

# Uranium Sector

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## Cigar Lake Closure Halts 13% of Global U3O8 Production; Might be the Much Needed Catalyst for Spot Prices

**Cigar Lake Uranium Mine** closure may prove positive for spot uranium prices, similar to how yesterday's surge in gold price came as Ontario and Quebec gold mine supply was curtailed (if not for the unlimited QE in an attempt by America's central bank to protect the US economy from the coronavirus pandemic). Cigar Lake may possibly be the first of many mines to halt in the face of COVID-19. It may be too early to tell what happens to prices, but we presume that this might be the much-needed catalyst for the sector given that the recent US budgetary request to buy uranium may no longer be a priority given the state of the US economy. A short shutdown at Cigar Lake may not drive prices far, unless other mines follow suit, or the closure is extended. Currently, we just don't know. At the very least, this should help slow uranium supply.

**USA loses much of its main uranium source.** With 18 MM lbs U3O8 from the world's second largest uranium mine off the table and representing 13% of global supply (#1 McArthur River is already closed), production out of Canada (once the largest producer in the world) falls to zero. We speculate that Australia won't be far behind. Suddenly looks like the US utilities will be scrambling for product, as its largest source of uranium is gone. Canada supplies 24% of US uranium, and Australia another 18%. Cigar Lake's closing doesn't mean that there won't be any Canadian uranium available for the US market - Cameco (NEUTRAL, C\$13.00 TP, covered by R. Profiti) sells much more uranium than it produces thanks to inventory and (minor) spot purchases. We believe the Cigar Lake closure may trigger more buying in the spot market by Cameco and speculators, and perhaps term buying for utilities. Let's hope nuclear fuel traders are working from home.

**Lower electricity usage means less uranium requirements.** One saving grace for global electricity generators is the decline of electricity demand in the face of large chunks of the economy being taken off-line. All things being equal, this would mean lower U3O8 requirements. That said, it may be easier to close down smaller gas, heavy oil and coal plants than nuclear in the short term, given prices and transportation/mining requirements of the other fuels. UxC tells us that it spoke to a number of utilities and none are talking about taking nuclear power plants off-line, although the sheer amount of nuclear power in France might force EDF's hand. An argument against this would be rising uranium prices in contrast with low energy prices. It might be too early to tell how much of a pullback on power consumption we might see, but it might track GDP, and we have heard estimates of up to 50% in Q2/20 might be within the realm of possibility.

**Uranium prices may rise on this news** (at least in a normal world). On 19-Dec-19, we said that the main uranium price catalysts were Chinese nuclear growth and aggressive nuclear technology exports, decreased secondary supplies, and US Government nuclear policy. This included renegotiation of the Russian Suspension Agreement and pending Nuclear Fuel Working Group decision (part of which includes domestic uranium production purchases by the US Government with the intent to boost prices) may or may not be effective, particularly globally. This is especially apparent now that the previously announced White House budget request might be dead in light of much higher priorities. However, uncertainty as to how long social and business distancing will continue, may mean that some nuclear utilities will need to get more serious in the term market. Needless to say, there is still no incentive for uranium companies to sell U3O8 at current market prices.

**Uranium market activity has been limited YTD.** There have been a few recent spot trades, but term markets have been less active. Prices have remained relatively flat, rising another 15 cents this week to US\$24.25/lb U3O8 yesterday. UxC suggests that COVID-19 and other uncertainties such as the Russian Suspension Agreement may keep term contracting activity low in 2020, and that pricing could be directly related to global utility demand and pushback by producers. UxC also suggests that spot market demand might be sporadic while inventory can be found, and pricing might depend on other factors than just availability of supply (type of buyer, location, origin, timing).

**Eight Capital uranium price forecast remains unchanged** (in US\$/lb U3O8). There is likely some room for share price appreciation industry-wide, given the recent coronavirus-related sell off. That said, we do concede that higher uranium prices may be the required catalyst to push uranium stocks higher in these uncertain times.

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	LT
Spot Forecast	\$26	\$29	\$32	\$35	\$39	\$42	\$47	\$50	\$50

**Our top picks remain:** Ur-Energy (URE-T, BUY, C\$1.40 TP), Energy Fuels (EFR-T, BUY, C\$3.55 TP), and NexGen Energy (NXE-T, BUY, C\$5.55 TP).

.....see Eight Capital's uranium stock peer table on page 2.

Figure 1: Eight Capital's uranium peer table

VIII EIGHT CAPITAL		PEER TABLE - URANIUM										David A Talbot dtalbot@eightcapital.com (416) 350 3082		Mitch Vanderydt, P.Eng mvanderydt@eightcapital.com (416) 849 7887								
March 23, 2020	Ticker	Currency	Last Price \$/sh	Analyst	Rating	Target Price	Return to TP	Shares O/S MM	Mkt Cap (\$MM)	Cash (\$MM)	Debt (\$MM)	EV (\$MM)	Avg Grade %U3O8	Inventory MMlbs U3O8	EV/lb US\$/lb	Performance					Net Asset Value	
																1 wk	1 mo	3 mo	6 mo	1 yr	NAVPS	P/NAV
<b>Inventory Holders</b>																						
Uranium Participation	U-TSX	CAD	C\$ 3.32	D. Talbot	BUY	C\$ 5.30	60%	138	C\$ 436	C\$ 6	C\$ 0	C\$ 430	n/a	16.2	18.3	(5%)	(20%)	(22%)	(24%)	(30%)	C\$ 5.30	0.63x
Yellow Cake	YCA-LON	GBP	GBP\$ 1.60	n/a	n/a	n/a	n/a	88	GBP\$ 141	GBP\$ 8	GBP\$ 0	GBP\$ 133	n/a	9.6	15.9	7%	(19%)	(18%)	(19%)	n/a	n/a	n/a
<b>Inventory Holder Average</b>																						
17.1																	1%	(20%)	(20%)	(22%)	(30%)	0.63x
<b>Producers</b>																						
Cameco Corp	CCO-TSX	CAD	C\$ 9.02	R. Profit	NEUTRAL	C\$ 13.00	44%	396	C\$ 3,570	C\$ 1,062	C\$ 1,010	C\$ 3,517	6.4%	1065	2.3	3%	(25%)	(23%)	(29%)	(43%)	C\$ 11.07	0.81x
Energy Fuels	EFR-TSX	CAD	C\$ 1.27	D. Talbot	BUY	C\$ 3.55	180%	115	C\$ 146	C\$ 23	C\$ 23	C\$ 146	0.14%	152	0.7	10%	(30%)	(48%)	(53%)	(70%)	C\$ 3.54	0.36x
UR Energy	URE-TSX	CAD	C\$ 0.42	D. Talbot	BUY	C\$ 1.40	237%	160	C\$ 67	C\$ 10	C\$ 16	C\$ 72	0.061%	43	1.2	(10%)	(38%)	(46%)	(48%)	(60%)	C\$ 1.43	0.29x
Peninsula Energy	PEN-ASX	AUD	A\$ 0.09	D. Talbot	n/a	n/a	n/a	315	A\$ 27	A\$ 10	A\$ 23	A\$ 40	0.064%	62	0.4	(3%)	(47%)	(47%)	(51%)	(69%)	n/a	n/a
Kazatomprom	KAP-LON	GBP	GBP\$ 11.60	n/a	n/a	n/a	n/a	259	GBP\$ 3,009	GBP\$ 260	GBP\$ 136	GBP\$ 2,884	0.054%	1391	2.4	(0%)	(14%)	(10%)	(21%)	n/a	n/a	n/a
<b>Producer Average</b>																						
1.4																	(0%)	(31%)	(35%)	(40%)	(61%)	0.49x
<b>Developers</b>																						
Uranium Energy	UEC-NYSE	USD	US\$ 0.49	D. Talbot	BUY	US\$ 1.70	247%	184	US\$ 90	US\$ 18	US\$ 20	US\$ 92	0.048%	105	0.9	7%	(42%)	(45%)	(50%)	(63%)	US\$ 1.83	0.27x
Denison Mines	DML-TSX	CAD	C\$ 0.32	D. Talbot	BUY	C\$ 1.35	329%	597	C\$ 188	C\$ 8	C\$ 1	C\$ 181	2.9%	153	0.8	2%	(38%)	(41%)	(54%)	(54%)	C\$ 1.61	0.20x
NexGen Energy	NXE-TSX	CAD	C\$ 0.80	D. Talbot	BUY	C\$ 5.55	594%	360	C\$ 288	C\$ 52	C\$ 122	C\$ 358	2.0%	348	0.7	(7%)	(46%)	(50%)	(54%)	(64%)	C\$ 6.94	0.12x
Fission Uranium	FCU-TSX	CAD	C\$ 0.13	D. Talbot	BUY	C\$ 2.00	1500%	486	C\$ 61	C\$ 21	C\$ 0	C\$ 40	1.8%	135	0.2	(11%)	(46%)	(55%)	(68%)	(75%)	C\$ 2.28	0.05x
Azarga Uranium	AZZ-TSX	CAD	C\$ 0.08	D. Talbot	BUY	C\$ 0.45	463%	186	C\$ 15	C\$ 0	C\$ 0	C\$ 14	0.094%	45	0.2	(11%)	(53%)	(61%)	(59%)	(64%)	C\$ 0.54	0.15x
Boss Resources	BOE-ASX	AUD	A\$ 0.03	n/a	n/a	n/a	n/a	1,587	A\$ 52	A\$ 11	A\$ 4	A\$ 46	0.07%	63	0.4	(13%)	(42%)	(35%)	(48%)	(39%)	n/a	n/a
Laramide Resources	LAM-TSX	CAD	C\$ 0.11	n/a	n/a	n/a	n/a	165	C\$ 17	C\$ 1	C\$ 11	C\$ 27	0.11%	118	0.2	(22%)	(48%)	(49%)	(59%)	(70%)	n/a	n/a
Global Atomic	GLO-TSX	CAD	C\$ 0.28	n/a	n/a	n/a	n/a	145	C\$ 40	C\$ 8	C\$ 0	C\$ 32	0.18%	189	0.1	(4%)	(40%)	(42%)	(46%)	(33%)	n/a	n/a
Deep Yellow	DYL-ASX	AUD	A\$ 0.12	n/a	n/a	n/a	n/a	245	A\$ 28	A\$ 15	A\$ 0	A\$ 13	0.032%	149	0.1	(4%)	(43%)	(57%)	(61%)	(72%)	n/a	n/a
Covix	CXU-TSX	CAD	C\$ 0.08	n/a	n/a	n/a	n/a	439	C\$ 35	C\$ 2	C\$ 0	C\$ 34	0.081%	230	0.1	(11%)	(36%)	(43%)	(45%)	(48%)	n/a	n/a
Vimy Resources	VMY-ASX	AUD	A\$ 0.02	n/a	n/a	n/a	n/a	619	A\$ 12	A\$ 1	A\$ 0	A\$ 11	0.33%	116	0.1	(30%)	(56%)	(60%)	(71%)	(72%)	n/a	n/a
Plateau Energy Metals	PLU-TSX	CAD	C\$ 0.18	n/a	n/a	n/a	n/a	86	C\$ 15	C\$ 1	C\$ 0	C\$ 14	0.021%	124	0.1	6%	(37%)	(23%)	(29%)	(70%)	n/a	n/a
Bannerman	BMN-ASX	AUD	A\$ 0.02	n/a	n/a	n/a	n/a	1,059	A\$ 19	A\$ 6	A\$ 4	A\$ 17	0.019%	271	0.0	(10%)	(42%)	(49%)	(55%)	(63%)	n/a	n/a
Berkeley Energia	BKY-ASX	AUD	A\$ 0.15	n/a	n/a	n/a	n/a	259	A\$ 37	A\$ 97	A\$ 36	-\$23	0.049%	89	-0.1	16%	(26%)	(33%)	(44%)	(67%)	n/a	n/a
<b>Developers Average</b>																						
0.3																	(7%)	(44%)	(47%)	(55%)	(58%)	0.16x
<b>Explorers</b>																						
Toro Energy	TOE-ASX	AUD	A\$ 0.01	n/a	n/a	n/a	n/a	2,611	A\$ 8	A\$ 5	A\$ 16	A\$ 19	0.48%	91	0.1	(40%)	(60%)	(63%)	(84%)	(88%)	n/a	n/a
UEX Corp	UEX-TSX	CAD	C\$ 0.07	n/a	n/a	n/a	n/a	394	C\$ 28	C\$ 10	C\$ 0	C\$ 17	0.43%	99	0.1	(18%)	(42%)	(36%)	(55%)	(53%)	n/a	n/a
U3O8 Corp	UWE-TSX	CAD	C\$ 0.05	n/a	n/a	n/a	n/a	23	C\$ 1	C\$ 0	C\$ 0	C\$ 1	n/a	n/a	n/a	(18%)	(18%)	(31%)	(55%)	(68%)	n/a	n/a
Skyharbour Resources	SYH-TSX	CAD	C\$ 0.09	n/a	n/a	n/a	n/a	75	C\$ 7	C\$ 1	C\$ 0	C\$ 5	n/a	n/a	n/a	(10%)	(45%)	(45%)	(57%)	(76%)	n/a	n/a
IsoEnergy Ltd	ISO-TSX	CAD	C\$ 0.25	n/a	n/a	n/a	n/a	76	C\$ 19	C\$ 7	C\$ 0	C\$ 12	n/a	n/a	n/a	(2%)	(47%)	(42%)	(51%)	(57%)	n/a	n/a
<b>Explorer Average</b>																						
0.1																	(18%)	(43%)	(43%)	(60%)	(69%)	

Source: Company Reports, FactSet, Eight Capital Estimates

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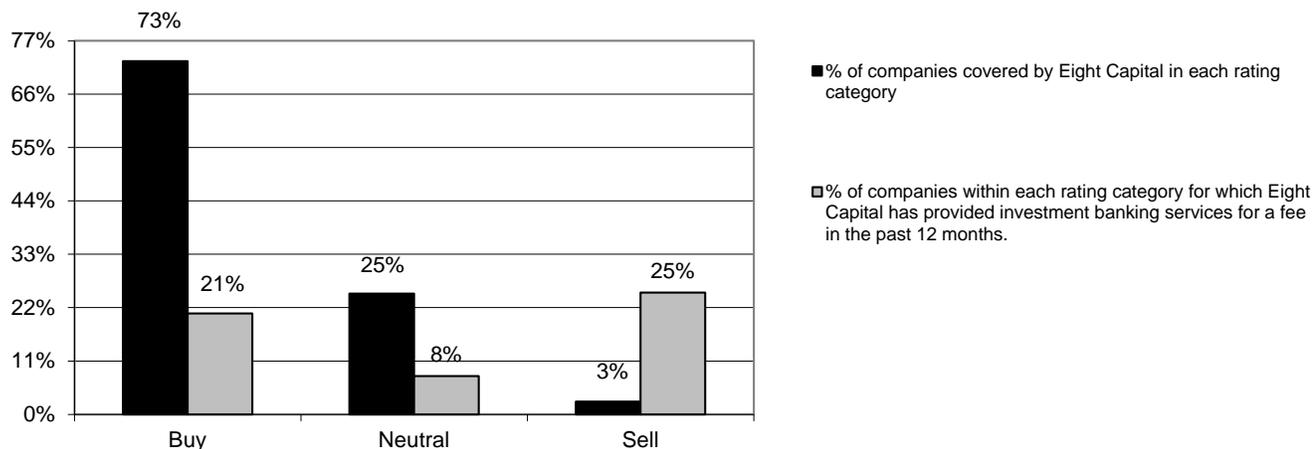
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