

Uranium Sector

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David A. Talbot / (416) 350-3082

dtalbot@viiicapital.com

Joseph Fars, MBA, P.Geo / (416) 350-5090

jfars@viiicapital.com

U Stocks Catch a Bid Amid a Plethora of Positive News

Uranium's two month upswing has accelerated amid a flurry of sector news that should result in further upward price pressure. Mine closures and production pullbacks continue to dominate headlines while US lawmakers are starting to take notice of external pressures on what is a "strategic" industry. The USA imports 93% of its required uranium. While we haven't seen movement on Petition 232 which calls for a look into the impact of foreign uranium imports on the industry (specifically ex-Soviet U3O8 imports that provided 32% of the US fleet's fuel last year), the Trump Administration has instructed the US Department of Energy to help the industry elsewhere. This includes a two year moratorium on nuclear plant closures and a halt of DOE uranium sales to fund nuclear entrainment clean up products as of next year.

Meanwhile, U3O8 production is finally on the decline (expected to be off 10% YoY to 138 MM lbs U3O8) given recent closures and project deferrals. And U3O8 demand continues to rise (169 MM lbs as per WNA; 192 MM lbs as per UxC). Japan restarts continue. The Ohi 4 restart in May brings us to eight in operation, and Japan has reiterated a long term nuclear commitment at 20-22% of its power mix by 2030.

Uranium prices are up 10% MoM, on an upward trend that we believe might continue for some time. We have long been staunch supporters of the uranium sector and frequently stated our belief that prices are simply too low to justify production, let alone develop new mines. Security of supply. We couldn't predict when the market would turn, but did express that uranium prices must show ongoing price appreciation and that long term contracting must also return. We are certainly a lot more optimistic that prices are on a sustained upswing, if not forming the basis of the next uranium bull market.

Investors should view this current flurry of impactful news as an excellent entry point into the uranium sector. We suggest investors focus on companies with high value, quality deposits; high-priced contracts; lowest quartile costs; and strong balance sheets. Leverage to rising prices is also recommended (see Table 1). Our top picks include: **For value: Cameco** (CCO-T, BUY, C\$15.00 target; covered by Ralph Profti); **Uranium Participation** (U-T, BUY, C\$4.80 target); **For Development Value Growth: NexGen Energy** (NXE-T, BUY, C\$6.10 target); **Denison Mines** (DML-T, BUY, C\$1.70 target); **Fission Energy** (FCU-T, BUY, C\$2.10 target); **For safety: Ur- Energy** (URE-T, BUY, C\$1.55 target); **For leverage to rising prices: Energy Fuels** (EFR-T, BUY, C\$3.85 target); **Uranium Energy** (UEC-US, BUY, US\$2.30 target); **For Exploration Growth: UEX Corp** (UEX-T, BUY, C\$0.50 target).

Uranium is breaking out of a three year downtrend according to Tina Normann, Eight Capital's Quantitative Analyst. UxC spot prices are up 10% MoM, rising another \$0.60/lb to \$23.35/lb on Monday. This price appreciation is accompanied by a weekly MACD Buy signal in Bullish momentum territory. Resistance levels around US\$27 to \$28/lb U3O8. We continue to forecast US\$29/lb U3O8 for 2018 within our DCF models.

Kazakh production cuts may be underestimated. Kazakhstan was to produce 60.1 MM lbs in 2018 as noted by KazAtomProm's Chairman in December as it dropped production by 20% over the next three years. Media reports say Kazakh Energy Minister suggested another 6% production cut over previous expectations to 56.2 MM lbs. This news has sparked a rally in the stocks.

New uranium holding company emerging. "Yellow Cake" seeks US\$150-200 MM in a London IPO to buy 8.1 MM lbs U3O8. The new firm has apparently arranged to buy US\$170 MM worth of uranium from KazAtomProm (Not Rated) at a 7.7% discount to spot. This represents 5% of global production and should help take further spot supply from circulation.

US Lawmakers taking notice. The White House has placed a moratorium on nuclear plant closures; have constrained US DOE sales; and may review Petition 232. Uranium production in the US has fallen to 7% of domestic uranium requirements. Foreign-origin uranium accounted for 93% of US fuel supply (40 MM lbs). US Utilities purchased 42 MM lbs U3O8 in 2017, down 15% YoY, and 86% via term deliveries. 52% (22 MM lbs) came from Canada and Australia (14 MM lbs and 8.1 MM lbs, respectively), and 32% (13.8 MM lbs) came from Russia, Kaz, Uzbekistan (7.1 MM lbs, 4.6 MM lbs, and 2.1 MM lbs, respectively) according to Energy Info Administration (EIA).

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- **Moratorium on nuclear power plant retirements.** Trump has ordered Energy Secretary Rick Perry to enact a two year action that will halt any actions towards retirement, decommissioning for deactivation for two years. The White House announced on 1-Jun-18 that it would dip into laws within the Federal Power Act and the Defense Production Act to allow unprecedented federal intervention in electricity markets in efforts to slow plant closures.
- **DOE Sales to no longer fund clean-up projects.** Last month the Department of Energy has announced that it will stop selling uranium to pay for enrichment plant clean up. Sale of uranium from US Gov't inventories has long been a sore spot for the industry. This news follows on earlier plans to cut sales significantly.
- **Petition 232 pending.** Energy Fuels and Ur Energy have petitioned the US Commerce Department to review the impact of the 32% of the uranium that comes from Russia, Kazakhstan and Uzbekistan in light of national security. They request: 1) 25% of US uranium requirements are purchased from American producers; and 2) US agencies that require uranium should buy domestically. Russia's Duma has voted in favour of curtailing trade with the USA in certain sectors. While U3O8 is no longer specifically mentioned, wording appears broad enough to impact nuclear exports from the US.

Production pullback continues. Ranger Mine, the 10th largest uranium mine announced yesterday that it would close as of 2021. The mine produced 5 MM lbs U3O8 (3.2% of world) in 2017 but is approaching end of mine life (likely in analyst models). However, its closure is likely a death knell for nearby Ranger 3 Deep project (halted in 2015) and the massive but controversial Jabiluka deposit. Paladin Energy (PDN-ASX, Not Rated) announced in May that Langer Heinrich would be placed on Care and Maintenance; removing another 3.4 MM lbs pa production (5.2 MM lb capacity). April saw Peninsula Energy (PEN-ASX, BUY, A\$0.50 target) stop development of its 56.9 MM lb Karoo project in South Africa. UxC forecast production of 138 MM lbs U3O8 is 10% lower than the 154 MM lbs mined in 2017. Secondary supplies of 48 MM lbs U3O8 means 186 MM lbs of supply versus 169 MM lbs U3O8 demand (WNA) or 192 MM lbs (UxC).

Investors jumping in. The Yellow Cake news follows upon close of a \$23 MM equity raise by the original physical uranium holding company, Uranium Participation (U-T, BUY, C\$4.80 target). On 4-Jun-18, Laramide (LAM-T, BUY, C\$0.60 target) announced a \$2.1 MM raise, and Blue Sky (BSK-V, Not Rated) increased its raise from \$2.66 to \$3.08 MM. KazAtomProm's IPO is slated for later this year, whereas the Gov't plans to sell at least 25% of the world's largest uranium miner.

Figure 1: Uranium Company Coverage and Targets

Company Name	Ticker	Last Close (C\$/sh)	Shares Out (MM)	MCap (C\$MM)	Rating	Target (C\$/sh)	DCF Multiple	Lift to Target
Associate:								
Uranium Participation	U	4.16	137	571	BUY	4.80	1.00	15%
Producers:								
Cameco Corp.	CCO	11.97	396	4,738	BUY	15.00	1.00	25%
Uranium Energy Corp.	UEC (US)	US 1.60	160	257	BUY	US 2.30	1.00	44%
Energy Fuels	EFR	2.59	78	203	BUY	3.85	1.00	49%
Ur Energy	URE	0.84	147	123	BUY	1.55	1.00	85%
Peninsula Energy	PEN (AU)	A 0.25	234	57	BUY	A 0.50	0.90	104%
Developers:								
NexGen Energy	NXE	3.02	343	1,037	BUY	6.10		102%
Denison Mines	DML	0.63	559	352	BUY	1.70	0.90	170%
Fission Uranium	FCU	0.58	485	281	BUY	2.10	0.80	262%
Berkeley Energia	BKY (AIM)	GBP 0.46	255	117	BUY	GBP 1.05	0.90	142%
Toro Energy	TOE (AU)	A 0.03	2,008	54	NEUTRAL	A 0.04	0.60	59%
Laramide Resources	LAM	0.33	118	39	BUY	0.60	0.80	82%
Azarga Uranium	AZZ	0.26	85	22	NEUTRAL	0.30	0.80	15%
Explorers:								
UEX Corp.	UEX	0.27	348	94	BUY	0.50	0.80	85%
Kivalliq Energy	KIV	0.08	247	19	BUY		No Target	
Mawson Resources	MAW	0.32	123	39	BUY		No Target	
U3O8 Corp.	UWE	0.35	20	7	BUY		No Target	

Source: Eight Capital, FactSet, Company Reports

Figure 2: Uranium – Breakout is Accompanied by a Weekly MACD BUY Signal in Bullish Momentum Territory. Resistance Levels: \$27.00 to \$28.00



Source: Eight Capital, Bloomberg, StockCharts.com

Figure 3: CCO – Successfully Validating the April Breakout from a Yearlong Base



Source: Eight Capital, Bloomberg, StockCharts.com

Figure 4: EFR - Weekly Momentum Move into Bullish Territory Leads a Breakout above the 2017 Highs



Source: Eight Capital, Bloomberg, StockCharts.com

Figure 5: NXE - Weekly MACD Buy Signal Supports a Breakout above the 18-Month Downtrend Line



Source: Eight Capital, Bloomberg, StockCharts.com

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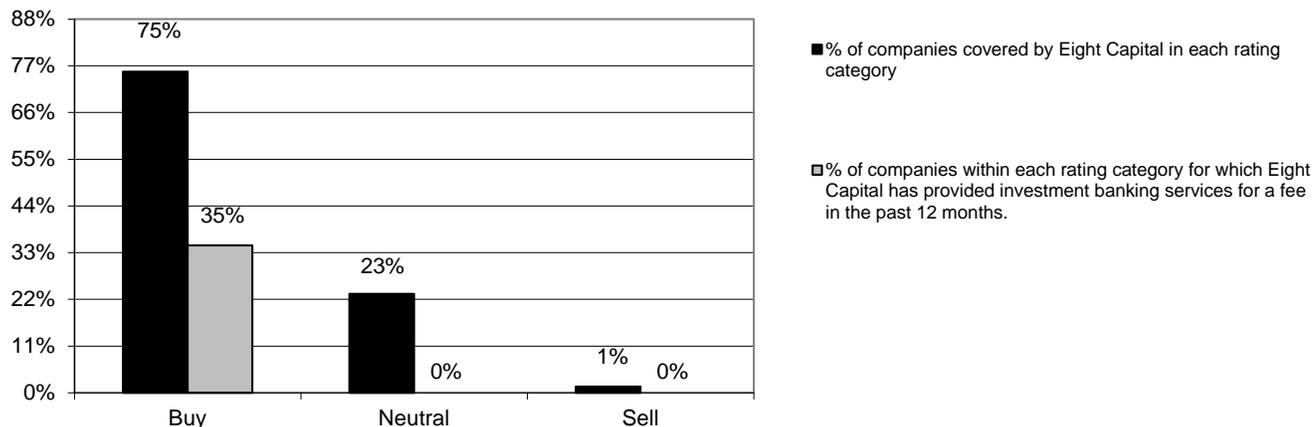
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