, we present the Company's capital budget for 2012.

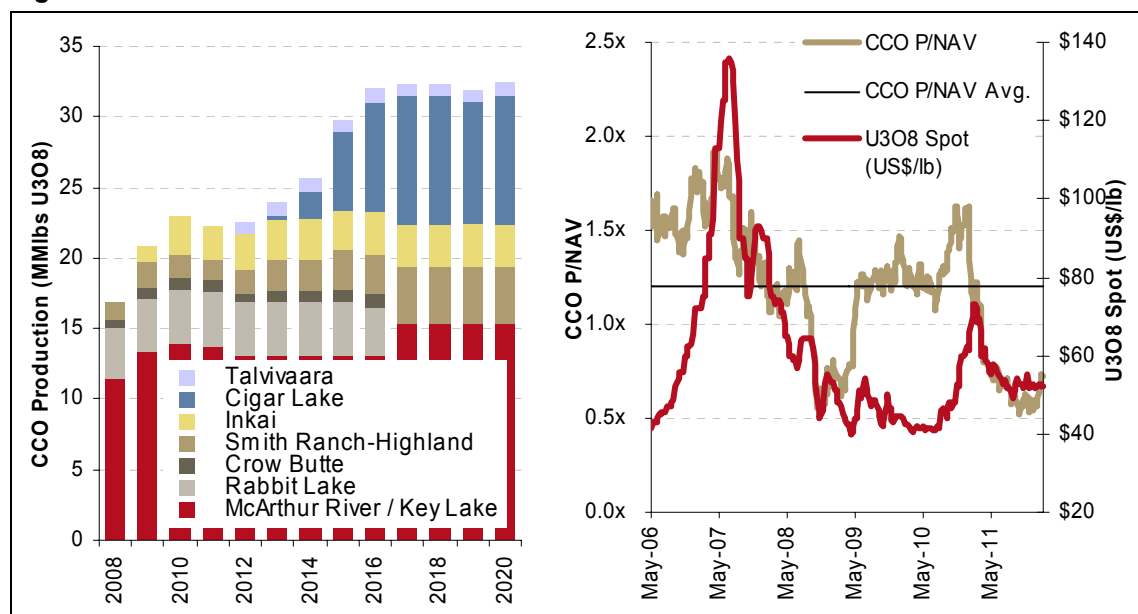
**Figure 3: Cameco Capital Budget**

	<b>2011 Actual</b>	<b>2012 Budget</b>	<b>% Change</b>
<b><u>Growth Capital</u></b>			
Cigar Lake	\$172	\$215	25%
Inkai	\$1	\$10	900%
McArthur River / Key Lake	\$24	\$35	46%
Millenium	\$4	\$5	25%
US ISR	\$15	\$30	100%
<b>Total Growth Capial</b>	<b>\$216</b>	<b>\$295</b>	<b>37%</b>
<b><u>Sustaining Capital</u></b>			
McArthur River / Key Lake	\$168	\$145	-14%
US ISR	\$39	\$50	28%
Rabbit Lake	\$77	\$75	-3%
Inkai	\$15	\$30	100%
Fuel Services	\$18	\$20	11%
Other	\$20	\$5	-75%
<b>Total Sustaining Capial</b>	<b>\$337</b>	<b>\$325</b>	<b>-4%</b>
<b>Electricity</b>	<b>\$77</b>	<b>\$80</b>	<b>4%</b>
<b>Total</b>	<b>\$630</b>	<b>\$700</b>	<b>11%</b>

Sources: Cormark Securities Inc., Cameco

**Cigar Lake Aiming For 2013 Production:** Shaft 2 has broken through the 480 m level on its way to a final depth of 500 m. The project remains on track for initial production in mid-2013 with development work to continue throughout 2012. An updated technical report is expected by the end of this month with highlights including: lower average cash costs resulting from the new milling agreement; ~\$190 MM increase in capex mainly due to the implementation of the surface freeze strategy and cost escalation; a change to the production profile resulting in slightly lower production in the early years; ramp up expected by the end of 2017; a 4% increase in reserves to 104.7 MMlbs and an 8% increase in estimated grade; and an upgrade of probable reserves to proven reserves.

**Figure 4: Cameco Production Profile And Historical P/NAV**



Sources: Cormark Securities Inc., Bloomberg

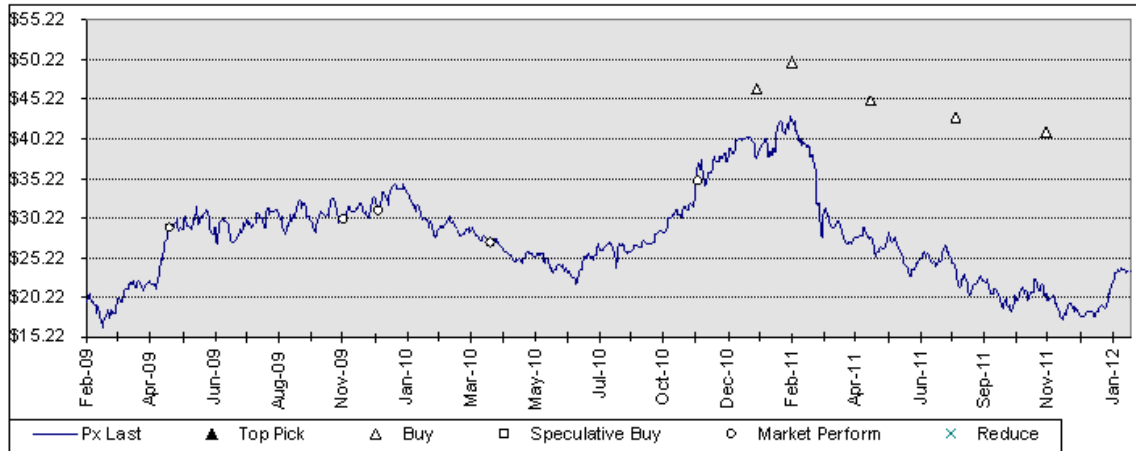
**Changes To Estimates:** Incorporating CCO's Q4/11 results, future production and capex guidance provided, adjusting for the Company's realized uranium pricing going forward and bringing our NAVPS calculation ahead one year, our NAVPS estimate for the company increases modestly to \$33.22 from \$32.43, while our 2012 CFPS decreases from \$2.23 to \$2.16.

**Maintaining Buy Recommendation And \$41.00 Target:** We have incorporated the Q4 results, adjusted for the new guidance and brought our NAVPS calculation ahead one year. Our target remains based on 1.5x NAVPS and 15x 2012E CFPS resulting in our \$41.00 target. The long-term growth of Cameco is where the value lies for investors. We continue to rate the stock a Buy.

We, Mike Kozak and Joshua Perelman, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company(ies) and its (their) securities. We also certify that we have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

**Cameco Corp.**

\*Source: Cormark Securities Inc.



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Recommendation / Target Chg

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Date	C\$
08-Nov-11	41.00 (B)
05-Aug-11	43.00 (B)
09-May-11	45.00 (B)
15-Feb-11	50.00 (B)
10-Jan-11	46.50 (B)
09-Nov-10	35.00 (MP)
06-Apr-10	27.00 (MP)
09-Dec-09	31.00 (MP)
03-Nov-09	30.00 (MP)
04-May-09	29.00 (MP)

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Updated February 10, 2012

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Additionally, our target prices are set based on a 12-month investment horizon.

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