

Action Note

Equity Research

March 24, 2020

Metals & Minerals

Uranium Participation Corp.

(U-T) C\$3.45

UPC Trading at a Record Discount to NAV

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Event

Our note provides some commentary surrounding the potential supply and demand impacts on uranium related to COVID-19, along with some context regarding UPC's steep discount to NAV.

Impact: NEUTRAL

- Uranium supply impacts** - Yesterday evening, Cameco announced that Cigar Lake will be temporarily suspended for a four-week period as a precautionary measure in response to COVID-19. We estimate that the lost production over the four weeks would be ~1.5mmlbs (100% basis). The news follows an announcement earlier in the month that Kazatomprom, the world's largest uranium producer, is taking active measures at its operations in Kazakhstan in response to a country-wide state of emergency on March 15th. Although there is no immediate impact to production at its operations, the company noted that it had over 8,500tU of inventory, equal to approximately eight months of 2020 attributable production in the event of a temporary shut-down.
- Demand impacts** - Late last week, we lowered our 2020-2023 uranium price forecasts by an average of 9% (Exhibit 1). Our lower price forecasts reflect the impacts of weaker GDP growth and therefore lower nuclear fuel requirements amid the evolving COVID-19 pandemic. While we are not aware of any COVID-19 related reactor shut-ins there is strong evidence of reduced power consumption with France's electricity grid operator RTE announcing on March 19 that electricity demand as fallen ~15% compared to the same period in 2019. At this point we do not expect a prolonged impact due to COVID-19; however, if it were to persist, nuclear utilities could come under increased financial pressure and competition from lower cost sources of base load power including natural gas.
- Record NAV discount** - Based on today's share price and spot uranium prices of US\$24.25/lb, we calculate that the company is currently trading at a 25% discount to our calculated spot NAVPS of \$4.60. The current discount to NAV matches the previous lows experienced following the Fukushima disaster in 2011. We expect that the discount could begin to narrow if supply concerns begin to outweigh the near-term demand impact due to COVID-19.

Recommendation:	HOLD
Risk:	HIGH
12-Month Target Price:	C\$4.25
12-Month Dividend (Est.):	C\$0.00
12-Month Total Return:	23.2%

Market Data (C\$)

Current Price	C\$3.45
52-Week Range	\$3.12 - \$4.61
Mkt Cap (f.d.) (\$mm)	\$476.4
Float Cap (\$mm)	\$475.8
EV (\$mm)	\$445.4
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	680,016

Financial Data (C\$)

Fiscal Y-E	February
Shares O/S (f.d.)(mm)	138.1
Float Shares (mm)	137.9
NAVPS	\$4.55
Working Cap (\$mm)	\$5.7

Estimates (C\$)

Year	2018A	2019A	2020E	2021E
EPS (basic)	(0.06)	(0.03)	0.01	(0.04)

Valuations

Year	2018A	2019A	2020E	2021E
Disc to NAV	-	-	39.6%	-

Supplemental Data

Year	2018A	2019A	2020E	2021E
U3O8 (US\$/lb)	22	26	25	26
UF6 US\$/kg	63	80	86	87

* Supplemental data represents our estimate uranium price for the company's fiscal year end (February).

All figures in C\$, unless otherwise specified

TD Investment Conclusion

We have made no change to our C\$4.25 target price and HOLD rating.



Company Profile

Uranium Participation Corp. (U-T, UPC) is a Canadian company listed on the TSX. Its primary objective is to provide direct exposure to uranium through its physical holdings of uranium oxide (U₃O₈) and hexafluoride (UF₆).

Action Note

Equity Research

March 24, 2020

Details

Late last week we updated our estimates for UPC to reflect lower uranium price forecasts on weaker than expected pricing year-to-date along with demand concerns related to COVID-19 and the global impacts to GDP (Exhibit 1).

Exhibit 1. Revised Uranium Price and FX Forecasts

US\$/lb	2020E		2021E		2022E		2023E		2024E		LT	
	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New
Uranium	28.00	25.13 ↓	30.00	27.00 ↓	32.50	30.00 ↓	37.50	35.00 ↓	40.00	40.00	45.00	45.00
FX (US\$/C\$)	0.76	0.75 ↓	0.77	0.76 ↓	0.80	0.77 ↓	0.82	0.82	0.82	0.82	0.82	0.82

Source: UxC, TD Securities

Year-to-date, uranium prices have declined 2.4% from US\$24.85/lb at the start of the year to US\$24.25/lb on March 23. Relative to other commodities, however, the uranium spot price has shown significant resiliency in the wake of the COVID-19 pandemic. With major fuel suppliers notifying customers of potential disruptions to the nuclear fuel supply chain, spot activity picked up in the latter half of last week while transaction prices continued to slip.

Relative to 2019, 2020 spot transaction volumes remain muted but should improve. Year-to-date spot volumes of 13.8mmlbs is 22% below the transacted volumes at this time last year, however the spread has been closing in recent weeks. We continue to expect Cameco will purchase 20-22mmlbs of uranium in 2020 based on guided sales of 28-30mmlbs. This volume could potentially increase depending on the duration of the temporary suspension of Cigar Lake which could put upward pressure on the spot price.

Year-to-date >14mmlbs of U3O8e has been contracted under term deals, which is broadly flat year-over-year. The quoted term price remains locked at US\$32/lb.

UPC's share-price discounting a uranium price of US\$18.15/lb U3O8, below current spot prices of US\$24.25/lb — At the inter-day price on March 24th, we calculate that the company is currently trading at a 25% discount to our calculated spot NAVPS of \$4.60, based on the company's February 29, 2020 reported uranium holdings and the March 23 uranium spot price of US\$24.25/lb.

Record discount to NAV – The current 25% discount to NAV matches the previous lows experienced following the Fukushima disaster in 2011 and exceeds previous lows experienced during the global financial crisis and during the Chinese market melt-down in 2015. Historically, the company's share price has traded at an average discount to NAVPS of 2%.

Exhibit 2. NAV (March 23, 2020 spot uranium prices)

Current Uranium Holdings	Units	Inventories Held	Price US\$/unit	Implied Value US\$, mm	Price C\$/unit*	Implied Value C\$, mm
Uranium Oxide in Concentrates, U3O8	lb	15,687,101	\$24.25	\$ 380.4	\$35.27	\$ 553.3
Uranium Hexafluoride, UF6	kg	600,000	\$84.39	\$ 50.6	\$122.74	\$ 73.6
Implied Value of Inventories Held				\$ 431.0		\$ 626.9
					Working Capital	\$8.9
					Total NAV	\$ 635.8
					Shares Outstanding, mm	138.1
					NAVPS	C\$4.60
					Recent Price	\$3.45
					Premium / (Discount) to NAV	-25%

Forex CAD/USD 0.69

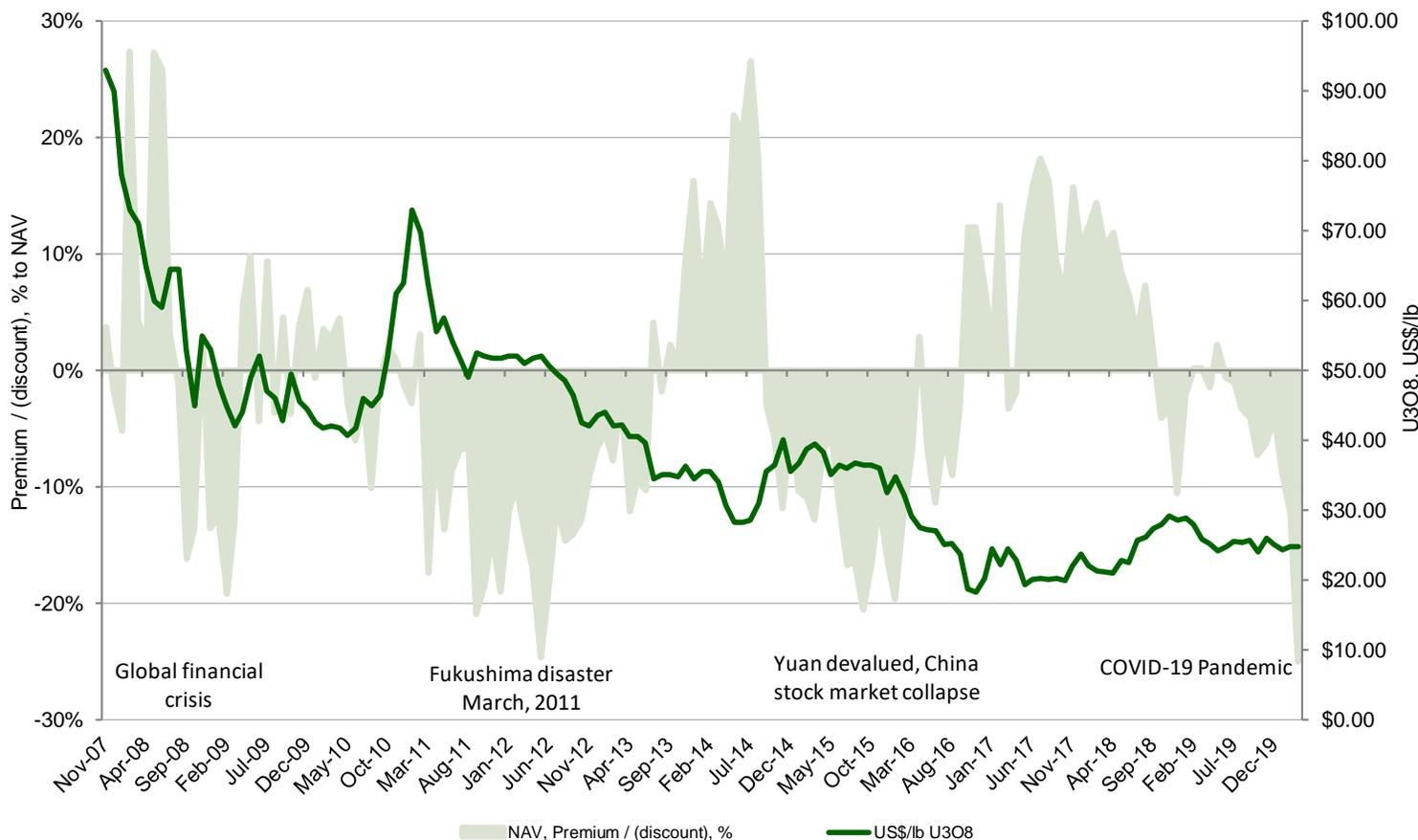
Source: Company, TD Securities Inc.

Action Note

Equity Research

March 24, 2020

Exhibit 3. Historical NAV Premium/Discount to the Uranium Price



Source: Company, TD Securities Inc.

Valuation

Our forward NAV of \$628mm or \$4.55/share for UPC is based on our 12-month price forecast of US\$27.00/lb (Q4/F21) using a 0.76 Canadian dollar/U.S. dollar exchange rate. In addition, we assume a forward working capital position of \$3.2mm. Our UF6 price assumes a 3.40x UF₆/U₃O₈ ratio to convert the price of U₃O₈ to UF₆ based on a four-quarter trailing average.

Exhibit 4. Implied 12-month Forward NAV and Target Price Calculation

Current Uranium Holdings	Units	Inventories Held	Price US\$/unit	Implied Value US\$, mm	Price C\$/unit*	Implied Value C\$, mm
Uranium Oxide in Concentrates, U3O8	lb	16,263,374	\$27.00	\$ 439.1	\$35.48	\$ 577.0
Uranium Hexafluoride, UF6	kg	400,000	\$91.80	\$ 36.7	\$120.63	\$ 48.3
Implied Value of Inventories Held				\$ 475.8		\$ 625.3
Working Capital, C\$mm						\$3.2
Total NAV, C\$mm						\$ 628.4
Shares Outstanding, mm						138.1
NAVPS						C\$4.55
Implied Target, 0.95x multiple to NAV, weighted 100%						\$4.32
Target Price Rounded						C\$4.25

* Forex CAD/USD 0.76

Source: TD Securities Inc.

Action Note

Equity Research

March 24, 2020

Exhibit 5. NAVPS Sensitivity Analysis

C\$NAVPS to Spot U3O8 and Forex CAD/USD		0.72	0.74	0.76	0.78	0.80	0.82
U3O8 US\$/lb	\$19.00	\$3.39	\$3.30	\$3.22	\$3.13	\$3.05	\$2.98
	\$21.00	\$3.75	\$3.65	\$3.56	\$3.46	\$3.37	\$3.29
	\$23.00	\$4.10	\$3.99	\$3.89	\$3.79	\$3.69	\$3.60
	\$25.00	\$4.46	\$4.34	\$4.23	\$4.11	\$4.01	\$3.91
	\$27.00	\$4.81	\$4.68	\$4.57	\$4.44	\$4.33	\$4.23
	\$29.00	\$5.16	\$5.03	\$4.90	\$4.77	\$4.65	\$4.54
	\$31.00	\$5.52	\$5.37	\$5.24	\$5.10	\$4.97	\$4.85
	\$33.00	\$5.87	\$5.72	\$5.57	\$5.42	\$5.29	\$5.16
	\$35.00	\$6.23	\$6.06	\$5.91	\$5.75	\$5.61	\$5.47

Assumes the UF6/U3O8 price exchange ratio is constant at 3.40x

Potential Return to Share Price (assumes 0.95x multiple to NAVPS)		0.72	0.74	0.76	0.78	0.80	0.82
U3O8 US\$/lb	\$19.00	-7%	-9%	-11%	-14%	-16%	-18%
	\$21.00	3%	0%	-2%	-5%	-7%	-9%
	\$23.00	13%	10%	7%	4%	2%	-1%
	\$25.00	23%	19%	16%	13%	10%	8%
	\$27.00	32%	29%	26%	22%	19%	16%
	\$29.00	42%	38%	35%	31%	28%	25%
	\$31.00	52%	48%	44%	40%	37%	34%
	\$33.00	62%	57%	54%	49%	46%	42%
	\$35.00	71%	67%	63%	58%	54%	51%

Source: TD Securities Inc.

Justification of Target Price

Our \$4.25 target price (unchanged) and HOLD rating are based on 0.95x (unchanged) our forward NAVPS estimate of \$4.55.

Key Risks to Target Price

The key risks to our target price include risks related to uranium and uranium hexafluoride supply, demand and price; financial risks (including those relating to the cost and availability of financing); foreign exchange rate risks; forecast risks; market risks; uranium loan risk; uranium storage facility risks; political risks, including legal and fiscal regimes; security risks (including potential for violence and access disruptions), title, litigation, access and key personnel retention, as well as environmental risks, among others. Company-specific risks include the potential for the Manager to terminate its Management Service Agreement.



Action Note

Equity Research

March 24, 2020

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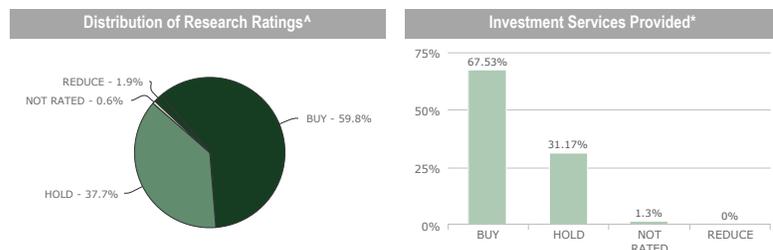
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Action Note

Equity Research

March 24, 2020

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Action Note

Equity Research

March 24, 2020

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