

# Action Note

Equity Research

January 6, 2021

Metals &amp; Minerals

## Uranium Participation Corp.

(U-T) C\$4.98

### UPC Narrows Discount to NAV; Good Upside Potential Remains

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#### Event

We have updated our estimates to reflect recent corporate updates, including changes in UPC's uranium holdings and recent share buybacks.

#### Impact: NEUTRAL

- UPC is trading broadly in line with spot prices (US\$30.48/lb) after months of trading at a significant discount** — As of yesterday's close, we calculate that the company is currently trading at a 1% discount to our calculated NAVPS of \$5.01, based on the company's November 30 holdings. UPC had traded at an average discount of 16% through 2020, which represented a substantial discount to the historical average discount of 3% over the last 10 years. Historically, the company's share price has traded as high as a 27% premium to its NAV and as low as a 25% discount, which recently occurred during the sharp equities sell-off in March.
- 2020 was an eventful year for uranium, as prices increased just over 20% as several key trade issues have now been resolved, including the Section 232 investigation, the Nuclear Fuel Working Group report, and the extension of the Russian Suspension Agreement. Despite several positive steps forward, some lingering issues remain as we enter 2021, including COVID-19 and its impact on demand and, more importantly, supply.
- On the supply-side, we note that both Cameco and Kazatomprom continue to demonstrate supply discipline. McArthur River is expected to remain on care-and-maintenance for the foreseeable future (TD assumes a restart in 2023), while Kazatomprom announced earlier this year that it would extend its 20% production curtailment (relative to production expected under subsoil agreements) into 2022.
- NAV-accretive share buybacks continue** — One tool at UPC's disposal to narrow the gap on valuation has been to sell some of its uranium holdings to purchase shares that are trading at a discount. In November, the company sold 50,000lbs of U3O8 for gross proceeds of ~\$1.89mm and used some of the proceeds to repurchase 451,200 shares. Altogether, the company has repurchased ~2.6mm shares in 2020 under its NCIB.

|                                  |                |
|----------------------------------|----------------|
| <b>Recommendation:</b>           | <b>BUY</b>     |
| <b>Risk:</b>                     | <b>HIGH</b>    |
| <b>12-Month Target Price:</b>    | <b>C\$6.50</b> |
| <b>12-Month Dividend (Est.):</b> | <b>C\$0.00</b> |
| <b>12-Month Total Return:</b>    | <b>30.5%</b>   |

#### Market Data (C\$)

|                         |                 |
|-------------------------|-----------------|
| Current Price           | C\$4.98         |
| 52-Week Range           | \$3.12 - \$5.40 |
| Mkt Cap (f.d.) (\$mm)   | \$677.3         |
| Float Cap (\$mm)        | \$674.8         |
| EV (\$mm)               | \$672.8         |
| Current Dividend        | \$0.00          |
| Dividend Yield          | 0.0%            |
| Avg. Daily Trading Vol. | 1,006,109       |

#### Financial Data (C\$)

|                       |          |
|-----------------------|----------|
| Fiscal Y-E            | February |
| Shares O/S (f.d.)(mm) | 136.0    |
| Float Shares (mm)     | 135.5    |
| NAVPS                 | \$6.05   |
| Working Cap (\$mm)    | \$5.7    |

#### Estimates (C\$)

| Year              | 2019A  | 2020A | 2021E  | 2022E  |
|-------------------|--------|-------|--------|--------|
| EPS (basic)       | (0.03) | 0.02  | 0.01   | 0.08   |
| EPS (basic) (old) | -      | -     | (0.03) | (0.02) |

#### Valuations

| Year        | 2019A | 2020A | 2021E | 2022E |
|-------------|-------|-------|-------|-------|
| Disc to NAV | -     | -     | 23.9% | -     |

#### Supplemental Data

| Year           | 2019A | 2020A | 2021E | 2022E |
|----------------|-------|-------|-------|-------|
| U3O8 (US\$/lb) | 26    | 25    | 32    | 35    |
| UF6 US\$/kg    | 80    | 86    | 107   | 116   |

\* 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 are maintaining our \$6.50 target price and BUY recommendation.** Our \$6.50 target price is based on 1.05x our forward NAVPS of \$6.05, using a 12-month uranium price forecast of US\$36.00/lb.



#### 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 (U<sub>3</sub>O<sub>8</sub>) and hexafluoride (UF<sub>6</sub>).

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### Outlook

**UxC Consulting's (UxC) weekly price indicator increased slightly this week to US\$30.05/lb (from US\$30.00/lb).** The weekly price indicator has remained largely flat since early-September, all while uranium equities have outperformed, particularly in December 2020. The move in equities does not appear to have one specific catalyst, but can likely be contributed to: (1) the creation of the U.S. National Strategic Uranium Reserve; (2) the recent closure of Cameco's Cigar Lake mine due to positive COVID-19 cases on site; and (3) the Biden administration signalling that it intends to rejoin the Paris Climate Accord and its proposed \$2 trillion infrastructure plan.

UxC noted that "after being quiet during much of the second half of the year, spot conversion activity picked up earlier in the month (of December)". A total of 19 spot transactions were reported during December, of which 14 involved U<sub>3</sub>O<sub>8</sub> totalling just over three million pounds U<sub>3</sub>O<sub>8</sub>, and the remaining five were as conversion services involving about 900,000 kgU as UF<sub>6</sub>. **UxC indicated that annual spot uranium volume for 2020 was a record-breaking 559 transactions involving 92.2mmlbs U<sub>3</sub>O<sub>8</sub>e.**

**Reported term activity ends the year materially lower than previous years.** UxC reported that 53mmlbs of uranium was contracted in 2020; this compares with average utility term contracting volumes of ~80mmlbs over the past five years. In recent years, term contracting volumes have been volatile, with a peak of ~96mmlbs in 2019 and low of ~61mmlbs in 2016. During the peak term contracting years from 2006 through 2012, average annual term volume was ~176mmlbs.

### Exhibit 1. Uranium Supply/Demand Balance

|   | 2017           | 2018           | 2019           | 2020E          | 2021E          | 2022E          | 2023E          | 2024E          | 2025E          |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>Mine Supply - Western World (Mlb U3O8)</b>   |                |                |                |                |                |                |                |                |                |
| Total Mine Supply - Western World               | 100            | 83             | 85             | 75             | 76             | 80             | 85             | 88             | 86             |
| Net Eastern Mine Supply (lbs U3O8)              | 54             | 54             | 55             | 44             | 52             | 53             | 60             | 66             | 72             |
| <b>Total World Mine Supply (Mlb U3O8)</b>       | <b>154</b>     | <b>138</b>     | <b>140</b>     | <b>119</b>     | <b>128</b>     | <b>132</b>     | <b>145</b>     | <b>154</b>     | <b>158</b>     |
| YoY % change                                    | -7.6%          | -10.2%         | 1.7%           | -15.0%         | 7.7%           | 3.2%           | 9.1%           | 6.8%           | 2.6%           |
| <b>Secondary Supply</b>                         |                |                |                |                |                |                |                |                |                |
| Global underfeeding and tails re-enrichment*    | 19             | 18             | 18             | 16             | 16             | 15             | 15             | 14             | 14             |
| Mixed Oxide Fuel (MOX)*                         | 5              | 5              | 6              | 6              | 6              | 6              | 6              | 7              | 8              |
| US government sales (DOE Proposed)*             | 3              | 2              | 2              | 1              | 0              | 0              | 0              | 0              | 0              |
| Additional Russian secondary supply*            | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| Other   | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              | 0              |
| <b>Total Secondary Supply (Mlb)</b>             | <b>27</b>      | <b>24</b>      | <b>26</b>      | <b>24</b>      | <b>22</b>      | <b>21</b>      | <b>21</b>      | <b>21</b>      | <b>21</b>      |
| Secondary supply as % of global reactor demand  | 16%            | 14%            | 15%            | 13%            | 12%            | 12%            | 12%            | 11%            | 11%            |
| <b>Mobilization of Commercial Inventory</b>     | <b>7</b>       |
| <b>Total Supply</b>                             | <b>187</b>     | <b>169</b>     | <b>173</b>     | <b>150</b>     | <b>157</b>     | <b>161</b>     | <b>173</b>     | <b>183</b>     | <b>187</b>     |
| <b>Total World Demand</b>                       |                |                |                |                |                |                |                |                |                |
| Total World Nuclear Generating Capacity (MWe) * | 358,819        | 368,571        | 372,978        | 374,420        | 384,508        | 385,211        | 389,242        | 394,906        | 398,885        |
| Uranium requirements per MWe                    | 472            | 472            | 472            | 472            | 472            | 472            | 472            | 472            | 472            |
| Uranium demand (mmlb)                           | 169            | 174            | 176            | 177            | 181            | 182            | 184            | 186            | 188            |
| First Core Requirement (2 year lead)            | -              | -              | -              | -              | -              | -              | -              | -              | -              |
| <b>Total World Demand (Mlb U3O8)</b>            | <b>169</b>     | <b>174</b>     | <b>176</b>     | <b>177</b>     | <b>181</b>     | <b>182</b>     | <b>184</b>     | <b>186</b>     | <b>188</b>     |
| YoY % change                                    | 1.7%           | 2.7%           | 1.2%           | 0.4%           | 2.7%           | 0.2%           | 1.0%           | 1.5%           | 1.0%           |
| <b>Supply / Demand Balance (Mlb)</b>            | <b>18</b>      | <b>-5</b>      | <b>-3</b>      | <b>-27</b>     | <b>-24</b>     | <b>-21</b>     | <b>-11</b>     | <b>-4</b>      | <b>-2</b>      |
| <b>Spot Uranium Price (US\$/lb U3O8)</b>        | <b>\$22.12</b> | <b>\$24.82</b> | <b>\$25.94</b> | <b>\$29.49</b> | <b>\$34.50</b> | <b>\$36.00</b> | <b>\$38.00</b> | <b>\$40.00</b> | <b>\$45.00</b> |

\* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case

Note - TD LT price assumption starts in 2025; a flat US\$45/lb price is assumed for 2025 and beyond.

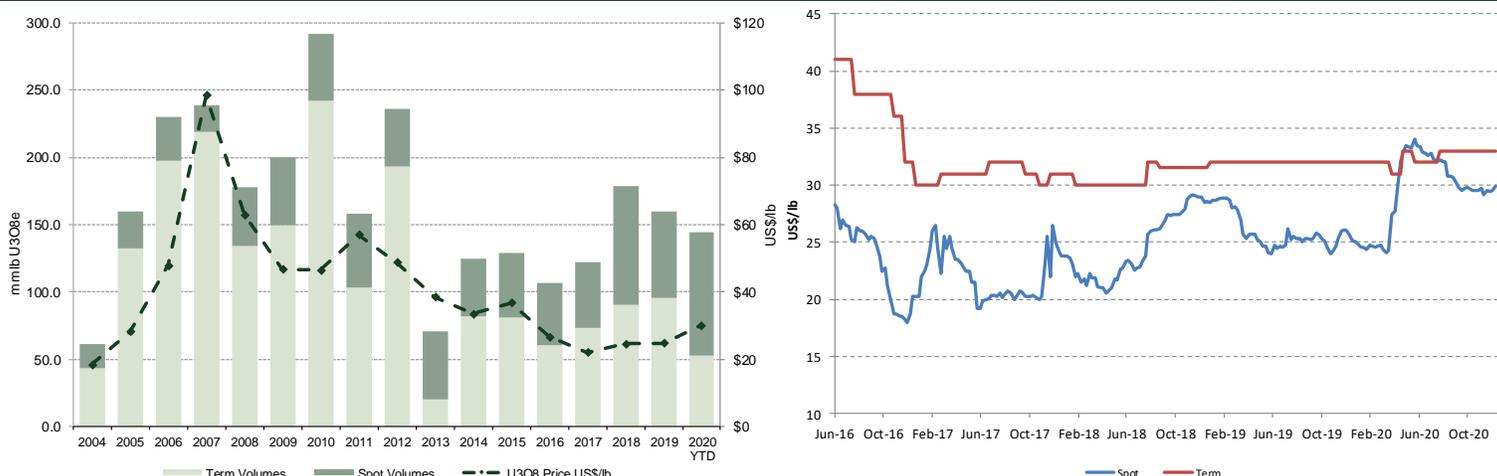
Source: World Nuclear Association, UxC, company reports, TD Securities Inc.

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## Exhibit 2. Uranium Volumes and Pricing



Source: World Nuclear Association, UxC, TD Securities Inc.

**UPC is trading broadly in line with spot prices (US\$30.48/lb) after months of trading at a significant discount** — As of yesterday's close, we calculate that the company is currently trading at a 1% discount to our calculated NAVPS of \$5.01, based on the company's November 30 holdings and uranium spot price of US\$30.48/lb.

### Exhibit 3. NAV (January 4, 2021 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    | 16,008,373       | \$30.48         | \$ 487.9               | \$38.80         | \$ 621.1                    |                 |
| Uranium Hexafluoride, UF6                | kg    | 400,000          | \$100.58        | \$ 40.2                | \$128.03        | \$ 51.2                     |                 |
| <b>Implied Value of Inventories Held</b> |       |                  |                 | <b>\$ 528.2</b>        |                 | <b>\$ 672.3</b>             |                 |
|  |       |                  |                 |                        |                 | Working Capital             | \$7.2           |
|  |       |                  |                 |                        |                 | <b>Total NAV</b>            | <b>\$ 679.5</b> |
|  |       |                  |                 |                        |                 | Shares Outstanding, mm      | 135.5           |
|  |       |                  |                 |                        |                 | <b>NAVPS</b>                | <b>C\$5.01</b>  |
|  |       |                  |                 |                        |                 | Recent Price                | \$4.98          |
|  |       |                  |                 |                        |                 | Premium / (Discount) to NAV | -1%             |

Forex CAD/USD 0.79

Source: Company, TD Securities Inc.

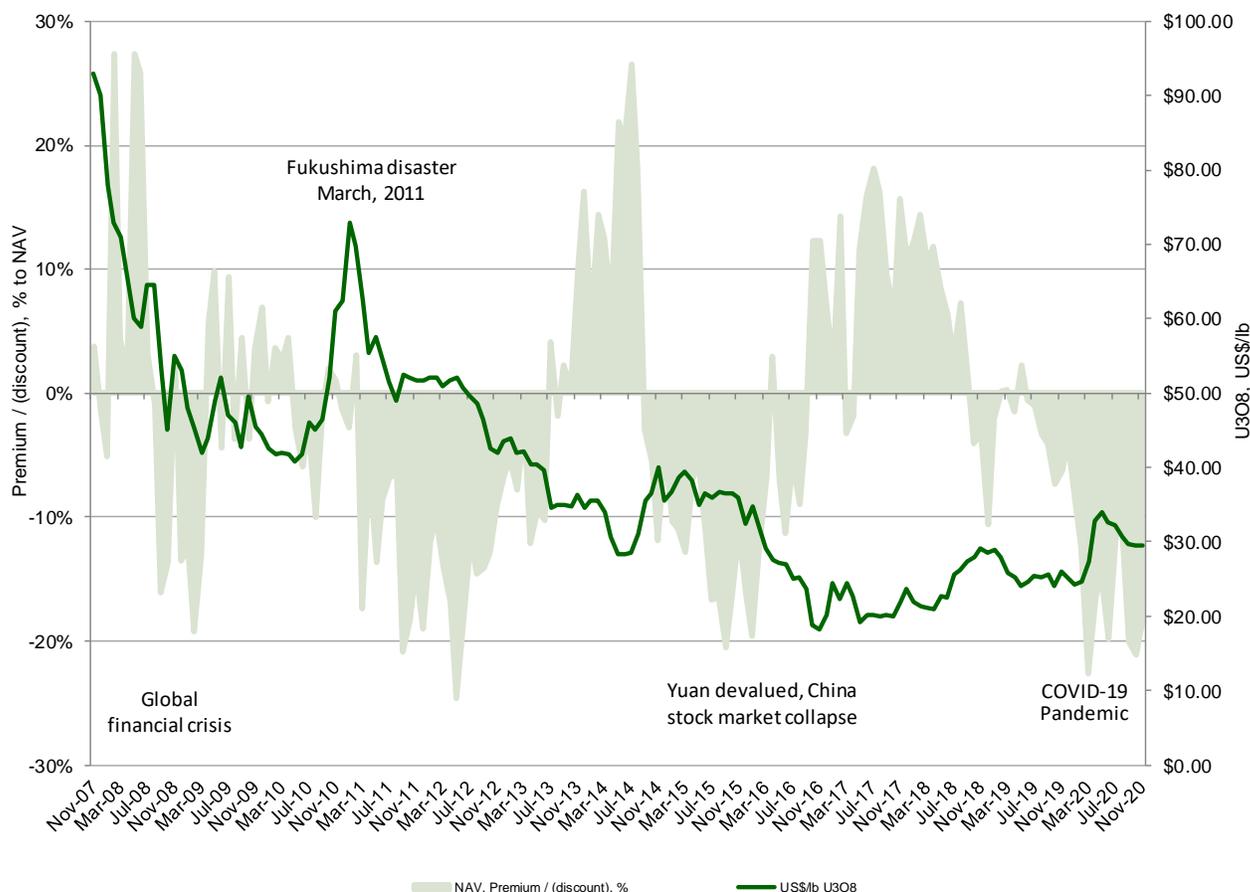
Historically, the company's share price has traded as high as a 27% premium to its NAV and as low as a 25% discount, but on average, it has traded at a 3% discount to NAV.

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## Exhibit 4. Historical NAV Premium/Discount to Uranium Price



Source: Company, TD Securities Inc.

### Valuation

Our forward NAV of \$836.5mm or \$6.05/share (\$6.08/share previously) for UPC is based on our 12-month price forecast of US\$36.00/lb, using a 0.76 Canadian dollar/U.S. dollar exchange rate (unchanged). In addition, we assume a forward negative working capital position of \$0.2mm. Our UF<sub>6</sub> price assumes a 3.30x UF<sub>6</sub>/U<sub>3</sub>O<sub>8</sub> ratio to convert the price of U<sub>3</sub>O<sub>8</sub> to UF<sub>6</sub> based on recent trading. Based on our forward working capital estimates, the company may need to sell a small portion of its physical holdings or raise equity.

### Exhibit 5. 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    | 16,008,373       | \$36.00         | \$ 576.3   | \$47.37                     | \$ 758.3              |
| Uranium Hexafluoride, UF6                | kg    | 400,000          | \$118.80        | \$ 47.5  | \$156.32                    | \$ 62.5               |
| <b>Implied Value of Inventories Held</b> |       |                  |                 | <b>\$ 623.8</b>                                      |                             | <b>\$ 820.8</b>       |
|  |       |                  |                 |  | Working Capital, C\$m       | -\$0.2                |
|  |       |                  |                 |  | <b>Total NAV, C\$m</b>      | <b>\$ 820.6</b>       |
|  |       |                  |                 |  | Shares Outstanding, mm      | 135.6                 |
|  |       |                  |                 |  | <b>NAVPS</b>                | <b>C\$6.05</b>        |
|  |       |                  |                 | Implied Target, 1.05x multiple to NAV, weighted 100% |                             | \$6.36                |
|  |       |                  |                 |  | <b>Target Price Rounded</b> | <b>C\$6.50</b>        |
|  |       |                  |                 |  | Recent Price                | \$4.98                |
|  |       |                  |                 |  | Upside Potential            | 31%                   |

\* Forex CAD/USD 0.76

Source: TD Securities Inc.

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## Exhibit 6. NAVPS Sensitivity Analysis

| C\$NAVPS to Spot U3O8 and Forex CAD/USD |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|
|   | 0.72   | 0.74   | 0.76   | 0.78   | 0.80   | 0.82   |
| \$28.00                                 | \$4.97 | \$4.84 | \$4.71 | \$4.59 | \$4.47 | \$4.36 |
| \$30.00                                 | \$5.32 | \$5.18 | \$5.04 | \$4.91 | \$4.79 | \$4.68 |
| \$32.00                                 | \$5.68 | \$5.53 | \$5.38 | \$5.24 | \$5.11 | \$4.99 |
| \$34.00                                 | \$6.03 | \$5.87 | \$5.72 | \$5.57 | \$5.43 | \$5.30 |
| \$36.00                                 | \$6.39 | \$6.22 | \$6.05 | \$5.90 | \$5.75 | \$5.61 |
| \$38.00                                 | \$6.74 | \$6.56 | \$6.39 | \$6.23 | \$6.07 | \$5.92 |
| \$40.00                                 | \$7.10 | \$6.91 | \$6.73 | \$6.55 | \$6.39 | \$6.23 |
| \$42.00                                 | \$7.46 | \$7.25 | \$7.06 | \$6.88 | \$6.71 | \$6.55 |
| \$44.00                                 | \$7.81 | \$7.60 | \$7.40 | \$7.21 | \$7.03 | \$6.86 |

Assumes the UF6/U3O8 price exchange ratio is constant at 3.30x

| Potential Return to Share Price (assumes 1.0x multiple to NAVPS) |      |      |      |      |      |      |
|--|------|------|------|------|------|------|
|  | 0.72 | 0.74 | 0.76 | 0.78 | 0.80 | 0.82 |
| \$28.00  | 0%   | -3%  | -5%  | -8%  | -10% | -12% |
| \$30.00  | 7%   | 4%   | 1%   | -1%  | -4%  | -6%  |
| \$32.00  | 14%  | 11%  | 8%   | 5%   | 3%   | 0%   |
| \$34.00  | 21%  | 18%  | 15%  | 12%  | 9%   | 6%   |
| \$36.00  | 28%  | 25%  | 22%  | 18%  | 15%  | 13%  |
| \$38.00  | 35%  | 32%  | 28%  | 25%  | 22%  | 19%  |
| \$40.00  | 43%  | 39%  | 35%  | 32%  | 28%  | 25%  |
| \$42.00  | 50%  | 46%  | 42%  | 38%  | 35%  | 31%  |
| \$44.00  | 57%  | 53%  | 49%  | 45%  | 41%  | 38%  |

Source: TD Securities Inc.

### Justification of Target Price

Our \$6.50 target price (unchanged) is based on 1.05x (unchanged) our forward NAVPS estimate of \$6.05 (\$6.08 previously).

### 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. UPC's planned purchases/sales of uranium could be negatively affected by the ongoing restrictions to travel, social-distancing measures, and other challenges related to the COVID-19 pandemic.



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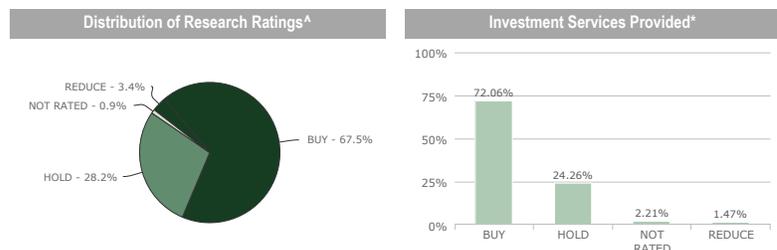
| Company                     | Ticker | Disclosures |
|-----------------------------|--------|-------------|
| Uranium Participation Corp. | U-T    | n/a         |

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Current as of: January 6, 2021

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# Action Note

## Equity Research

January 6, 2021

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