CANTOR Fitzgerald

February 2, 2024
Macro Update

URANIUM MACRO UPDATE

Increasing Uranium Price Forecast, Raising Price Targets

Equity Research

EVENT

With Kazatomprom (KAP-LSE, Not Covered) warning on 2024 and 2025 production last month and formally cutting 2024 guidance yesterday, the uranium price has surged past our previous targets (set in 10/23, note here). Given the KAP news, the supply/demand picture has fundamentally changed in a definitively more bullish direction for uranium spot and term pricing. We are raising our uranium price forecast curve to \$120-150/lb U_3O_8 (2024-2028+) from \$90-120/lb U_3O_8, previously. This price forecast has considerable bias to the upside.

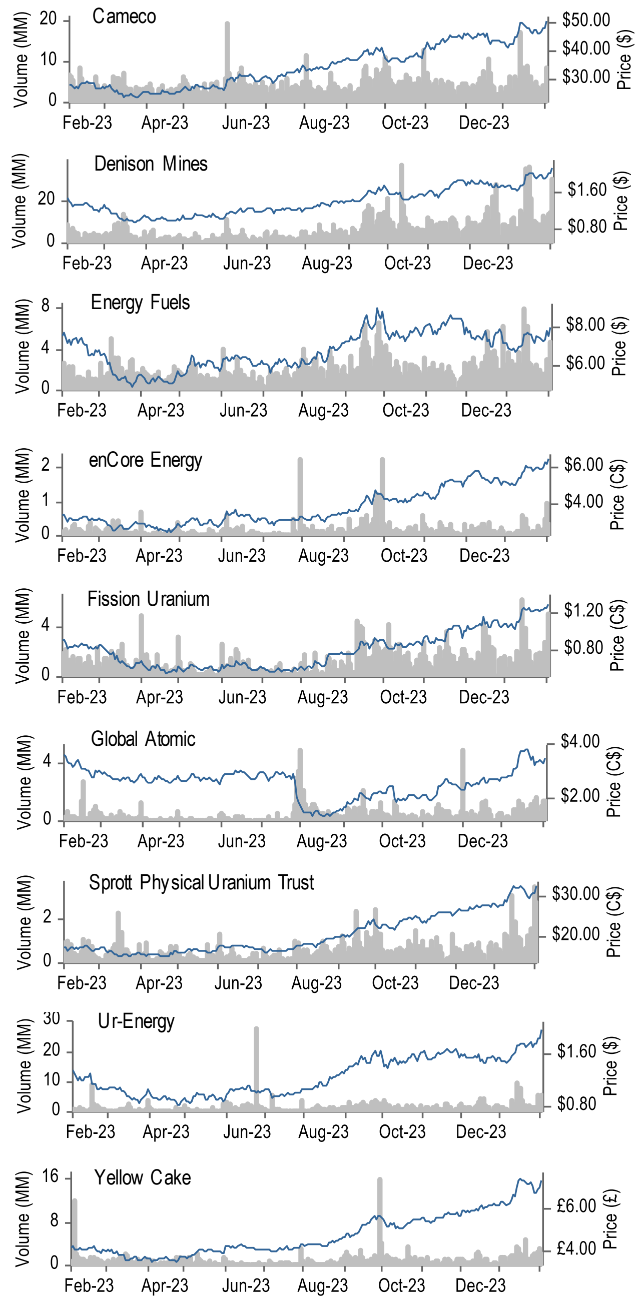
BOTTOM LINE

Positive – The increase in our short-term and long-term uranium price forecasts drives target price revisions higher across our uranium coverage universe by an average of 20%.

FOCUS POINTS

- **Uranium Prices to Continue Higher** – KAP warned on a production shortfall through 2025 vs. previous guidance but held firm on its sales commitments. In our view, this suggests the world's largest uranium miner may effectively become a "forced buyer" in size in the spot market, a dynamic that should put significant upward pressure on spot and term prices.

- **Catch-up Trade Down Cap in the Equities** – While Cameco (CCJ-NYSE/CCO-TSX, Hold – \$52.00/C\$69.00 target) captured most new investment capital in the sector last year, we expect trading flows in 2024 to move down cap into the uranium developers/restarts in a significant way. We highlight Denison Mines (DNN-NYSE/DML-TSX, Buy – \$6.00/C\$8.00 target), Ur-Energy (URG-NYSE/TSX, Buy – \$4.50/C\$5.75 target) and enCore Energy (EU-NASDAQ/TSX, Buy – \$8.00/C\$10.00 target) as our preferred uranium names.



Mike Kozak
mike.kozak@cantor.com
(416) 350-8152

***Sales/Trading* — Toronto:** (416) 363-5757, (866) 442-4485
See disclosure and a description of our recommendation structure at the end of this report.

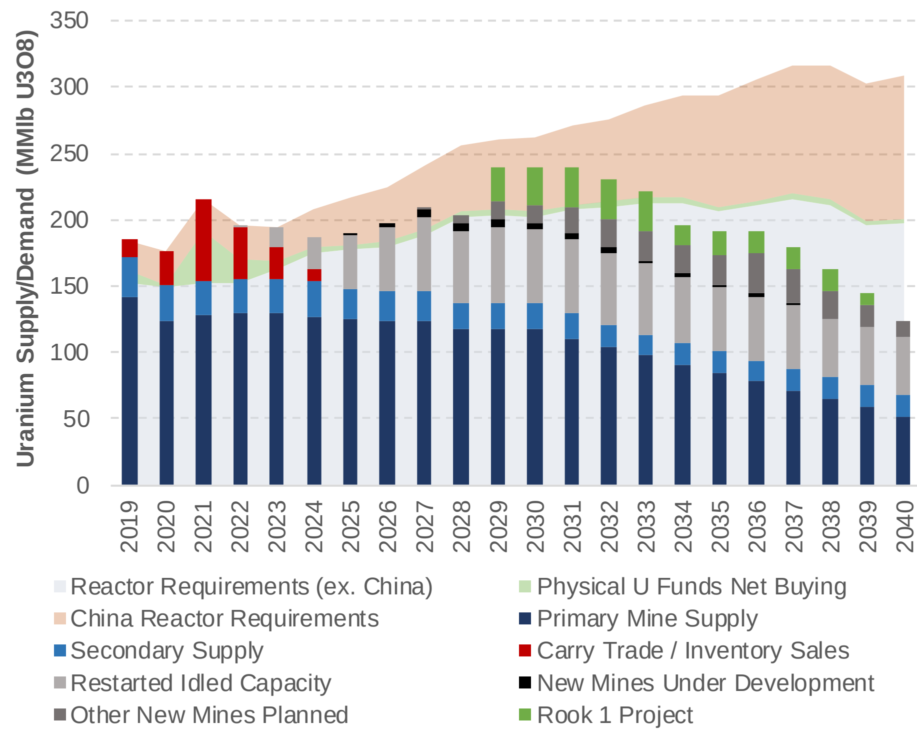
URANIUM MARKET COMMENTARY

On Thursday, the world's largest uranium miner, Kazatomprom, reduced its 2024 production guidance by 14% at the mid-point from 65-66 MMlb U_3O_8 to 55-59 MMlb U_3O_8 (100%-basis). The company also reiterated its messaging from the pre-warning on January 12, that it is unlikely to reach its 2025 production target of 79-82 MMlb U_3O_8 (100%-basis). We note that KAP's various in-situ recovery (ISR) operations, on a 100%-basis in Kazakhstan, account for ~40% of primary uranium production globally (down from ~45% prior to the guidance cut). The magnitude of Kazatomprom's 2024 production shortfall amounts to 9 MMlb U_3O_8 of primary uranium supply. 2025 production guidance will be formally revised with KAP's H1/24 results, likely in late August. KAP cited challenges to sulphuric acid supply (which we flagged in our previous uranium macro note here) and construction delays at newly developed deposits (presumably referring to the Budenovskoye ISR mine) as reasons for the 2024 production shortfall and 2025 guidance warning. Our key takeaways and views following this KAP development are as follows:

- The January 12 announcement marked the first time Kazatomprom has ever pre-warned on a pending guidance revision (up or down). Given the magnitude of the 2024 production shortfall formally announced on Thursday, we expect it will reverberate though the nuclear utilities and further accelerate long-term contracting, spot market purchases, and increasingly higher price points.
- KAP stayed firm on its 2024 sales commitments suggesting that the production shortfall this year will likely have to be made up via purchases in the spot market (Cantor view). Spot market volumes typically average 40-50 MMlb U_3O_8/year, so a 9 MMlb U_3O_8 guidance reduction this year is extremely material. According to KAP, "the company has a comfortable level of inventories to fulfill its existing contractual commitments in 2024 and will persist in ensuring the availability of essential inventory levels." In our view, KAP will be a net buyer of size in the uranium spot market in 2024 and 2025.
- Most market participants have been waiting on the sidelines over the last several weeks for the KAP guidance revision that was formally announced on Thursday. In our view, this is a "market clearing event" and we expect spot market participants to re-engage.
- We expect spot price volatility to remain extremely elevated in the near term until some higher price point is reached and material becomes available for sale, presumably either from hedge funds, junior uranium companies that bought at substantially lower price levels, or a comparatively well-covered utility that is prepared to lease out some inventory. Uranium supply from new mine builds, regardless of price, will not be available in sufficient quantity until the 2028-2030 time period when the Wheeler River (Denison Mines), Patterson Lake South (Fission Uranium: FCU-TSX, Buy – C$3.75 target) and Rook 1 (NexGen Energy: NXE-NYSE/TSX, Not Covered) projects are brought on-line.
- Even prior to the KAP announcement, spot market volumes have been the thinnest in ~16-years. The recent price run-up from $80-106/lb U_3O_8 was on < 4 MMlb U_3O_8 of total transaction volume with utilities accounting for ~25% of purchases, much larger than expected. This is a bullish indicator and suggests that the new spot "floor" price is likely $100/lb U_3O_8 given the fundamental end-user buying at and above that

price level. Clearly industry participants including traders, utilities and producers have a constructive view on uranium prices near-term.

Exhibit 1. Updated Supply/Demand Model



Source: Cantor Fitzgerald

INCREASING URANIUM SPOT, TERM PRICE FORECASTS

Given the KAP news, the supply/demand picture has fundamentally changed in a definitively more bullish direction for uranium spot and term pricing. We are raising our uranium price forecast curve to \$120-150/lb U_3O_8 (2024-2028+) from \$90-120/lb U_3O_8, previously.

Exhibit 2. Revised Uranium Price Forecasts

($/lb U3O8)	2024	2025	2026	2027	2028+
Previous - spot	$90.00	$100.00	$110.00	$110.00	$110.00
Previous - term	$100.00	$110.00	$120.00	$120.00	$120.00
Revised - spot	*$120.00*	*$130.00*	*$140.00*	*$145.00*	*$150.00*
Revised - term	*$110.00*	*$120.00*	*$130.00*	*$145.00*	*$150.00*

Source: Cantor Fitzgerald

CLEAR UPWARD URANIUM PRICE BIAS

Our revised price deck has clear bias to the upside and we highlight the following points to consider:

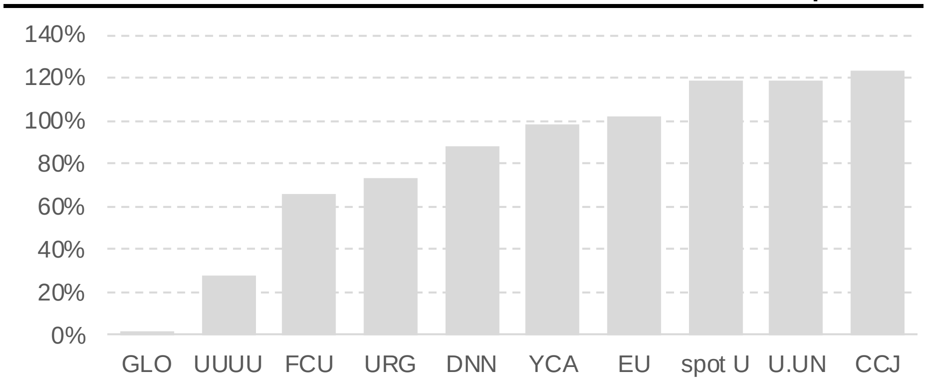
- Multiple market dynamics are pointing to higher uranium prices directionally but given that we expect spot market trading volumes will thin to extreme levels in the near term, predicting the rate at which spot prices move becomes extremely challenging.

- Spot and term uranium prices rose 89% and 31% in 2023, and supply has slowly begun to respond with industry bellwethers CCJ and KAP restarting some previously shut-in capacity, URG and EU both restarting domestic U.S. uranium production in 2023, and UUUU, UEC (Not Covered), PDN-ASX (Not Covered), and BOE-ASX (Not Covered) expecting to restart production in 2024. While these restarts are welcome and much needed for the industry, cumulatively they are still insufficient to bridge the fundamental supply deficit in the uranium market with demand increasing at the rate of 3-4% per year. The next cohort of new large-scale uranium mine builds are not expected to come on-line until the 2028-2030 time period. This schedule is permitting/construction-timeline dependent and cannot be pulled forward regardless of uranium price. As such, fundamentally, spot and term uranium prices have considerable upside runway in terms of both price level and duration.
- Note that the spot uranium price in March 2011 was ~\$72/lb U_3O_8, immediately prior to the Fukushima Daiichi accident in Japan that started a 10+ year bear market in the sector. Adjusting for the U.S. Consumer Price Index (CPI) from March 2011 to today equates to a current spot uranium price of ~\$100/lb U_3O_8, directly in-line with current price levels.
- Spot uranium price peaked in April 2007 at ~\$137/lb U_3O_8, with current spot prices ~22% below that level. In inflation adjusted terms (using U.S. CPI), peak uranium prices today would exceed \$200/lb U_3O_8.

CATCH-UP TRADE IN THE URANIUM EQUITIES

Through 2023 and year-to-date 2024, the spot uranium price has rallied +118% to \$106.50/lb U_3O_8 while the uranium equities have lagged, rising +84%, as measured by the Sprott Uranium Miners ETF (URNM-NYSE, Not Covered) over the same period. While Cameco has captured most new investment capital in the sector (rising +124% through 2023 and year-to-date 2024), we expect trading flows over the balance 2024 to move down cap into the uranium developers and restarts in a significant way. We continue to believe the better value proposition for new investment capital entering the sector, and for investors who have enjoyed substantial gains in Cameco, is to rotate down-cap into the physical uranium funds (both of which are trading at a NAV discount), the higher-quality uranium developers, and the near-term cash flowing U.S. domestic uranium restarts. We highlight Denison Mines, Ur-Energy, and enCore Energy as our preferred uranium names.

Exhibit 3. 2023 and 2024 Relative Performance YTD, Uranium Equities



Source: Cantor Fitzgerald, FactSet

INCREASING PRICE TARGETS

The increase in our spot and term price forecast drives target price revisions higher across our uranium coverage universe by an average of 20%. Our revised and previous ratings/targets are provided below:

Exhibit 4. Revised Ratings, Price Targets

		Revised		
Company	**Ticker**	**Target Multiple**	**Price Target**	**Rating**
Cameco	CCJ-US/CCO-CN	50/50 blend, 2.5x NAVPS/25.0x 2025E CFPS	$52.00/C$69.00 ↑	Hold
Denison	DNN-US/DML-CN	1.5x NAVPS	$6.00/C$8.00 ↑	Buy
enCore Energy	EU-US/CN	1.5x NAVPS	$8.00/C$10.00 ↑	Buy
Energy Fuels	UUUU-US/EFR-CN	1.5x NAVPS	$10.50/C$14.00 ↑	Buy
Fission Uranium	FCU-CN	1.5x NAVPS	C$3.75 ↑	Buy
Global Atomic	GLO-CN	0.75x NAVPS	C$5.50 ↑	Buy (S)
Sprott Physical U	U.UN/U.U-CN	1.05x NAVPU	$31.00/C$41.50 ↑	Buy
Ur-Energy	URG-US/URE-CN	1.5x NAVPS	$4.50/C$5.75 ↑	Buy
Yellow Cake	YCA-LSE	1.0x NAVPS	£9.75 ↑	Buy

Source: Cantor Fitzgerald

Exhibit 5. Previous Ratings, Price Targets

		Previous		
Company	**Ticker**	**Target Multiple**	**Price Target**	**Rating**
Cameco	CCJ-US/CCO-CN	50/50 blend, 2.5x NAVPS/25.0x 2024E CFPS	$48.50/C$64.50	Hold
Denison	DNN-US/DML-CN	1.5x NAVPS	$5.00/C$6.75	Buy
enCore Energy	EU-US/CN	1.5x NAVPS	$6.50/C$8.00	Buy
Energy Fuels	UUUU-US/EFR-CN	1.5x NAVPS	$10.00/C$12.50	Buy
Fission Uranium	FCU-CN	1.5x NAVPS	C$2.75	Buy
Global Atomic	GLO-CN	0.75x NAVPS	C$4.25	Buy (S)
Sprott Physical U	U.UN/U.U-CN	1.05x NAVPU	$26.00/C$35.00	Buy
Ur-Energy	URG-US/URE-CN	1.5x NAVPS	$4.00/C$5.00	Buy
Yellow Cake	YCA-LSE	1.0x NAVPS	£7.25	Buy

Source: Cantor Fitzgerald

URANIUM EQUITIES UNDER COVERAGE

Company specific adjustments to our models, ratings and price targets are as follows, with relative valuations provided in Exhibit 6:

Cameco: Maintaining a Hold rating and increasing our price target to $52.00/C$69.00 from $48.50/C$64.50/share based on an unchanged 50/50 equally blended multiple of 2.5x NAVPS$_{8.0\%}$ and 25.0x forward year CFPS (rolling to 2025 estimates from 2024, previously). We are incorporating our revised uranium price deck which does boost Cameco's revenue line and NAVPS but is largely counterbalanced by the higher prices the Company will be forced to pay for spot market purchases in the coming quarters. Note that Cameco's current contract portfolio includes a significant base-escalated legacy component and so our EPS and CFPS estimates in 2024, 2025 and 2026 are largely insulated from our newly revised spot and term uranium price forecasts. The Company's last reported uranium price sensitivity table (link here) indicates that even at a $140/lb U_3O_8 spot price Cameco would only expect to realize an average of $60/lb U_3O_8 on its uranium sales this calendar year.

Denison Mines: Maintaining a Buy rating and increasing our price target to $6.00/C$8.00 from $5.00/C$6.75/share based on an unchanged multiple of 1.5x $NAVPS_{7.5\%}$ (rounded). We are incorporating our revised uranium price deck and increasing our forecasted life-of-mine (LOM) effective tax rate at Wheeler River (northern Saskatchewan, Canada) going forward. Denison expects to complete the Provincial permitting process with the Saskatchewan Ministry of Environment (MOE) in H2/24 and the Federal permitting process with the Canadian Nuclear Safety Commission (CNSC) in H2/25, two significant milestones that we expect will act as positive price catalysts for DNN shares. We continue to estimate initial production being achieved at Phoenix (Phase I of Wheeler River) in H2/2028.

enCore Energy: Maintaining a Buy rating and increasing our price target to $8.00/C$10.00 from $6.50/C$8.00/share based on an unchanged multiple of 1.5x $NAVPS_{7.5\%}$ (rounded). We are incorporating our revised uranium price deck and increasing unit costs and CAPEX at each of enCore's U.S. operations/projects going forward in-line with typical cost inflation seen industry-wide. We continue to forecast initial production at Alta Mesa (Texas) in H2/2024 and Dewey-Burdock (South Dakota) and Gas Hills (Wyoming) in 2027.

Energy Fuels: Maintaining a Buy rating and increasing our price target to $10.50/C$14.00 from $10.00/C$12.50/share based on an unchanged multiple of 1.5x $NAVPS_{7.5\%}$ (rounded). We are incorporating our revised uranium price deck and increasing unit costs and CAPEX at each of Energy Fuels' U.S. operations/projects going forward in-line with typical cost inflation seen industry-wide. We continue to expect Energy Fuels to restart production at several of its past-producing U.S. operations over the course of this year with uranium recovery on target for 2025. We note the Company is somewhat insulated from the impact of our increased uranium price deck given its weighting to rare earth elements (REE), for which prices have declined by ~66% from the 2022 highs.

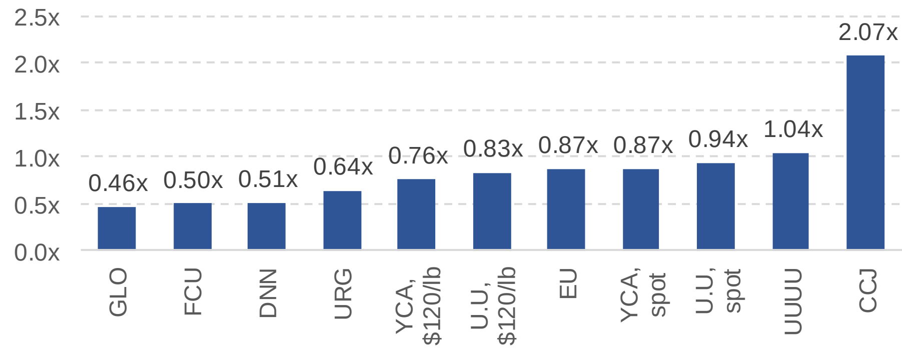
Fission Uranium: Maintaining a Buy rating and increasing our price target to C$3.75 from C$2.75/share based on an unchanged multiple of 1.5x $NAVPS_{7.5\%}$ (rounded). We are incorporating our revised uranium price deck and increasing our forecasted life-of-mine (LOM) effective tax rate at Patterson Lake South (PLS) (northern Saskatchewan, Canada) going forward. Fission plans to submit its Draft Environmental Impact Statement (EIS) to the Saskatchewan Ministry of Environment (MOE) later this quarter, which puts Final EIS approval potentially achievable in H2/24. Completion of Federal (CNSC) licensing is on schedule for 2025 with initial production at PLS targeted for 2029 (Company estimate).

Global Atomic: Maintaining a Speculative Buy rating and increasing our price target to C$5.50 from our C$4.25/share target price based on an unchanged multiple of 0.75x $NAVPS_{7.5\%, 10.0\%}$ (rounded). We are incorporating our revised uranium price deck and increasing unit costs and CAPEX for Global Atomic at its 80%-owned Dasa project (Niger, Africa) in-line with typical cost inflation seen industry-wide. Global Atomic plans on releasing an updated Feasibility Study

(FS) and Proven & Probable reserve estimate on Dasa later this quarter. We note that underground mining and project construction resumed at site on December 1, 2023. We continue to forecast initial production from the mine in Q4/2026.

Exhibit 6. Uranium Equities Under Coverage, P/NAVPS Valuations

Company	Symbol	Share Price	NAVPS	P/NAVPS
Cameco	CCJ-US/CCO-CN	C$67.67	C$32.64	2.07x
Denison Mines	DNN-US/DML-CN	C$2.86	C$5.63	0.51x
enCore Energy	EU-US/CN	$4.84	$5.57	0.87x
Energy Fuels	UUUU-US/EFR-CN	$7.97	$7.65	1.04x
Fission Uranium	FCU-CN	C$1.29	C$2.59	0.50x
Global Atomic	GLO-CN	C$3.53	C$7.61	0.46x
Sprott U @ spot	U.U/U.UN-CN	C$33.03	C$35.27	0.94x
Sprott U @ $120/lb	U.U/U.UN-CN	C$33.03	C$39.56	0.83x
Ur-Energy	URG-US/URE-CN	$1.97	$3.08	0.64x
Yellow Cake @ spot	YCA-LSE	£7.37	£8.46	0.87x
Yellow Cake @ $120/lb	YCA-LSE	£7.37	£9.72	0.76x



Source: Cantor Fitzgerald

URANIUM EQUITIES UNDER COVERAGE (CONTINUED)

Sprott Physical Uranium Trust: Maintaining a Buy rating and increasing our price target to $31.00/C$41.50 from $26.00/C$35.00/unit based on an unchanged multiple of 1.05x NAVPU (rounded). We are incorporating our revised uranium price deck ($120/lb U_3O_8 average spot in 2024) and an unchanged C$/US$ FX rate estimate of 0.75. Note that immediately following the initial Kazatomprom guidance warning on January 12, the Sprott Physical Uranium Trust raised +$50 MM in cash via its registered offerings. In the 2.5-weeks that have followed, the Trust has purchased 400 klb U_3O_8 in the spot market. The Sprott Trust is holding uranium in inventory of 63.6 MMlb ($6.8 BB at current spot prices), cash of ~$30 MM and ~$1.4 BB of room on its shelf/registered offerings to continue buying material in the spot market.

Ur-Energy: Maintaining a Buy rating and increasing our price target to $4.50/C$5.75 from $4.00/C$5.00/share based on an unchanged multiple of 1.5x $NAVPS_{7.5\%}$ (rounded). We are incorporating our revised uranium price deck and increasing unit costs and CAPEX at each of Ur-Energy's U.S. operations/projects going forward in-line with typical cost inflation seen industry-wide. To layer-in additional conservatism and provide more time for URG to expand its long-term contract portfolio, we are also pushing back initial production at the Company's second operation, Shirley Basin (Wyoming) to H2/26 from H1/26, previously.

Yellow Cake: Maintaining a Buy rating and increasing our price target to £9.75 from £7.25/share based on an unchanged multiple of 1.0x NAVPS (rounded). We are incorporating our revised uranium price deck and making no changes to our GBP/US$ FX rate estimate of 1.25. Note that YCA expects to take delivery of 1.53 MMlb U_3O_8 (for which it paid $65.50/lb) from KAP in June 2024. At that point it will hold a total inventory of 21.7 MMlb U_3O_8. As the delivery date approaches, we expect Yellow Cake's NAVPS discount relative to the Sprott Physical Uranium Trust to narrow.

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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.

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