

URANIUM PARTICIPATION CORPORATION

Adding to Inventory as Production Cuts Impact the Market; Upgrading to Buy

EVENT

We are updating our valuation for Uranium Participation Corp. to reflect the addition of U₃O₈ inventory and our revised uranium price forecasts.

BOTTOM LINE

With the Nov. addition of 120,000 U₃O₈ lbs, (600,000 lbs added in Oct.) we are updating our valuation to reflect the addition to inventory. We are also using an upgraded uranium price deck to reflect the impact of the announced production cuts from Cameco (CCO-TSX, CCJ-NYSE; Buy, Target \$15.55) and Kazatomprom. As a result, we are upgrading our recommendation to Buy with a \$5.15 per share target, from a Hold and a \$3.80 target.

FOCUS POINTS

- **Adding to inventory** – UPC completed a financing on October 3, totaling \$40.6M. The first of this amount has been allocated to the purchase of 720,000 U₃O₈ lbs., of which 600,000 lbs has been added to inventory in October, followed by 120,000 lbs in November. Booked uranium inventory now stands at 10.8M lbs.
- **Renewed interest after production cuts** – The U₃O₈ spot price has increased by 15% to reach \$24.00/lb since Nov. 9, the day Cameco announced a 10-month suspension of production from operations at McArthur River and Key Lake. This news was followed by the announcement on Dec. 3 that Kazatomprom would cut its production by 20% over the next three years. We have increased our near- and medium-term price forecasts as a result of these supply shocks.
- **Market implying US\$28.43/lb** – Based on UPC's last closing price, the market is implying a U₃O₈ spot price of US\$28.43/lb, which is 18% higher than the current spot price of US\$24.00/lb.

Recommendation:

BUY↑

Symbol/Exchange:	U/TSX
Sector:	Metals and Mining
<i>All dollar values in C\$ unless otherwise noted.</i>	
Current price	\$4.62
One year target:	\$5.15↑
Return target	11%
Market Capitalization	\$612M

Company Summary

Shares O/S (M)	132.4	52-week range	\$3.49 - \$4.60
Market cap (\$M)	\$611.9	Avg. weekly vol. (000)	0.797
Market float (\$M)	\$611.3	Fiscal year-end	28-Feb
Inventory		Quantity (M)	Mkt Price
U ₃ O ₈ (lbs)		10.8	\$30.89
UF ₆ (kg)		1.9	\$87.53
Net Working Capital			20.2
Net Asset Value			\$520.42
NAVPS			\$3.93
Current Premium/Discount to Market NAV			17.6%

Source: Company Reports and Cantor Fitzgerald Canada Estimates



Company profile: Uranium Participation Corp. is a Canadian investment holding company that acquires and stores physical stock of U₃O₈ and UF₆ for investment purposes.

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

120,000 U₃O₈ LBS ADDED TO INVENTORY IN NOVEMBER

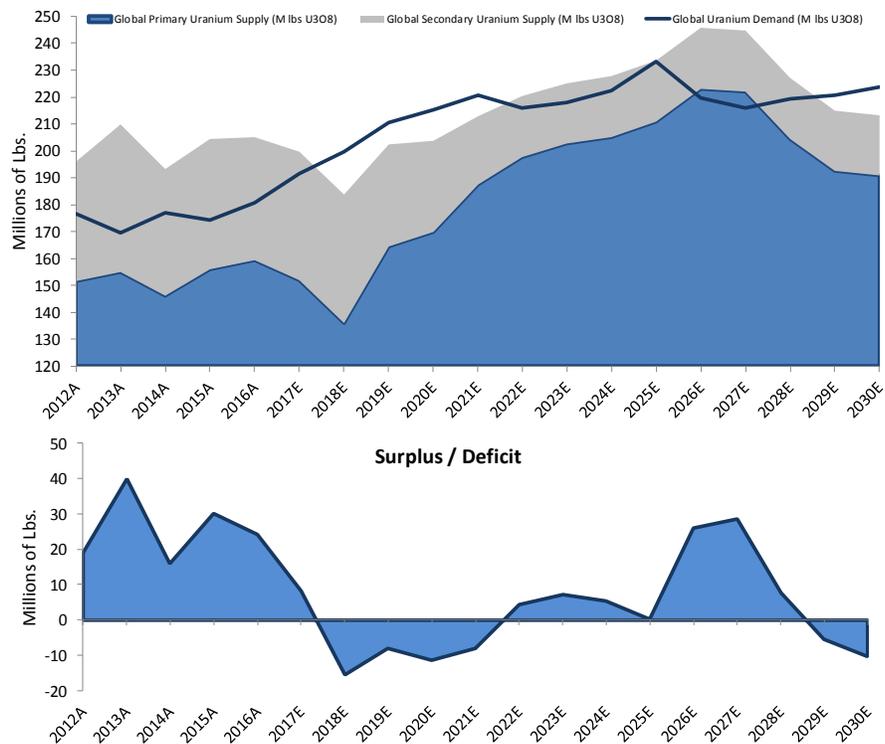
With the release of Uranium Participation’s November 30, 2017 Net Asset Value, it was seen that proceeds of the \$40.6M bought deal that closed in October was used to purchase 120,000 U₃O₈ lbs in the month of November. As of November 30, 2017, total booked uranium in inventory stands at 10,800,024 lbs. UPC has thus far purchased and taken delivery of 720,000 lbs U₃O₈ at an average cost of US\$20.29/lb. This has been a positive investment for UPC already as the spot price is currently US\$24.00/lb.

URANIUM STRENGTH AS PRODUCTION CUTS SET TO TAKE EFFECT

The U₃O₈ spot price has increased by 15% to reach \$24.00/lb since November 9, the day Cameco announced a 10-month suspension of production (to take effect in February 2018) from operations at McArthur River and Key Lake. This news was followed by the announcement on December 3 that Kazatomprom would cut its production by 20% (beginning in 2018) over the next three years.

We estimate that the Cameco cuts alone will remove 13.7M lbs U₃O₈ in 2018 on a 100%-basis, while the cuts from Kazatomprom will total 28.5M lbs over the three year period, or 10.4M lbs alone for 2018. In 2018, the combined reduction will be about 24.1M lbs U₃O₈ or about 15% of our prior forecast of 158.4M lbs of production (CFCC “Perfect Production” scenario).

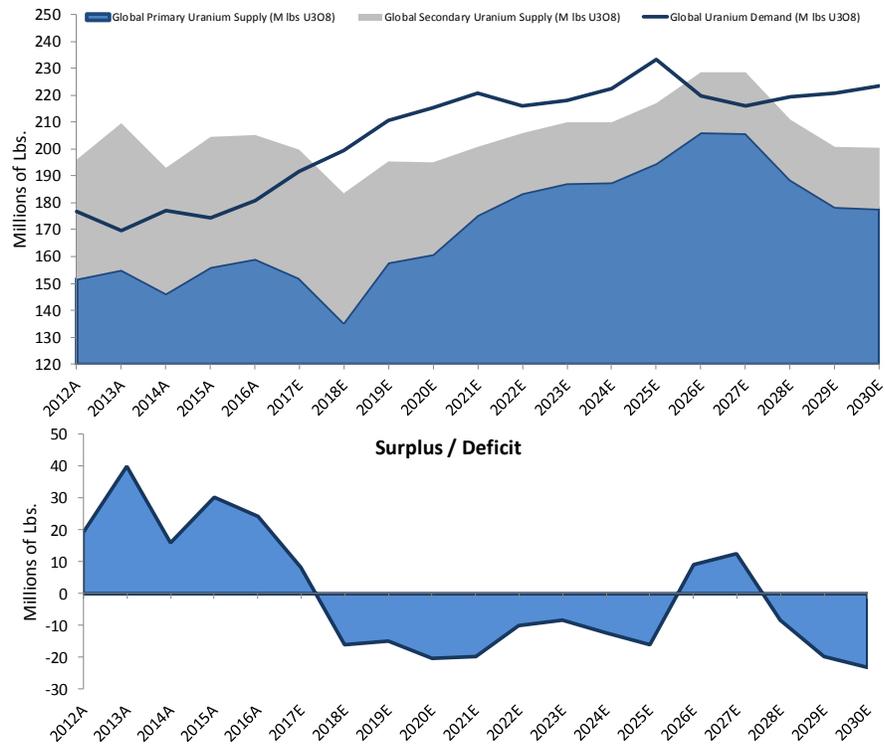
Exhibit 1. Uranium Supply & Demand Forecast (Perfect Production Scenario)



Source: Cantor Fitzgerald Canada Research

While the first scenario paints a roughly balanced supply and demand picture, we continue to note that it is a “worst-case scenario” that assumes all uranium mines and projects will produce exactly according to company guided plans (or study suggested plans) and that all production levels are price insensitive. Our “US\$40/lb long-term” scenario paints a more realistic picture. For additional details, please refer to our [Uranium Sector Update: Revising our uranium price deck in the wake of Cameco’s and Kazatomprom’s cuts](#) that was also published today.

Exhibit 2. Uranium Supply & Demand Forecast (US\$40/lb Long-Term Scenario)



Source: Cantor Fitzgerald Canada Research

MARKET IMPLYING US\$28.43/LB

Based on the current share price of \$4.62 per share, we calculate that the market is currently implying a spot U₃O₈ price of US\$28.43 per lb. This market implication is 18% above the current spot price of US\$24.00 per lb., which indicates that the market expects U₃O₈ prices to rise as it is implying this value into the portfolio of UPC.

UPC’S NET ASSET VALUE

Based on the current U₃O₈ and UF₆ spot prices of US\$24.00/lb. and US\$68.00/KgU, respectively, and factoring in a current USD/CAD exchange rate of \$0.777, the current fair value for UPC totals \$3.93/share. Based on its previous closing price of \$4.62/share, UPC is currently trading at a 17.6% premium.

Exhibit 3. UPC Current NAV based on current U₃O₈ and UF₆ prices – Update after close

Fair value based on current U ₃ O ₈ and UF ₆ Price					
	Units	Quantity	Market Price USD	Market Price CAD	Market Value CAD
U ₃ O ₈	lb	10,800,024	\$24.00	\$30.90	333,745
UF ₆	kg	1,903,471	\$68.00	\$87.56	166,661
					500,407
Net Working Capital					20,182
NAV					520,589
NAVPS					\$3.93

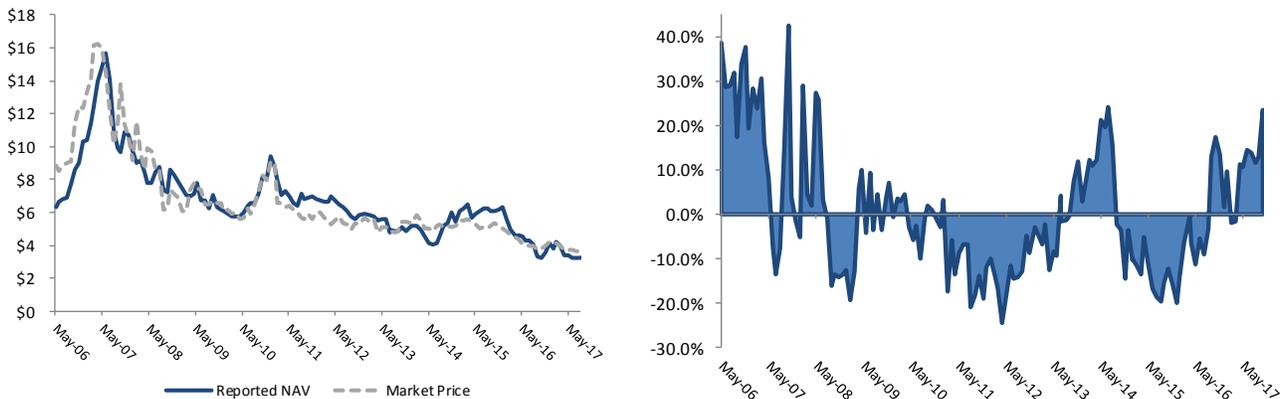
Source: Cantor Fitzgerald Estimates, Uranium Participation Corp.

Since May 2006, UPC has historically traded at its NAVPS on average. It has traded at a high of a 42% premium (Oct 2007) and a low of a 25% discount (May 2012).

Post-Fukushima, UPC has traded at an average discount of 4% with a high of a 24% premium (July 2014) and an aforementioned low of a 25% discount.

As we have noted in earlier reports, UPC tends to trade above its NAV as investors forecast a higher U₃O₈ spot price into the value of UPC's portfolio. UPC shares' current 24.1% premium relative to its November 30 NAVPS is the seventh consecutive month of trading at a premium and its 10th out of the last 12 months.

Exhibit 4. Market Price Premium / Discount to NAV Analysis: Now a Premium to NAV

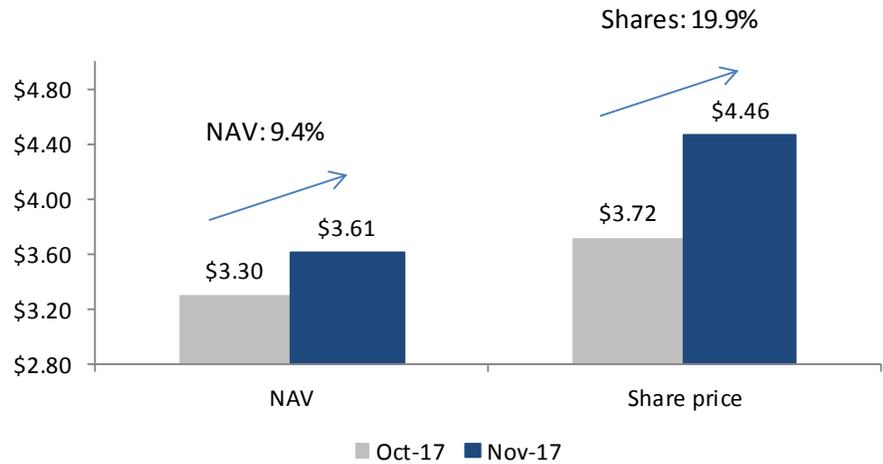


Source: Cantor Fitzgerald Canada Research

UPC SHARES OUTPERFORM THE NAV

The fair value of the inventory increased by 9.4% compared to the previous NAV update for the end of October. UPC's reported NAV increased from \$3.30 per share to the current \$3.61 per share, while its share price increased by 19.9% from \$3.72 per share to \$4.46 on the date the end-November NAVPS was announced (December 7).

Exhibit 5. UPC Share Price Outperforms the NAV



Source: Cantor Fitzgerald Canada Research

VALUATION

We are upgrading our recommendation to Buy from Hold, and our target per share increases from \$3.80/share to \$5.15/share, or by 36%. The target change is based on the application of our revised uranium price deck and the updated inventory numbers for UPC. Our 2017 spot forecast rises 2.5% to US\$21.97/lb., while our 2018 and 2019 forecasts increase by 25% and 6.9%, respectively, to US\$31.25/lb and US\$35.00/lb.

With a last close share price of \$4.62 we see 11% upside to our target of \$5.15 per share. Our target is based on our rolling four-quarter U₃O₈ forecast of US\$31.25/lb. and UF₆ forecast of US\$93.75/KgU, which calculates a valuation of \$5.17 per share (see Exhibit below).

Exhibit 6. Uranium Participation Valuation

Valuation Forecast					
	Units	Quantity	Cantor Forecast USD	Cantor Forecast CAD	Market Value CAD
U ₃ O ₈	lb	10,800,024	\$31.25	\$40.24	434,558
UF ₆	kg	1,903,471	\$93.75	\$120.71	229,768
					664,326
Net Working Capital					20,182
					NAV
					NAVPS
Shares O/S	132,448,713				\$5.17

Source: Cantor Fitzgerald Canada Research

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The analyst responsible for this report *has* visited the material operations of Uranium Participation Corp. including the Toronto head office. No payment or reimbursement was received for the related travel costs.

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BUY (Speculative): The stock is attractively priced relative to the company’s fundamentals, however investment in the security carries a higher degree of risk.

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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.

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UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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