

Cameco posts record profit

Second-quarter result good news after series of setbacks for company

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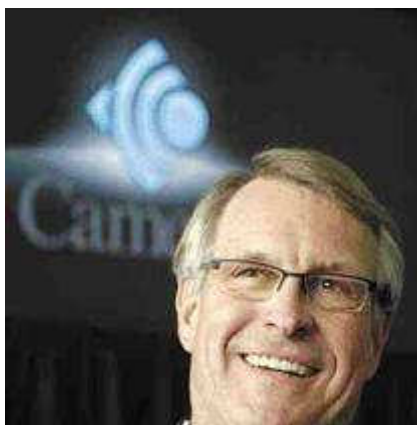
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Cameco Corporation may have put out a string of press releases with bad news in July, but the company's previous three months amounted to the most profitable quarter ever for the world's largest producer of uranium.

The Saskatoon-based company reported Monday it had record net earnings of \$205 million, or 55 cents a share, on record revenue of \$725 million in the quarter that ended June 30.

The success is largely due to higher realized prices for uranium, which offset lower revenue from Cameco's share in the Bruce Power Limited Partnership, which produces electricity from six refurbished nuclear reactors in Ontario.



CREDIT: Reuters

Cameco president and CEO Jerry Grandey

"The strength of these results is a much better indication of the company's potential than recent news," said Cameco president and CEO Jerry Grandey.

He also told analysts on Monday that Cameco is the wrong uranium investment play for those only interested in short-term results, and the company's results show the gains to be made on Cameco's long-term strategy.

"There are many uranium investments suited to that short-term focus," he said. "As our long-term investors are aware, Cameco operates in an industry that requires a long-term perspective."

Grandey emphasized Cameco's current 500-million pound reserve estimate, its current operating mines -- including world leader MacArthur River, which produces 18 million pounds of uranium annually -- and a large portfolio of development projects acquired much earlier in the uranium price cycle.

"I don't know of anyone who is confidently predicting the uranium price a decade out, but I do know we have a powerful portfolio of uranium contracts that will consistently make strong contributions to our financial returns for a decade or longer, even if the uranium price is volatile," he said.

The company's record quarterly results come at the end of a month where the stock has been under pressure by both short sellers and from a string of internal reports on company setbacks.

Early in the month, Cameco reported that its flooded Cigar Lake project, which is supposed

to rival MacArthur River's output, won't go into production until 2011 and that it expects gold revenues from its investment in Centerra Gold Inc. to be off one-third.

In mid-July, the bad news continued, with news of a uranium spill at the company's refinery in Port Hope, Ont. That all contributed to a downhill slide in July of Cameco stock, which is now off almost \$18 from its mid-June height of \$59.90.

Early reaction from investors to the strong first quarter Monday was negative. By midday, Cameco shares were off a full three per cent, or \$1.29. However, there was a rally in late trading Monday and Cameco's share price recovered to close the day's trading down 15 cents at \$42.85.

During the conference call, Grandey downplayed the recent drop in the uranium spot price.

"The long term market fundamentals remain solid, driven by an industry with increasingly bright prospects," he said.

Cameco sold uranium into the market at an averaged realized price of \$34.69 US a pound in the quarter, compared to a selling price of \$20.21 US in the second quarter of 2006. The company released figures during the analyst call from both European and U.S. government energy agencies to show that Cameco's realized price last year exceeded the average price that utilities reported paying for uranium supply in 2006.

Part of the reason for the company's improved quarterly revenue was that it was able to take into revenue \$39 million, based on sales of 2.6 million pounds of uranium it had previously deferred. Those sales had been based on standby loan agreements the company had set up with other uranium producers in the wake of the Cigar Lake flood. Cameco reported Monday that it had been able to cancel two of the three standby loan agreements without having to borrow any uranium product.

Cameco is expecting its revenue from uranium will be 70 per cent higher in 2007 than it was in 2006 because of the higher spot prices for uranium, which are partly reflected in its sales contracts. The company is projecting uranium spot prices will remain at about \$120 US for the remainder of the year, down from the \$135.50 US price reported at the end of June.

In its quarterly report, Cameco again produced a detailed table for investors as to what it expects to realize for its uranium sales contracts that are in place in a range of scenarios from a \$20 US spot price for uranium up to \$140 US.

Under the current spot price of \$120 US, Cameco projects it will realize a sales price of \$40.50 US this year and \$53.25 US in 2008. Analysts questioned why the 2008 projections were lower than what the company put out in its first quarter when it had predicted a realized price of \$66.96 under the \$120 US spot price scenario.

Corporate executives explained the company no longer expects there will be much uranium or profit margin for the company to trade uranium material in the short-term market because of the steep run-up in spot prices for the commodity.

As a result, Cameco officials say they eliminated about five million pounds of traded material in their calculations on future sales volume and price and its new chart is based on a volume of 30 million pounds delivered in 2008.

George Assie, senior vice-president of marketing and business development, says there is still an expectation that Cameco could be making short-term market trades of about three million pounds in 2008, but the chart no longer reflects these type of trades.

In Ontario, the Bruce Power plants operated at 91 per cent capacity in the second quarter of

this year, compared to 94 per cent in the second quarter of 2006. There was 17 days of unplanned outages at the nuclear power stations during the most recent second quarter, which was six days higher than the 2006 record.

With higher operating costs and less electricity revenue in total, Cameco's share of the Bruce Power partnership net profits was cut in half to \$42 million, compared to \$84 million in net revenue a year previous.

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