We See Little Reason for Cameco's Sell-off After 3Q Earnings; Long-Term Thesis Unchanged

Analyst Note by Kristoffer Inton Updated Oct 29, 2017

Uranium prices remained weak into the third quarter, with spot prices at roughly $20 per pound as of Sept. 30, 17% lower than the start of the year. Unsurprisingly, the extended uranium price malaise hit Cameco's top line, as the average realized price fell 25% to $32 per pound. Furthermore, due to planned maintenance and mandatory vacation shutdowns, the company saw production volume fall 47% during the quarter to 3.1 million pounds. Cameco relied on uranium on hand in inventory to fulfill contracts.

Separately, the company reorganized its marketing activities, which had historically been performed by subsidiary Nukem. As a result, this led to an impairment of the Nukem segment of $111 million. We don't view this noncash charge as indicative of any new issue that will materially impact the business' cash flow generation prospects, despite its impact to reported net income.

There was little that surprised us in its third-quarter earnings release. We'd anticipate Cameco's financial results to weaken as long as the uranium markets struggle. Though it will take a few years to impact uranium prices, the foundations for better demand remain strong, keeping our long-term thesis intact. Yet, Cameco shares fell 6%. Having recovered from a roughly 12% intraday decline, we do think many market participants realized that results weren't as bad as initially thought.

Although we've made changes to our 2017 forecast based on updated management guidance, our long-term forecast remains intact. We continue to expect a cumulative supply deficit to hit the uranium market by 2023. Due to the long-term nature of uranium contracting (utilities contract years in advance of actual need), we'd expect to see prices improve to $65 per pound in 2019 in order to incentivize enough new supply. As a result, we're maintaining narrow-moat Cameco's USD 17 per share and CAD 22 per share fair value estimates.