

URANIUM PARTICIPATION, YELLOW CAKE

U and YCA Closing in on NAVPS, Indicating Higher Uranium Prices

EVENT

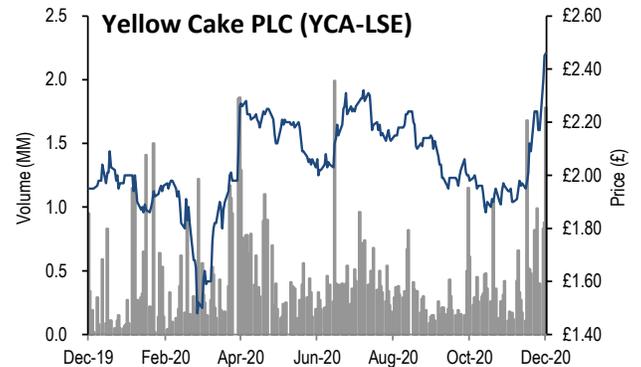
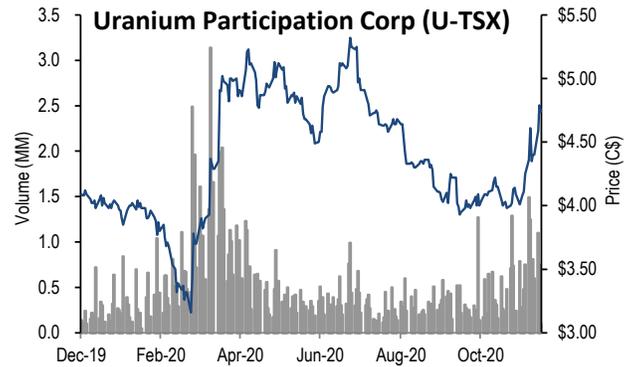
Over the last two weeks, following a number of positive developments on the uranium front, including another COVID-related shutdown at Cigar Lake, Yellow Cake and Uranium Participation have both narrowed their discount to NAVPS considerably.

BOTTOM LINE

Positive. A narrowing discount to NAVPS and ultimately a premium to NAVPS in both Yellow Cake and Uranium Participation is a leading indicator of higher spot uranium prices over the near-term.

FOCUS POINTS

- **Macro Drivers:** Various positive U.S. policy decisions around uranium, the pending \$150 MM annual budget for domestic uranium purchases, and another shutdown at Cigar Lake are all pointing to higher uranium prices near-term.
- **NAVPS Discount Closing:** At current spot prices and FX rates, Uranium Participation Corp is currently trading at 0.97x NAVPS and Yellow Cake is trading at 0.99x NAVPS. This 1-3% discount to NAVPS has narrowed from a 15-20% discount over the last two weeks.
- **Uranium Participation (U-TSX):** Maintain Buy rating and C\$5.50/share target price.
- **Yellow Cake (YCA-LSE):** Maintain Buy rating and £3.00/share target price.



Company profile: Uranium Participation Corp and Yellow Cake PLC are investment holding companies that acquire and store physical stock of U_3O_8 (and in the case of UPC, UF_6 as well) for investment purposes.

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

RECENT POSITIVE DRIVERS IN THE U.S.

Earlier this month, as we previously highlighted, the House and Senate released a bi-partisan defense bill; the National Defense Authorization Act (NDAA), that provides for the military under the Biden administration to continue classifying domestic supplies of uranium as vital to National Security. The bill also specifies that the Pentagon should conduct a review of offshore uranium mining asserting that uranium is “critical to the defense industrial base of the United States.” The NDAA coincided with an announcement whereby the Senate Committee on Environment and Public Works approved a bi-partisan bill entitled “the American Nuclear Infrastructure Act” (ANIA) that included an annual program to build a U.S. strategic uranium reserve (as originally announced in February of this year, note linked [here](#)). The program supports the proposed \$150 MM per year budget allocation toward the purchase of domestic origin U₃O₈. Senator Barrasso, Chairman of the Committee on Environment and Public Works stated “The American Nuclear Infrastructure Act will promote U.S. international leadership, preserve America’s nuclear fuel supply chain, prevent more carbon emissions from entering our atmosphere, and protect our economic, energy, and national security.” Section 402 of the ANIA specifies that subject to availability of appropriations, no later than 60 days after the bill’s enactment, the Secretary of Energy shall establish and operate a U.S. uranium reserve with the authority outlined in the Atomic Energy Act of 1954. We note that the House Appropriations Committee is expected to approve the 2021 budget, including the \$150 MM/yr allocation toward building a U.S. uranium reserve by the end of this year.

CIGAR LAKE DOWN

Following the positive policy developments around uranium in the United States earlier in the month, on Monday of this week Cameco (CCJ-NYSE/CCO-TSX, Hold - \$13.50/C\$17.50 target) temporarily shut-down Cigar Lake after six of its employees at the mine tested positive for COVID-19 (note linked [here](#)). This immediately removes supply from the market and Cameco will re-enter the spot market as a buyer to make up for lost mine production.

U AND YCA NAV DISCOUNTS NARROWING

As a reminder, both Uranium Participation Corp. and Yellow Cake PLC are physical uranium holding companies. They carry no mine/operating risk, no COVID-19 related shut-down risk, and no financial leverage/gearing (debt). They are the two best, most liquid, and lowest-risk ways in which institutional investors can gain meaningful exposure to spot uranium prices. Over the last two weeks, following the aforementioned positive developments on the uranium front, Yellow Cake and Uranium Participation have both narrowed their discount to NAVPS considerably. At current spot prices and FX rates, Uranium Participation Corp is currently trading at 0.97x NAVPS and Yellow Cake is trading at 0.99x NAVPS. This 1-3% discount to NAVPS has narrowed from a 15-20% discount over the last two weeks. A narrowing discount to NAVPS and ultimately a premium to NAVPS in both Yellow Cake and Uranium Participation has historically proven to be an excellent leading indicator of higher spot uranium prices to come over the near-term. We have a near-term spot uranium price target of \$35/lb, and a longer-term uranium price target (to incentivize the supply needed to meet demand) of \$55/lb. At the close yesterday the U₃O₈ spot price was quoted at \$30.08/lb.

URANIUM PARTICIPATION CORP

Uranium Participation Corp holds inventories of 17.2 MMlb in U₃O₈ equivalent (in the form of U₃O₈ and UF₆). Based on its existing cash balance, U₃O₈ in inventory, current C\$/US\$ FX rates and the current U₃O₈ spot price of \$30.08/lb, Uranium Participation Corp. commands a NAVPS of C\$4.92/share. As such, the Company is currently trading at 0.97x NAVPS (3% below intrinsic value).

Exhibit 1. Uranium Participation Corp Updated Spot Price NAVPS

U-TSX	Unit	Inventory	Spot Price \$	Spot Price C\$	Market Value (C\$'000)
U3O8	lb	16,008,373	\$30.08	C\$38.35	C\$613,964
UF6	kg	400,000	\$93.25	C\$118.90	C\$47,558
Inventory					C\$661,522
Net Working Capital					C\$5,669
Net Asset Value					C\$667,191
Net Asset Value Per Share					C\$4.92
P/NAVPS					0.97x

Source: Cantor Fitzgerald

YELLOW CAKE PLC

Yellow Cake PLC holds inventories of 9.3 MMlb U₃O₈ that it acquired from Kazatomprom. Based on its existing cash balance, U₃O₈ in inventory, current GBP/US\$ FX rates and the current U₃O₈ spot price of \$30.08/lb, Yellow Cake PLC commands a NAVPS of £2.48/share. As such, the Company is currently trading at 0.99x NAVPS (1% below intrinsic value).

Exhibit 2. Yellow Cake Updated Spot Price NAVPS

YCA-LN	Unit	Inventory	Spot Price \$	Spot Price GBP	Market Value (\$'000)
U3O8	lb	9,316,385	\$30.08	£22.28	\$280,237
Inventory					\$280,237
Net Working Capital					\$1,990
Net Asset Value					\$282,227
Net Asset Value Per Share					£2.48
P/NAVPS					0.99x

Source: Cantor Fitzgerald

RATINGS AND TARGET PRICES

Driven via a near-term spot price forecast of \$35/lb U₃O₈, our ratings and targets for the two premier uranium investment holding companies are as follows:

Uranium Participation Corp: Buy – C\$5.50/share target.

Yellow Cake PLC: Buy – £3.00/share target.

We note that these price targets are based on a near-term spot price forecast of \$35/lb U₃O₈. At longer-term incentive pricing for uranium supply to ultimately

meet demand (\$55/lb, Cantor estimate) our target price (based on 1.0x NAVPS) for both companies would be as follows:

Uranium Participation Corp: Buy – C\$8.75/share target.

Yellow Cake PLC: Buy – £4.60/share target.

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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.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

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.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

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

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