

URANIUM PARTICIPATION, YELLOW CAKE

U and YCA at Attractive Discounts Despite Massive Move Higher in Uranium Prices

EVENT

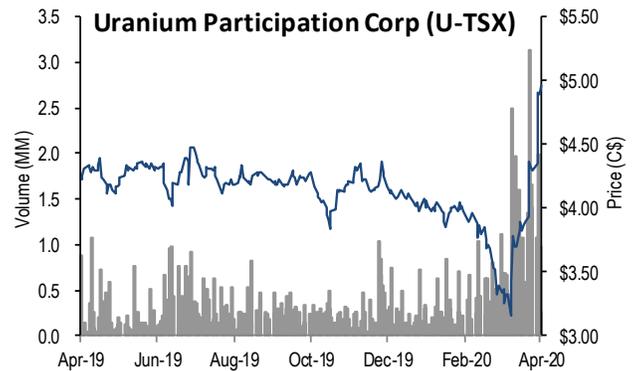
Over the last three weeks, following four prominent COVID-19 related uranium mine shutdowns, spot uranium prices have increased +30% to \$32/lb.

BOTTOM LINE

Positive. Starting with the shutdown of Cigar Lake (note linked [here](#)), followed by Rossing (note linked [here](#)), then Husab in Namibia, and a production curtailment in Kazakhstan, the cascade of supply shocks have driven the strongest upward uranium price momentum in over a decade.

FOCUS POINTS

- **Combined Supply Shocks:** Over the last three weeks, ~46 MMlb of primary uranium mine production (on an annualized basis) has been temporarily shut-down, equating to ~35% of global output.
- **Spot Prices Continue to Move Higher:** With utilities globally already low on inventory, we expect the cascading supply shocks to trigger further increases to spot and term uranium prices as fundamental end users (utilities) scramble to secure material. U-TSX and YCA-LSE are both trading at significant (14-21%) discounts to NAVPS and remain the easiest and lowest-risk ways to gain exposure to higher uranium prices.
- **Uranium Participation (U-TSX):** Maintain Buy rating and C\$5.50/share target price.
- **Yellow Cake (YCA-LSE):** Maintain Buy rating and £3.00/share target price.



Company profile: Uranium Participation Corp and Yellow Cake PLC are investment holding companies that acquire and store physical stock of U3O8 (and in the case of UPC, UF6 as well) for investment purposes.

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

OUR SPOT AND TERM PRICE OUTLOOK

Over the last three weeks, ~46 MMLb of primary uranium mine production (on an annualized basis) has been temporarily shut-down, equating to ~35% of global output (Exhibit 1). Following these COVID-19 related uranium mine shutdowns, spot uranium prices have increased +30% to \$32/lb. Our NAVPS estimates and target prices for both U and YCA are based on a near term spot price forecast of \$35/lb U₃O₈, approximately 9% higher than the current spot price level of \$32/lb U₃O₈. We note that immediately prior to the Cigar Lake shutdown three short weeks ago, spot prices had been trading in a tight range of \$23-25/lb for months. While the Rossing and Husab shutdowns and Kazatomprom curtailment are likely to be temporary in nature, we expect Cigar Lake to remain on care-and-maintenance indefinitely. As such, we believe spot prices will likely form a new base at current price levels, more in-line with our near-term spot price forecast of \$35/lb U₃O₈. In our view, should spot prices consistently hold this level it would facilitate achievable new long-term contract prices in the \$45-55/lb U₃O₈ range, a healthy range for the industry over the short-term. Longer-term (3+ years), given the supply demand outlook for nuclear energy, our uranium price projections are considerably higher.

Exhibit 1. Uranium Mine Supply Shocks (Last Three Weeks)

Mine	Country	Prod. Rate/Cut		Restart Date (Est.)	Global Prod. (%)
		(MMLb/yr.)	Date Shut		
Cigar Lake	Canada	18.0	23-Mar-20	N/A	14%
Husab	Namibia	12.1	28-Mar-20	05-May-20	9%
Rossing	Namibia	5.5	28-Mar-20	05-May-20	4%
Kazatomprom	Kazakhstan	10.4	07-Apr-20	07-Jun-20	8%
Total		46.0			35%

Source: Cantor Fitzgerald

U AND YCA AT ATTRACTIVE DISCOUNTS, BUY THEM

Uranium Participation Corp. and Yellow Cake PLC are both trading at substantial discounts (U-TSX: 14%, YCA-LSE: 21%) to their NAVPS (intrinsic value). This is likely due to two factors; 1) the amount and speed in which spot uranium prices have risen, and 2) the perceived “temporary” nature of the uranium mine supply reductions. In our view, 1) ultimately spot uranium prices will find a comfortable higher level and settle within a tighter range allowing the P/NAVPS discounts of U and YCA to narrow, and 2) as previously noted, we do not expect Cigar Lake to re-start until it secures higher-price long-term contracts, and as such, we believe the COVID-related supply reductions are less “temporary” than what is currently discounted by the market. As such, we would be aggressive buyers of both Uranium Participation and Yellow Cake given that 1) we believe spot uranium prices will continue heading higher, and 2) investors buying U and YCA are effectively buying uranium at 14% and 21% below spot price, respectively. As a reminder, both Uranium Participation Corp. and Yellow Cake PLC are physical uranium holding companies. They carry no mine/operating risk, no COVID-19 related shut-down risk, and no financial leverage/gearing (debt). They are the two best, most liquid, and lowest-risk ways in which institutional investors can gain meaningful exposure to spot uranium prices.

URANIUM PARTICIPATION CORP

Uranium Participation Corp holds inventories of 17.4 MMLb in U3O8 equivalent (in the form of U3O8 and UF6). Based on its existing cash balance, U3O8e in inventory, current C\$/US\$ FX rates and the current U3O8 spot price of \$32.13/lb, Uranium Participation Corp. commands a NAVPS of C\$5.78/share. As such, the Company is currently trading at an attractive 0.86x NAVPS (14% below intrinsic value).

Exhibit 2. Uranium Participation Corp Updated Spot Price NAVPS

U-TSX	Unit	Inventory	Spot Price \$	Spot Price C\$	Market Value (C\$'000)
U3O8	lb	15,687,101	\$32.13	C\$45.38	C\$711,937
UF6	kg	600,000	\$93.25	C\$131.72	C\$79,029
Inventory					C\$790,966
Net Working Capital					C\$7,129
Net Asset Value					C\$798,095
Net Asset Value Per Share					C\$5.78
P/NAVPS					0.86x

Source: Cantor Fitzgerald

YELLOW CAKE PLC

Yellow Cake PLC holds inventories of 9.6 MMLb U3O8 that it acquired from Kazatomprom. Based on its existing cash balance, U3O8 in inventory, current GBP/US\$ FX rates and the current U3O8 spot price of \$32.13/lb, Yellow Cake PLC commands a NAVPS of £2.86/share. As such, the Company is currently trading at an attractive 0.79x NAVPS (21% below intrinsic value).

Exhibit 3. Yellow Cake Updated Spot Price NAVPS

YCA-LN	Unit	Inventory	Spot Price \$	Spot Price GBP	Market Value (\$'000)
U3O8	lb	9,616,385	\$32.13	£25.82	\$308,974
Inventory					\$308,974
Net Working Capital					\$3,892
Net Asset Value					\$312,866
Net Asset Value Per Share					£2.86
P/NAVPS					0.79x

Source: Cantor Fitzgerald

RATINGS AND TARGET PRICES

Driven via a near-term spot price forecast of \$35/lb U3O8, our ratings and targets for the two premier uranium investment holding companies are as follows:

Uranium Participation Corp: Buy – C\$5.50/share target.

Yellow Cake PLC: Buy – £3.00/share target.

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The analysts responsible for this research report *do not have*, either directly or indirectly, a long or short position in the shares or options of YCA or U.

The analyst responsible for this report has not visited the material operations of U or YCA. No payment or reimbursement was received for any related travel costs.

Analyst certification

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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.

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