

YELLOW CAKE PLC

Adds Another 440 Klb U₃O₈, Uranium Prices Set to Move Higher

EVENT

This morning Yellow Cake announced the purchase of an additional 440 Klb U₃O₈ at a price of \$27.34/lb, increasing its total inventory to 13.26 MMlb U₃O₈.

BOTTOM LINE

Positive – In our view, this will likely mark the bottom for uranium prices for the foreseeable future as the 440 Klb U₃O₈ purchase announced today, along with the previously announced 3.5 MMlb U₃O₈ purchase directly from Kazatomprom (KAP-LSE, Not Covered), should remove any perceived spot market oversupply overhang.

FOCUS POINTS

- **YCA Increases U₃O₈ Inventory:** The 440 Klb purchase announced this morning will bring Yellow Cake's total inventory to 13.26 MMlb U₃O₈, at a consolidated average purchase price of \$23.81/lb, 14% below current spot prices, and 57% below the incentive price for new production of \$55/lb (Cantor estimate).
- **Retains Premium to NAVPS:** At current spot uranium prices (\$27.75/lb) and FX rates, and incorporating the new net cash balance and uranium in inventory, Yellow Cake continues to trade at a premium to NAVPS, at 1.02x, presently. Historically, this has proven to be an excellent leading indicator of a move higher in spot uranium prices.
- **Maintaining Rating and Target:** We are maintaining our Buy rating and £3.00 target price on Yellow Cake based on multiple of 1.0x NAVPS and a short-term uranium price forecast of \$35.00/lb U₃O₈.

Recommendation:

BUY

Symbol/Exchange: YCA-LON
Sector: Metals & Mining
All dollar values in US\$ unless otherwise noted.
Current price: £2.23
One-year target: £3.00
Return to Target: 25.7%
Cash on hand*: \$28.0 MM

Financial summary

Shares O/S (MM)	128.6	52-week range	£1.36 - £2.58
Market cap (MM)	£286.7	30D Avg. vol. (000)	1,029.2
Market float (MM)	£227.1	Fiscal year-end	31-Mar

Inventory	Quantity (MM lb)	Mkt Price (\$)	Mkt Value (MM\$)
U3O8	13.26	\$27.75	\$367.9
Net Working Capital			\$23.5
Net Asset Value			\$391.4
NAVPS			£2.19
Current Premium/Discount to Market NAV			2.0%

Source: Company Reports and Cantor Fitzgerald Canada Estimates

*adjusted for pending purchases



Company profile: Yellow Cake Plc. is a specialist company operating in the uranium sector, created to purchase and hold U₃O₈ to offer shareholders exposure to the price appreciation of uranium.

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

BOOSTS INVENTORY TO 13.26 MMLB U₃O₈

This morning Yellow Cake announced the purchase of an additional 440 Klb U₃O₈ at a price of \$27.34/lb, increasing its total inventory to 13.26 MMLb U₃O₈, at a consolidated average purchase price of \$23.81/lb, 14% below current spot prices, and 57% below the incentive price for new production of \$55/lb (Cantor estimate). In our view, this will likely mark the bottom for uranium prices for the foreseeable future as the 440 Klb U₃O₈ purchase announced today, along with the previously announced 3.5 MMLb U₃O₈ purchase directly from Kazatomprom (note [here](#)), should remove any perceived spot market oversupply overhang. We note that spot uranium prices traded consistently higher over the past week, up +1.4% (+\$0.37/lb U₃O₈) to \$27.75/lb U₃O₈, the first move higher in spot uranium prices in approximately one month. Post the 440 Klb U₃O₈ purchase announced this morning, Yellow Cake maintains net working capital of \$23.6 MM (Cantor estimate) and it carries no debt, leaving the Company very well positioned for additional follow-on U₃O₈ purchases at the discretion of management.

Exhibit 1. NAV Based on Current U₃O₈ Prices

YCA-LN	Unit	Inventory	Spot Price \$	Spot Price GBP	Market Value (\$'000)
U3O8	lb	13,256,385	\$27.75	£19.93	\$367,865
Inventory					\$367,865
Net Working Capital					\$23,545
Net Asset Value					\$391,410
Net Asset Value Per Share					£2.19
P/NAVPS					1.02x

Source: FactSet, Cantor Fitzgerald Estimates, Yellow Cake Plc.

YELLOW CAKE NET ASSET VALUE

Based on the current U₃O₈ spot price of \$27.75/lb, the current GBP/USD FX rate of 1.392, and Yellow Cake's pro-forma uranium in inventory and cash balance post the 440 Klb U₃O₈ purchase (\$12 MM) announced this morning, the current intrinsic value (1.0x NAVPS) for YCA totals £2.19/share (Exhibit 1).

MARKET IMPLYING SPOT RANGE OF \$28.30-31.92/LB U₃O₈

At its most recent price of £2.23/share, Yellow Cake continues to trade at a premium to its NAVPS, at 1.02x, presently. Historically, this has proven to be an excellent leading indicator of a sustainable move higher in spot uranium prices. Based on YCA's most recent closing price, the market is implying a U₃O₈ spot price of \$28.30/lb, 2.0% higher than the current U₃O₈ spot price of \$27.75/lb. Based on Yellow Cake's closest comparable, Uranium Participation Corp's (U-TSX, Buy – C\$5.50 target) most recent closing price, the market is implying a U₃O₈ spot price of \$31.92/lb, 15.0% higher than the current U₃O₈ spot price. Premiums and discounts to NAVPS are commonplace and indicative of market sentiment as it relates to the direction of uranium prices. NAVPS premiums indicate pending strength in U₃O₈ spot prices, and NAVPS discounts indicate the opposite.

MAINTAINING BUY RATING AND TARGET

Incorporating the 440 Klb U₃O₈ purchase and pro-forma net working capital position, we are maintaining our Buy rating and a £3.00/share price target on Yellow Cake. This target is based on an unchanged multiple of 1.0x P/NAVPS (rounded), on our 12-month U₃O₈ price forecast of \$35.00/lb, the Company's current financial position, and a GBP/USD FX rate of 1.30. A target price sensitivity to uranium prices and GBP/USD FX rates is provided in Exhibit 2 below.

Exhibit 2. Target NAVPS Sensitivities

GBP/USD	Short-term U3O8 Price Forecast (\$/lb)				
	\$30.00	\$32.50	\$35.00	\$37.50	\$40.00
1.37	£2.50	£2.70	£2.90	£3.00	£3.20
1.33	£2.60	£2.70	£2.90	£3.10	£3.30
1.30	£2.60	£2.80	£3.00	£3.20	£3.40
1.27	£2.70	£2.90	£3.10	£3.30	£3.50
1.24	£2.70	£2.90	£3.10	£3.40	£3.60

Source: Cantor Fitzgerald

FURTHER UPSIDE LONGER-TERM

Our £3.00/share price target on Yellow Cake is based on a 12-month U₃O₈ price forecast of \$35.00/lb. We believe this spot price is certainly achievable by year-end, and likely even overly conservative. Over the longer-term (3+ years), our U₃O₈ price estimate forecast is considerably higher at \$55/lb, our best estimate as to the price required to sustain current mine production and incentivize the restart of shuttered operations to meet growing global utility demand. At current FX rates, a \$55/lb U₃O₈ price drives a NAVPS and longer-term target price for Yellow Cake of £4.20/share. As such, over the longer-term, our target has a clear bias to the upside.

INVESTMENT THESIS

Yellow Cake is an excellent low-risk vehicle offering exposure to a commodity that investors cannot physically hold. The Company offers unlevered exposure to uranium price appreciation on its physical holdings and to its uranium-based financing initiatives via potential streaming, royalty, or logistics optimization associated with trading. In short, for institutional investors desiring exposure to the uranium price that are unwilling to take on the operating risk and financial gearing of a uranium producer, Yellow Cake is one of only two “pure play” vehicles, the other being Uranium Participation Corp. YCA's competitive advantage relative to U is its supply agreement (at YCA's option) with Kazatomprom, the world's largest and lowest cost producer of uranium oxide. As YCA grows via the accretive purchases of more material from Kazatomprom, its trading liquidity will improve, presumably driving a multiple expansion and closing the P/NAVPS disparity between it and U. Note that U currently trades at 1.15x P/NAVPS, holds U₃O₈ and equivalents of 17.32 MMLb, has a market cap of C\$696 MM, with average daily trading volume of +550 K shares (~C\$2.9 MM/day).

INVESTMENT RISKS

Investing in mining and exploration companies is inherently risky. Commodity, geological, operational, regulatory, or financing risks on projects could result in delays in development or production, impact economics or disrupt shipment schedules.

Commodity Risk

The Company is primarily a physical uranium storage vehicle. There is a risk that uranium prices could decline in the interim as a result of supply growth, a reduction in demand, the phase-out of nuclear power, or any number of other factors. Should the price of uranium decline significantly, the value of Yellow Cake PLC would be adversely impacted.

Regulatory Risk

In accordance with applicable Federal and Provincial laws and regulations, the operating company on which Yellow Cake PLC has an option purchase agreement (Kazatomprom) is required to obtain the proper permits and licenses in order to conduct exploration activities, develop projects, and ultimately process ore. We believe that Yellow Cake PLC will continue to be diligent in its selection of top-tier partners with well-established operating histories.

Political Risk

Yellow Cake's primary exposure is to Kazakhstan, a country with well documented political ties to Russia, particularly as it relates to uranium extraction. Geopolitical risk should be a significant consideration to all investors considering Yellow Cake PLC.

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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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