November 9, 2017
Company Update

Equity Research

CAMECO CORPORATION

A Necessary Move: McArthur River/Key Lake Suspended; Dividend Cut

EVENT

Cameco announced that it will be suspending operations at McArthur River and Key Lake for 10 months beginning February 2018. It is also cutting its dividend to $0.08/share.

BOTTOM LINE

Negative short term but Positive long term – Suspending production at a flagship operation for 10 months and cutting a dividend by 80% is a tough move to make. However, these are necessary moves that reduce losses and actively help fix the global supply situation. We are maintaining our rating at BUY but are reducing our target price to $13.65/share from $14.50/share, or by 6%.

FOCUS POINTS

- **McArthur River & Key Lake Suspension** – Cameco announced that it will suspend operations at the McArthur River and Key Lake at the end of January 2018. The suspension is expected to last 10 months.
- **Positive for U Market** – The announced suspension removes 13.2M lbs U_3O_8, or 9%, of our 2018 forecast uranium production. This swings our conservative market model into deficit and our more realistic forecast model deeper into deficit for 2018.
- **Dividend Cut** – The annual dividend will be cut to $0.08/share from $0.40/share, or by 80%. The yield declines to 0.7% from 3.5% and the dividend will now be payable annually as opposed to quarterly.

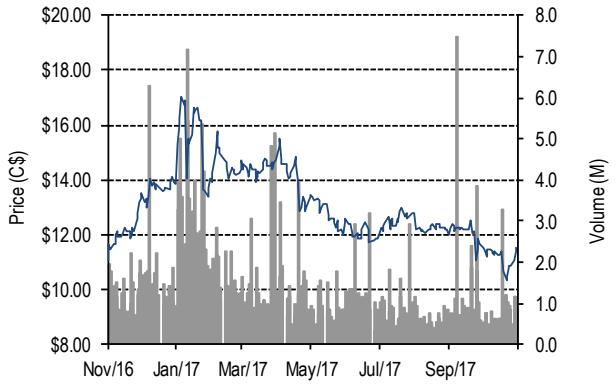
Recommendation:	**Buy**
Symbol/Exchange:	CCO/TSX; CCJ/NYSE
Sector:	Metals and Mining
All dollar values in C$ unless otherwise noted.	
Current price	$11.50; US$9.02
One year target:	$13.65↓
Return to target	19%
Market Capitalization	$4.3 B
Cash on hand	$352M
Yield	0.7%

Company Summary

Shares O/S (M)	395.8	52-week range	$10.34- 17.04
Market cap ($M)	$4,551.6	Avg. weekly vol. (000)	7.084
Market float ($M)	$4,547.1	Fiscal year-end	31-Dec

	2015A	2016A	2017E	2018E
Uranium Production (M lbs)	28.4	27.0	24.0	14.4
Revenue ($M)	2,754.4	2,431.4	2,130.4	1,954.4
Operating Cost ($M)	2,057.3	1,967.9	1,737.7	1,668.0
Avg Cost (US$/lb)	$33.85	$24.68	$20.20	$24.64
EBITDA ($M)	775.9	581.0	494.6	330.7
EPS	$0.86	$0.36	$0.06	$0.04
CFPS	$1.29	$0.94	$1.07	$0.95

Source: Company Reports and Cantor Fitzgerald Estimates



Company profile: Cameco Corporation is a world leader in uranium mining and processing, with additional exposure to fuel trading. Cameco's uranium mines and projects are situated predominantly in Canada, U.S., Kazakhstan, and Australia.

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See disclosure and a description of our recommendation structure at the end of this report.

MCARTHUR RIVER AND KEY LAKE SUSPENDED

Cameco announced that it will be suspending operations at McArthur River and Key Lake for a 10-month period commencing February 2018. Based on Cantor Fitzgerald Canada Research's forecast of 16.4M lbs of production on a 100%-basis for 2018, this removes about 13.7M lbs from the market.

Through the first nine months of 2017, the two operations produced 11.1M lbs of U_3O_8 on a 100%-basis (Areva owns 30.2% and 16.7% of McArthur River and Key Lake, respectively). Management noted on the conference call that it choose to suspend McArthur River and Key Lake due to its ownership of the two assets and the fact that its partner agreed to the suspension. Cigar Lake has a more fragmented ownership mix (50% Cameco) that would have made the move more difficult and we believe less meaningful to the company.

Cameco still has committed sales volumes of 28 to 30 M lbs for 2018 and the company will use its inventory to fulfill these commitments. As of its Q3/17 financials, Cameco reported U_3O_8 inventory of 27.6M lbs at an average cost of $31.59/lb (US$24.86/lb). Management noted that its current contract book has average sales of 26M lbs U_3O_8 per year over the next five years, with more being sold in the earlier years.

We forecast 2018 sales of 28M lbs U_3O_8 and production of 14.4M lbsU_3O_8 due to the suspension. As a result, 13.6M lbs is expected to be drawn from inventory (assuming no additional purchases in the year). On the conference call, management noted that with spot prices currently around US$20.00/lb, the company could purchase uranium at prices lower than its all-in sustaining cost. We view this as a prudent move and applaud all producers who elect to take this route as it saves a company's in-situ inventory and works to reduce the excess inventories in the market.

Based on supplier agreements and conversion needs, Cameco needs to keep about six months of sales in inventory at minimum. This roughly translates into 13M lbs. Given that about 14M lbs are expected to be sold from inventory in 2018, the residual amount of 13M lbs is right at the minimum requirement. As such, we do not expect Cameco to extend the suspension unless it purchases more uranium in the year, which it should if uranium prices remain at these levels.

Maintenance costs associated with the suspension are expected to range between $6.5 - $7.5M per month ($65M - $75M for the full 10-month period). The workforce will be reduced temporarily by about 845 workers (560 employees and 285 contractors) while about 210 workers (160 employees and 50 contractors) will be retained to maintain the facilities.

The company expects wind down and eventual restart work to take a month each. The company will also be evaluating temporary workforce reductions at its corporate office.

POSITIVE FOR URANIUM MARKET

The 13.7 M lbs represents a 9% cut to our prior 2018 primary uranium supply forecast of 153M lbs U_3O_8 in our "Perfect Production" model. It was also a 9% cut to our US$40/lb long-term model that previously forecasted primary mine supply of 146 M lbs U_3O_8 (see Exhibits 1 and 2).

This is the type of surprise event that should provide positive spot price pressure. However, the degree of movement may be muted at first due to fact that there

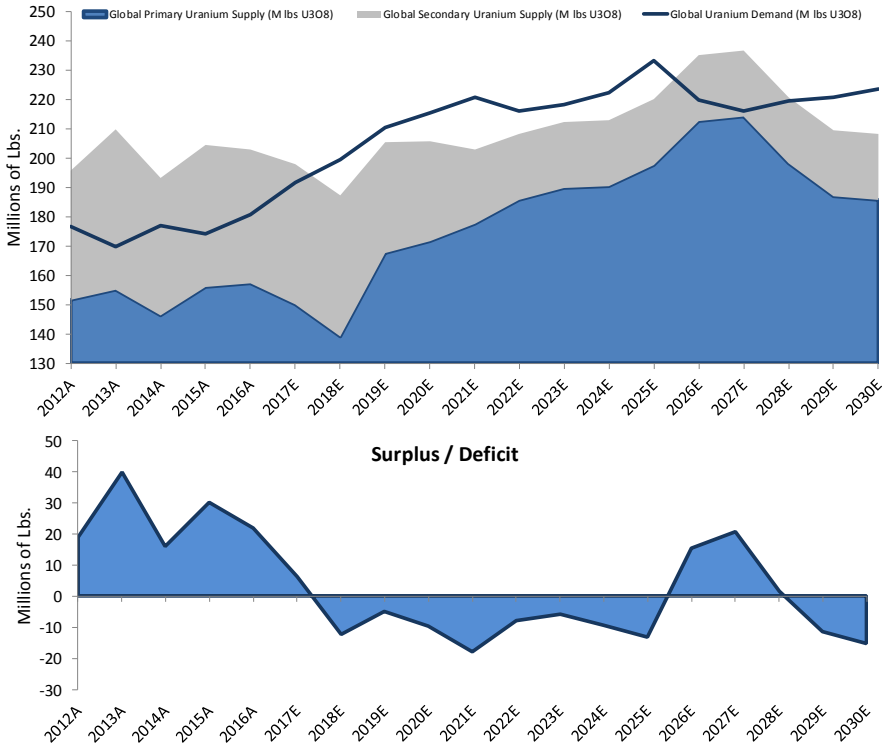
are a limited number of qualified purchasers of uranium – making it a less efficient market.

We estimate that less than 10% of total uranium demand for 2018 and 2019 are uncovered, as utilities have shored up what were once large shortages through spot purchases or short contracts. As such, there is less of an impetus for utilities to make purchases immediately.

Inventory levels are also a concern as we estimate that there are 800-1,200M lbs of total above ground inventory of which about 700-800M lbs are held by utilities. We do not believe that all of it is available for sale as significant portions are held for strategic purposes and necessary utility needs. It will be interesting to see how much of a dampening effect these inventories will have on this news.

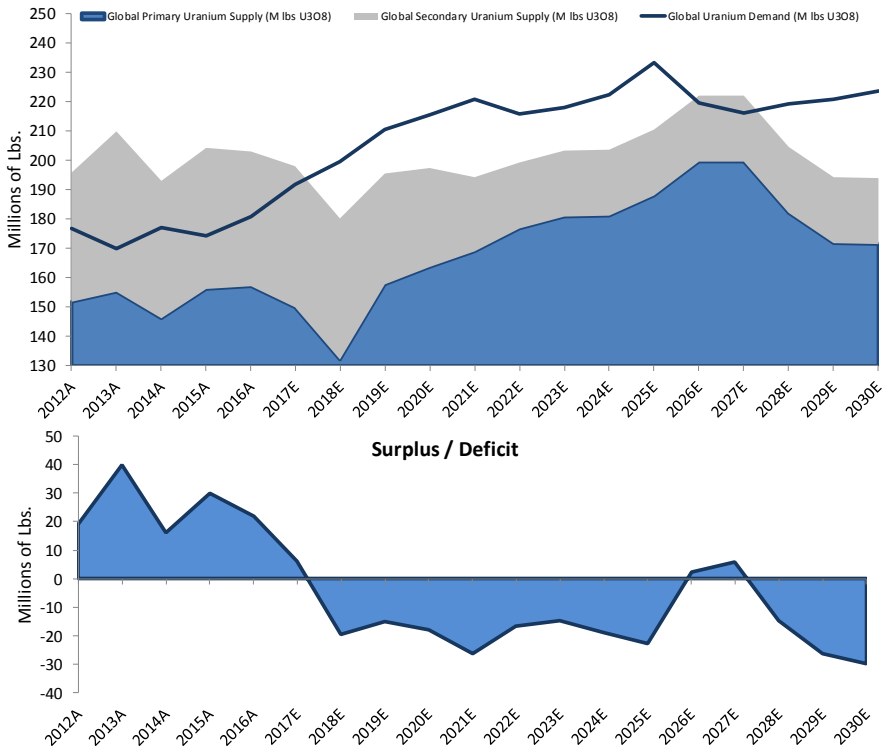
Nonetheless, we expect strength in uranium prices and equities on the back of this news.

Exhibit 1. Uranium Supply & Demand Forecast – "Perfect Production" Scenario



Source: Cantor Fitzgerald Canada Research

Exhibit 2. Uranium Supply & Demand Forecast – "More Realistic" Scenario Assuming US$40/lb Long-Term Price



Source: Cantor Fitzgerald Canada Research

DIVIDEND CUT

The annual dividend will be cut to $0.08/share from $0.40/share, or by 80%. As a result, the yield declines to 0.7% from 3.5% and the dividend will now be payable annually as opposed to quarterly. The dividend cut will save Cameco about $130M based on the fully diluted share count. As of its Q3/17 financials, Cameco had $352M in cash on its balance sheet.

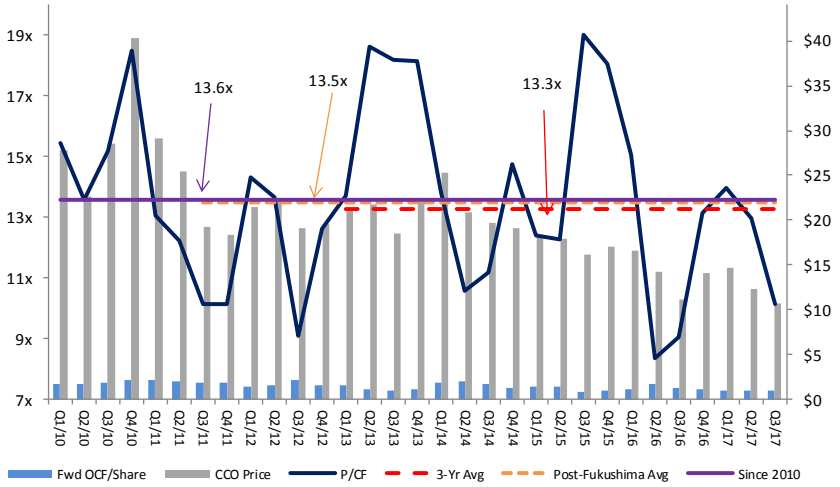
It was noted on the call that dividend payout ratio was above 1 for quite some time and that management resisted cutting the dividend for years despite falling uranium prices and the sale of Bruce Power in 2014, which was a positive cash flow generator.

RECOMMENDATION AND VALUATION

We are maintaining our BUY recommendation and are decreasing our target price to $13.65/share for Cameco, or by 6%. Our valuation is based on a 13.0x times multiple to our forecast of the company's cash flow per share over the next four quarters ($1.05/share). The valuation decreased due to the adjustment of costs based on the suspension announcement, as well as the anticipated care and maintenance costs for McArthur Rive and Key Lake.

Note that historically, Cameco has traded at an average multiple of 13.3x-13.6x with 13.5x being the average post-Fukushima. It trades at an 11.0x multiple as of last close.

Exhibit 3. Historical Price to Forward Cash Flow



Source: Cantor Fitzgerald Canada Research

Our NAV estimate rises to $15.14/share from $14.31/share, or by 6%, as higher cost production is replaced by lower priced spot purchases.

Exhibit 4. Cameco NAV

Projects	NAV ($C Millions)	Per Share	Comment
Uranium, Fuel Services, and Nukem Divisions	4,289.7	$10.84	2018 DCF @ 8% Discount Rate
Wheeler River/Millennium/Kintyre	171.6	$0.43	In-Situ Valuations
UEX Corp.	9.8	$0.02	22.58% Ownership at a 20% discount
Working Capital	1,520.9	$3.84	Q3/17 Financials
Total	**5,992.0**	**$15.14**	

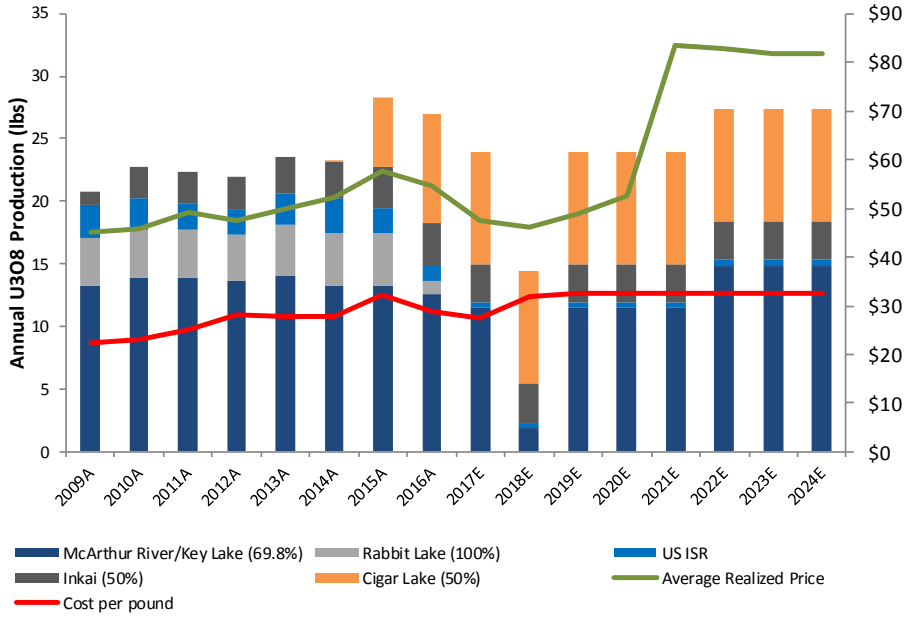
Source: Cantor Fitzgerald Canada Research

Exhibit 5. Uranium Price History and Forecast

	2013A	2014A	2015A	2016A	2017E	2018E	2019E	2020E
U3O8 Price	$38.17	$33.21	$36.55	$25.64	$21.43	$25.00	$32.75	$40.75

Source: Cantor Fitzgerald Canada Research and TradeTech

Exhibit 6. Uranium Production, Realized Price and Cost Profile



Source: Cantor Fitzgerald Canada Research

APPENDIX A: FINANCIAL STATEMENT ANALYSIS

Exhibit 7. Cash Flow Analysis

Cash Flows from Operations						
Net Income	183,413	63,362	-59,879	3,615	17,339	1,073,959
Adjustments	296,769	386,648	372,259	509,931	367,779	878,485
	480,182	**450,010**	**312,380**	**513,546**	**385,118**	**1,952,444**
Cash Flows from Investments						
Additions to property, plant & equipme	-480,108	-358,562	-216,908	-160,000	-180,000	-170,000
Other	459,366	17,775	-912	14,376	0	0
	-20,742	**-340,787**	**-217,820**	**-145,624**	**-180,000**	**-170,000**
Cash Flows from Financings						
Change in Debt	145,430	-10	0	-2,107	0	0
Issuance of Shares/Stock Option Plan	6,228	0	0	4	0	0
Other	-235,550	-227,820	-228,756	-207,246	-31,663	-31,663
	-83,892	**-227,830**	**-228,756**	**-209,349**	**-31,663**	**-31,663**
Net Change in Cash	**375,548**	**-118,607**	**-134,196**	**158,573**	**173,455**	**1,750,781**

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

Exhibit 8. Balance Sheet Analysis

*In C$ 000s	2014A	2015A	2016A	2017E	2018E	2019E
Current Assets						
Cash & Equivalents	566,583	458,604	320,278	478,413	651,868	2,402,649
Other	1,501,123	1,725,361	1,721,555	1,514,923	1,514,923	1,514,923
	2,067,706	**2,183,965**	**2,041,833**	**1,993,336**	**2,166,791**	**3,917,572**
Fixed Assets						
Property, Plant and Equipment	5,291,021	5,228,160	4,655,586	4,404,224	4,342,476	4,139,245
Other	1,113,940	1,382,512	1,551,779	1,430,586	1,430,586	1,430,586
	6,404,961	**6,610,672**	**6,207,365**	**5,834,810**	**5,773,062**	**5,569,831**
Total Assets	**8,472,667**	**8,794,637**	**8,249,198**	**7,828,146**	**7,939,853**	**9,487,403**
Current Liabilities						
Accounts Payable	316,258	317,856	312,900	209,150	209,150	209,150
Other	199,556	353,781	156,355	136,680	136,680	136,680
	515,814	**671,637**	**469,255**	**345,830**	**345,830**	**345,830**
Non-Current Liabilities						
Long Term Debt	1,491,198	1,492,237	1,493,327	1,494,175	1,494,175	1,494,175
Other	1,021,851	1,085,484	1,028,088	922,426	922,426	922,426
	2,513,049	**2,577,721**	**2,521,415**	**2,416,601**	**2,416,601**	**2,416,601**
Shareholders' Equity						
Share Capital	1,862,646	1,862,646	1,862,646	1,862,652	1,862,652	1,862,652
Other	3,581,158	3,682,633	3,395,882	3,203,063	3,314,770	4,862,320
	5,443,804	5,545,279	5,258,528	5,065,715	5,177,422	6,724,972
Total Liabilities and Equity	**8,472,667**	**8,794,637**	**8,249,198**	**7,828,146**	**7,939,853**	**9,487,403**

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

Exhibit 9. Profit and Loss Analysis

*In C$ 000s	2014A	2015A	2016A	2017E	2018E	2019E
Revenue	2,397,532	2,754,378	2,431,404	2,130,444	1,954,444	2,532,503
Operating Expenses	1,420,768	1,744,815	1,596,235	1,439,842	1,426,262	2,025,984
Depreciation	338,983	312,518	371,689	297,830	241,748	373,231
Gross Profit	**637,781**	**697,045**	**463,480**	**392,771**	**286,434**	**133,288**
Exploration	46,565	40,259	42,579	30,000	30,000	30,000
Other	552,884	411,211	562,686	131,780	127,459	168,932
Earnings from Operations	**38,332**	**245,575**	**-141,785**	**230,991**	**128,975**	**-65,644**
Finance Cost	-77,122	-103,615	-111,906	-110,579	-110,463	-110,463
Other	-80,308	-221,228	99,457	-106,797	5,077	1,637,275
EBT	**-119,098**	**-79,268**	**-154,234**	**13,615**	**23,589**	**1,461,168**
Tax	-175,268	-142,630	-94,355	10,000	6,251	387,209
Net Income	**56,170**	**63,362**	**-59,879**	**3,615**	**17,338**	**1,073,959**
EPS	**1.04**	**0.86**	**0.36**	**0.06**	**0.04**	**2.71**

Source: Cameco Corporation, Cantor Fitzgerald Canada Estimates

APPENDIX B: RESOURCE INVENTORY

Exhibit 10. Cameco Global Resource & Reserve Inventory

PROVEN AND PROBABLE

(tonnes in thousands; pounds in millions)

PROPERTY	MINING METHOD	PROVEN TONNES	PROVEN GRADE % U_3O_8	PROVEN CONTENT (LBS U_3O_8)	PROBABLE TONNES	PROBABLE GRADE % U_3O_8	PROBABLE CONTENT (LBS U_3O_8)	TOTAL MINERAL RESERVES TONNES	TOTAL MINERAL RESERVES GRADE % U_3O_8	TOTAL MINERAL RESERVES CONTENT (LBS U_3O_8)	OUR SHARE RESERVES CONTENT (LBS U_3O_8)	METALLURGICAL RECOVERY (%)
Cigar Lake	UG	209.6	19.86	91.8	403.8	13.84	123.2	613.4	15.90	215.0	**107.6**	98.5
Key Lake	OP	61.1	0.52	0.7	-	-	-	61.1	0.52	0.7	**0.6**	98.7
McArthur River	UG	1,184.9	9.57	250.1	562.5	9.64	119.5	1,747.4	9.60	369.7	**258.1**	98.7
Crow Butte	ISR	583.0	0.03	0.4	-	-	-	583.0	0.03	0.4	**0.4**	85
Inkai	ISR	33,193.4	0.07	48.6	30,717.0	0.05	32.0	63,910.3	0.06	80.6	**46.3**	85
North Butte - Brown Ranch	ISR	364.5	0.08	0.7	-	-	-	364.5	0.08	0.7	**0.7**	60
Smith Ranch - Highland	ISR	444.7	0.10	1.0	34.2	0.13	0.1	478.9	0.10	1.1	**1.1**	80
Total		**36,041.2**	**-**	**393.3**	**31,717.5**	**-**	**274.8**	**67,758.7**	**-**	**668.1**	**414.7**	**-**

(UG – underground, OP – open pit, ISR – in situ recovery, totals may not add up due to rounding.

Note that the estimates in the above table:

- use constant dollar average uranium prices, varying over time, from $40 to $50 (US)/lb U_3O_8
- are based on an average exchange rate of $1.00 US=$1.20 to $1.25 Cdn

MEASURED, INDICATED AND INFERRED

(tonnes in thousands; pounds in millions)

PROPERTY	MEASURED RESOURCES (M) TONNES	MEASURED RESOURCES (M) GRADE % U_3O_8	MEASURED RESOURCES (M) CONTENT (LBS U_3O_8)	INDICATED RESOURCES (I) TONNES	INDICATED RESOURCES (I) GRADE % U_3O_8	INDICATED RESOURCES (I) CONTENT (LBS U_3O_8)	TOTAL M+I CONTENT (LBS U_3O_8)	OUR SHARE TOTAL M+I CONTENT (LBS U_3O_8)	INFERRED RESOURCES TONNES	INFERRED RESOURCES GRADE % U3O8	INFERRED RESOURCES CONTENT (LBS U_3O_8)	OUR SHARE INFERRED CONTENT (LBS U_3O_8)
Cigar Lake	1.3	4.71	0.1	235.7	16.24	84.4	84.5	42.3	128.4	7.36	20.8	10.4
Fox Lake	-	-	-	-	-	-	-	-	386.7	7.99	68.1	53.3
Kintyre	-	-	-	3,897.7	0.62	53.5	53.5	37.5	517.1	0.53	6.0	4.2
McArthur River	43.4	4.36	4.2	16.8	1.79	0.7	4.8	3.4	95.9	5.20	11.0	7.7
Millennium	-	-	-	1,442.6	2.39	75.9	75.9	53.0	412.4	3.19	29.0	20.2
Wheeler River	-	-	-	166.4	19.13	70.2	70.2	21.1	842.5	2.38	44.1	13.2
Rabbit Lake	-	-	-	2,281.5	0.79	39.7	39.7	39.7	2,631.4	0.58	33.6	33.6
Tamarack	-	-	-	183.8	4.42	17.9	17.9	10.3	45.6	1.02	1.0	0.6
Yeelirrie	27,172.9	0.16	95.9	12,178.3	0.12	32.2	128.1	128.1	-	-	-	-
Crow Butte	1,418.2	0.21	6.6	1,354.9	0.29	8.6	15.2	15.2	1,135.2	0.12	2.9	2.9
Gas Hills-Peach	687.2	0.11	1.7	3,626.1	0.15	11.6	13.3	13.3	3,307.5	0.08	6.0	6.0
Inkai	34,855.4	0.07	55.3	77,914.4	0.05	86.0	141.3	81.3	151,583.1	0.05	149.9	86.2
North Butte-Brown Ranch	604.2	0.08	1.1	5,530.3	0.07	8.4	9.4	9.4	294.5	0.07	0.4	0.4
Ruby Ranch	-	-	-	2,215.3	0.08	4.1	4.1	4.1	56.2	0.14	0.2	0.2
Shirley Basin	89.2	0.16	0.3	1,638.2	0.11	4.1	4.4	4.4	508.0	0.10	1.1	1.1
Smith Ranch-Highland	3,354.0	0.10	7.1	14,338.1	0.05	16.9	24.0	24.0	6,861.0	0.05	7.7	7.7
Total	**68,225.8**	**-**	**172.3**	**127,020.2**	**-**	**514.1**	**686.4**	**487.0**	**168,805.5**	**-**	**382.0**	**247.9**

Totals may not add up due to rounding.

Note that mineral resources:

- do not include amounts that have been identified as mineral reserves
- do not have demonstrated economic viability

Source: Cameco Corporation

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CFCC *has not* provided investment banking services or received investment banking related compensation from Cameco within the past 12 months.

The analysts responsible for this research report *have*, either directly or indirectly, a long or short position in the shares or options of Cameco.

The analyst responsible for this report *has* visited the material operations of Cameco. Assets visited include: McArthur River, Cigar Lake, and the Key Lake Mill. No payment or reimbursement was received for the related travel costs.

Analyst certification

The research analyst whose name appears on this report hereby certifies that the opinions and recommendations expressed herein accurately reflect his personal views about the securities, issuers or industries discussed herein.

Definitions of recommendations

BUY: The stock is attractively priced relative to the company's fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

BUY (Speculative): The stock is attractively priced relative to the company's fundamentals, however investment in the security carries a higher degree of risk.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company's fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

Member-Canadian Investor Protection Fund.
Customers' accounts are protected by the Canadian Investor Protection Fund within specified
limits. A brochure describing the nature and limits of coverage is available upon request.