

# Action Note

Equity Research

May 27, 2021

Metals &amp; Minerals

## Uranium Participation Corp.

(U-T) C\$5.67

### Moving to Tender on Proposed Trust Conversion

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#### Event

We are resuming coverage of UPC following the close of the equity offering.

#### Impact: NEUTRAL

- Equity offering captures strong premium to NAV to add pounds** - On May 26, UPC announced the closing of its upsized equity offering of \$80.5mm consisting of 15.48mm shares at \$5.20/share. The company was able to take advantage of a 22% premium in its share price relative to its NAV at the time of the announced offering on May 3 to acquire additional uranium pounds. We currently assume the company will use 85% of its net proceeds to purchase 1.8mm lbs at an average price of US\$30.50/lb. The company should disclose its purchases in early June, when it reports its NAV for the period ending May 31.
- As of today's intraday share price of \$5.67, the company continues to enjoy a strong premium to NAV of 18% based on spot uranium prices of US\$31/lb, suggesting to us, market participants remain optimistic about the upward trajectory of uranium prices. **At our 12-month forward uranium price of US\$36/lb, we calculate a NAVPS of \$5.75.**
- Vote on Trust conversion planned for July 7** - As a reminder, UPC announced on April 28 that it has entered into an arrangement agreement with Sprott Asset Management under which UPC shareholders will become unitholders of the Sprott Physical Uranium Trust (Trust), a newly formed entity to be managed by Sprott. A vote is scheduled to be held on July 7, and requires 66 2/3% of the votes cast for approval. Completion of the transaction is conditional on the Trust Units being listed on the TSX. We assume a U.S listing could take up to a year following the completion of the transaction.

#### TD Investment Conclusion

We are moving to **TENDER** from Buy and suspending our target price. In our view, there are several benefits to the trust conversion. These include lower corporate expenses and lower cost of capital on new equity to acquire uranium, potential for increased trading liquidity assuming an NYSE listing, and more frequent disclosure of its NAV, potentially leading to a more narrow discount/premium to NAV.

<b>Recommendation:</b>	<b>TENDER↓</b> Prior: BUY
<b>Risk:</b>	<b>HIGH</b>
<b>12-Month Target Price:</b>	<b>SUSPENDED↓</b> Prior: C\$6.50
<b>12-Month Dividend (Est.):</b>	<b>C\$0.00</b>
<b>12-Month Total Return:</b>	<b>N/A</b>

#### Market Data (C\$)

Current Price	C\$5.67
52-Week Range	\$3.93 - \$5.90
Mkt Cap (f.d.) (\$mm)	\$852.8
Float Cap (\$mm)	\$852.2
EV (\$mm)	\$853.5
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,529,984

#### Financial Data (C\$)

Fiscal Y-E	February
Shares O/S (f.d)(mm)	150.4
Float Shares (mm)	150.3
NAVPS	\$5.75
Working Cap (\$mm)	\$9.4

#### Estimates (C\$)

Year	2020A	2021A	2022E	2023E
EPS (basic)	0.02	0.00	(0.05)	(0.04)
EPS (basic) (old)	-	-	(0.04)	(0.05)

#### Valuations

Year	2020A	2021A	2022E	2023E
Disc to NAV	-	-	1.3%	-

#### Supplemental Data

Year	2020A	2021A	2022E	2023E
U3O8 (US\$/lb)	25	31	35	37
UF6 US\$/kg	86	104	115	120

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

All figures in C\$, unless otherwise specified



#### 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

We have updated our estimates to reflect the close of the US\$80.5mm equity financing. We assume the company will use 85% of the net proceeds to purchase uranium at an average price of US\$30.50/lb. Post transaction, we model UPC ending FQ1/22 (May 31) with a working capital position of \$9.4mm (previously \$1.3mm).

**YTD, we calculate that a total of 11.9mmlbs of U3O8 have been purchased with proceeds from equity offerings at an average price of US\$29.57/lb.**

### Exhibit 1. 2021 Financings Used to Purchase Physical Uranium

Company	Date Equity Offering and/or Uranium Purchase	Equity Offering (US\$ millions)	Uranium Purchased or Planned to Purchase (million pounds)	Estimated Average Price of Uranium Purchases (Planned or Actual) (US\$/lb)
	Announced			
Yellow Cake	25-Feb-21	140.0	3.90	28.78
Denison Mines	15-Mar-21	86.3	2.50	29.61
Uranium Energy	17-Mar-21	30.5	1.40	29.00
Boss Energy	29-Mar-21	46.0	1.25	30.15
Uranium Energy	6-Apr-21	12.0	0.71	31.70
Uranium Participation Corp. <sup>1</sup>	3-May-21	66.4	1.78	30.50
Yellow Cake	11-May-21	n/a	0.34	29.15
<b>Total/Average</b>		<b>381.2</b>	<b>11.88</b>	<b>29.57</b>

1. TD estimate for pounds purchased and average price

Source: Company reports, TD Securities

**UPC trading at a meaningful premium to spot prices (US\$31.00/lb)** — At the current share price of \$5.67, we calculate that the company is currently trading at a 18% premium to our calculated NAVPS of \$4.82.

### Exhibit 2. NAV (May 27, 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	18,053,158	\$31.00	\$ 559.6	\$37.56	\$ 678.0
Uranium Hexafluoride, UF6	kg	300,000	\$102.30	\$ 30.7	\$123.93	\$ 37.2
<b>Implied Value of Inventories Held</b>				<b>\$ 590.3</b>		<b>\$ 715.2</b>
					Working Capital	\$9.4
					Total NAV	\$ 724.6
					Shares Outstanding, mm	150.4
					<b>NAVPS</b>	<b>C\$4.82</b>
					Recent Price	\$5.67
					Premium / (Discount) to NAV	18%

Forex CAD/USD 0.83

Source: Company, TD Securities Inc.

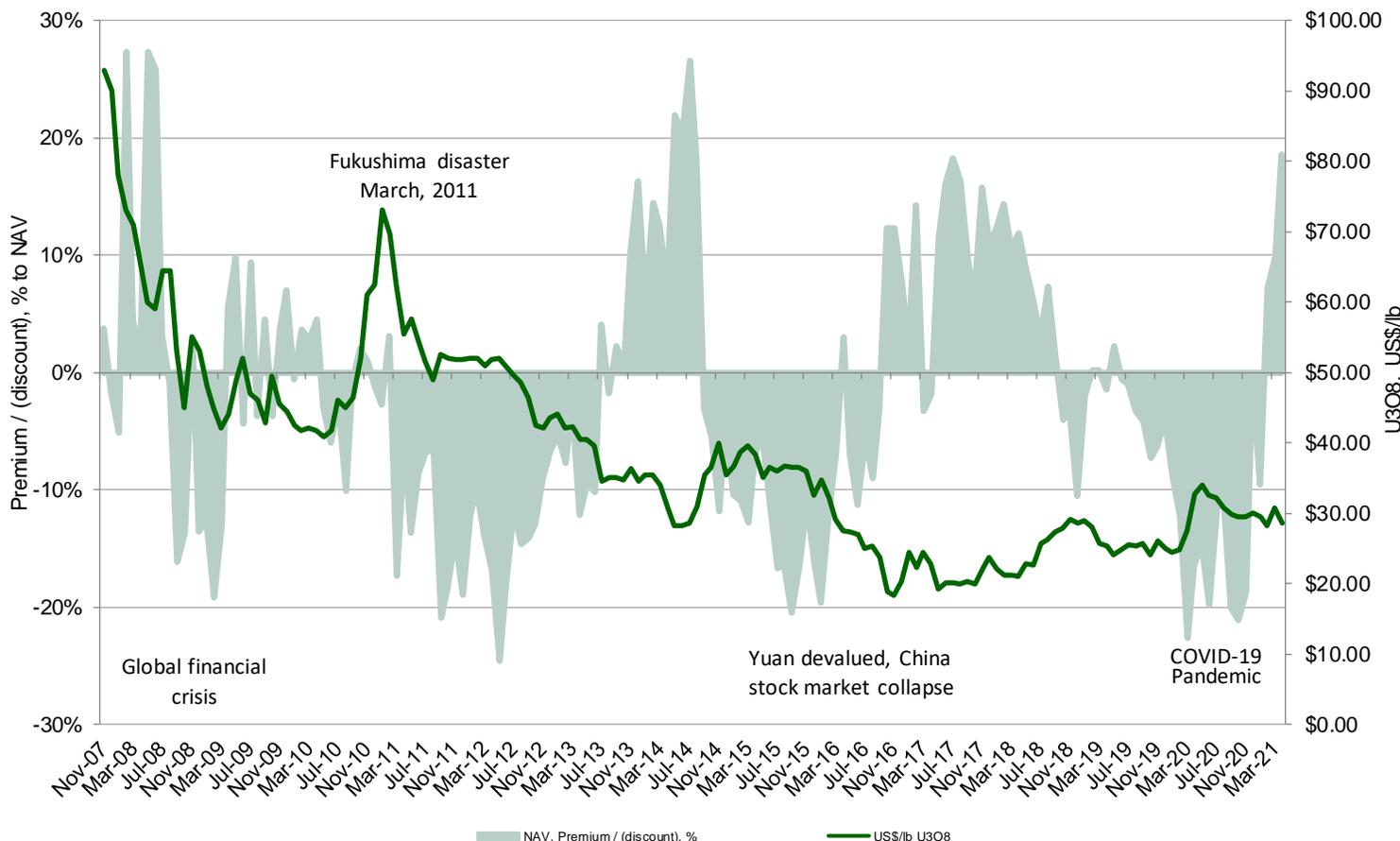
Historically, the company's share price has traded as high as a 27% premium to its NAV and as low as a 25% discount, but on average, it has traded at a 3% discount to NAV.

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



Source: Company, TD Securities Inc.

## Valuation

Our forward NAV of \$864.4mm or \$5.75/share (unchanged) for UPC is based on our 12-month price forecast of US\$36.00/lb, using a 0.80 Canadian dollar/U.S. dollar exchange rate. In addition, we assume a forward working capital position of \$3.1mm. Our UF6 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.

**Exhibit 4. Implied 12-month Forward NAV**

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	18,053,158	\$36.00	\$ 649.9	\$45.23	\$ 816.5	
Uranium Hexafluoride, UF6	kg	300,000	\$118.80	\$ 35.6	\$149.25	\$ 44.8	
<b>Implied Value of Inventories Held</b>				<b>\$ 685.6</b>		<b>\$ 861.2</b>	
						Working Capital, C\$m	\$3.1
						<b>Total NAV, C\$m</b>	<b>\$ 864.4</b>
						Shares Outstanding, mm	150.4
						<b>NAVPS</b>	<b>C\$5.75</b>

\* Forex CAD/USD 0.80

Source: TD Securities Inc.

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## Exhibit 5. NAVPS Sensitivity Analysis

C\$NAVPS to Spot U3O8 and Forex CAD/USD							
		0.76	0.78	0.80	0.82	0.84	0.86
U3O8 US\$/lb	\$28.00	\$4.68	\$4.57	\$4.47	\$4.34	\$4.24	\$4.14
	\$30.00	\$5.02	\$4.89	\$4.79	\$4.65	\$4.54	\$4.44
	\$32.00	\$5.35	\$5.21	\$5.11	\$4.96	\$4.84	\$4.73
	\$34.00	\$5.68	\$5.54	\$5.43	\$5.27	\$5.14	\$5.03
	\$36.00	\$6.02	\$5.86	\$5.75	\$5.58	\$5.45	\$5.32
	\$38.00	\$6.35	\$6.19	\$6.06	\$5.89	\$5.75	\$5.61
	\$40.00	\$6.68	\$6.51	\$6.38	\$6.20	\$6.05	\$5.91
	\$42.00	\$7.02	\$6.84	\$6.70	\$6.51	\$6.35	\$6.20
	\$44.00	\$7.35	\$7.16	\$7.02	\$6.81	\$6.65	\$6.50

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

Potential Return to Share Price (assumes 1.0x multiple to NAVPS)							
		0.76	0.78	0.80	0.82	0.84	0.86
U3O8 US\$/lb	\$28.00	-17%	-19%	-21%	-23%	-25%	-27%
	\$30.00	-11%	-14%	-15%	-18%	-20%	-22%
	\$32.00	-6%	-8%	-10%	-13%	-15%	-17%
	\$34.00	0%	-2%	-4%	-7%	-9%	-11%
	\$36.00	6%	3%	1%	-2%	-4%	-6%
	\$38.00	12%	9%	7%	4%	1%	-1%
	\$40.00	18%	15%	13%	9%	7%	4%
	\$42.00	24%	21%	18%	15%	12%	9%
	\$44.00	30%	26%	24%	20%	17%	15%

Source: TD Securities Inc.

## Key Risks

The key risks 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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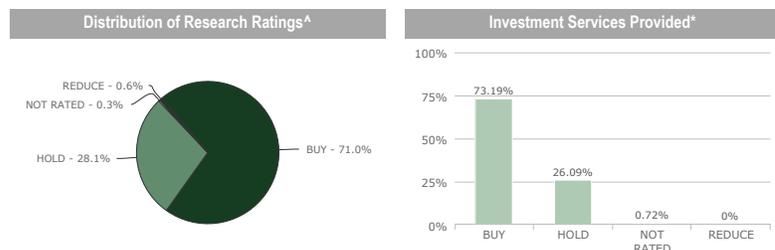
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Uranium Participation Corp.	U-T	1, 2, 4, 9

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