

# URANIUM SECTOR UPDATE

Revising our uranium price deck in the wake of Cameco's and Kazatomprom's cuts

Commodity	Company	Ticker	New		Previous		Target Change	Analyst
			Rating	Target	Rating	Target		
Uranium	Cameco Corp.	CCO-TSX; CCJ-NYSE	Buy	\$15.55	Buy	\$13.65	14%	Chang
Uranium	Denison Mines	DML-TSX; DNN-NYSE	Buy	\$1.40	Buy	\$1.35	4%	Chang
Uranium	Energy Fuels	EFR-TSX; UUUU-NYSE	Restricted		Restricted		N/A	Chang
Uranium	Fission Uranium Corp.	FCU-TSX	Buy	\$1.30	Buy	\$1.30	0%	Chang
Uranium	NexGen Energy	NXE-TSX; NXE-NYSE	Buy	\$5.60	Buy	\$5.60	0%	Chang
Uranium	Ur-Energy	URE-TSX; URG-NYSE	Buy	\$1.10	Buy	\$1.00	10%	Chang
Uranium	Uranium Energy Corp	UEC-NYSE	Restricted		Restricted		N/A	Chang
Uranium	Uranium Participation Corp.	U-TSX	Buy	\$5.15	Hold	\$3.80	36%	Chang

	Actual			Q4/17			Q1/18			Q2/18			Q3/18		
	Q1/17	Q2/17	Q3/17	New	Old	%	New	Old	%	New	Old	%	New	Old	%
Uranium Spot US\$/lb	23.76	21.55	20.20	22.35	20.20	10.6%	27.50	21.00	31.0%	30.00	23.00	30.4%	32.50	27.00	20.4%

	FY2017			FY2018			FY2019			FY2020			LT		
	New	Old	%	New	Old	%	New	Old	%	New	Old	%	New	Old	%
Uranium Spot US\$/lb	21.97	21.43	2.5%	31.25	25.00	25.0%	35.00	32.75	6.9%	40.75	40.75	0.0%	80.00	80.00	0.0%

Source: Cantor Fitzgerald Research, Bloomberg

## CUTS ARE A STEP CHANGE FOR URANIUM PRICES

The recent production cuts announced by Cameco and Kazatomprom have introduced a supply shock that has provided a step change in uranium pricing. Prices that were hovering just above US\$20/lb and threatening to once again break below US\$20/lb are now sitting in the mid-US\$20s on the back of these announcements.

We view these announcements as positive supply shocks for the industry that has led to a step change in uranium pricing. Where we had previously considered it possible for spot uranium to fall below US\$20/lb for a sustained period in the past, we now view the mid-US\$20s as a floor price for spot U<sub>3</sub>O<sub>8</sub> to move higher from.

As a result we have upgraded our near-term and medium-term uranium price forecasts in recognition of this change. Our 2017 spot forecast rises 2.5% to US\$21.97/lb., while our 2018 and 2019 forecasts increase by 25% and 6.9%, respectively. These changes have served to boost the target prices for producers as well as those whose valuations are at least partially attributed to portfolio holdings of uranium.

## 42.3M LBS U<sub>3</sub>O<sub>8</sub> CUT FROM THE MARKET; 24.1M LBS (15%) IN 2018 ALONE

We estimate that the production suspension at Cameco's McArthur River mine and the announced cut of 20% of production by Kazatomprom over the next three years amounts to 42.3M lbs U<sub>3</sub>O<sub>8</sub> that are no longer coming into the market. In 2018 alone, the reduction will be about 24.1M lbs U<sub>3</sub>O<sub>8</sub> or about 15% of our prior forecast of 158.4M lbs of production.

Specifically, we estimate that Cameco's decision to suspend McArthur River operations for 10 months will reduce production by 13.7M lbs on a 100%-basis for 2018. Kazatomprom's 20% cut is based on stated production deferral

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

guidance of 11,000 tonnes U (roughly 28.5M lbs  $U_3O_8$ <sup>1</sup>) with 4,000 tonnes U (10.4M lbs  $U_3O_8$ ) expected to be cut in 2018 and the remaining 7,000 tonnes U (18.2M lbs  $U_3O_8$ ) cut over 2019 and 2020.

## IMPACT

We expect these events to ultimately push spot uranium prices to the mid-high US\$20/lb range and perhaps into US\$30/lb. However, as seen so far, the degree of movement may be muted at first due to fact that there are a limited number of qualified purchasers of uranium – making it a less efficient market.

We estimate that less than 10% of total uranium demand for 2018 and 2019 are uncovered, as utilities have shored up what were once large shortages through spot purchases or short-term contracts. As such, there is less of an impetus for utilities to make purchases immediately.

Inventory levels are also a concern as we estimate that there are 800-1,200M lbs of total above ground inventory of which about 700-800M lbs are held by utilities. We do not believe that all of it is available for sale as significant portions are held for strategic purposes and necessary utility needs. Moreover there is the possibility of sales from distressed utilities and by utilities with reactors that are being decommissioned.

Nevertheless, we view the announcements by Cameco and Kazatomptom to be a positive supply shock that has produced a step change in the spot price of uranium at (and later above) the mid-US\$20/lb level.

### *Cantor Fitzgerald Supply and Demand Model*

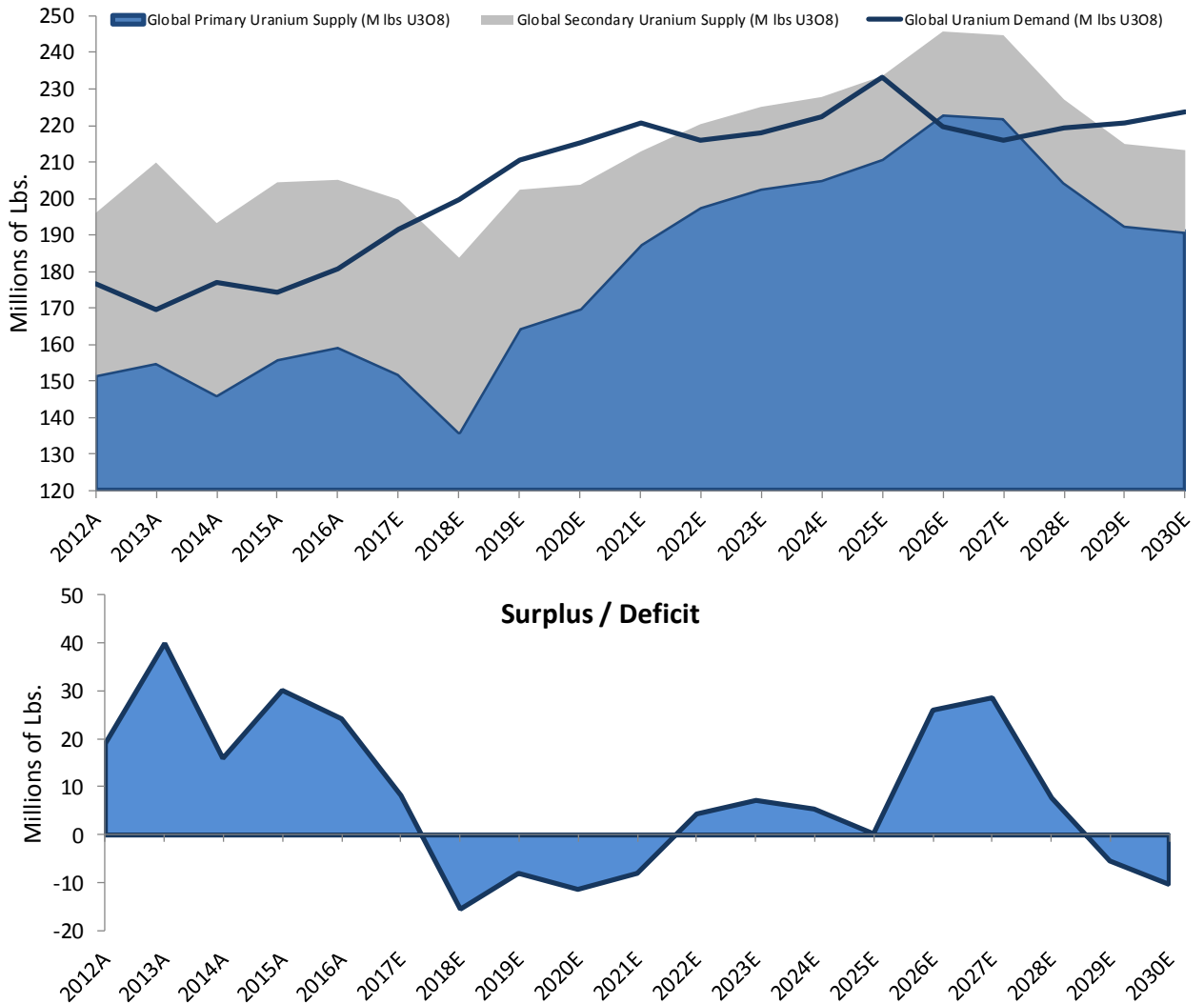
Our uranium supply and demand model accounts for 185 mines/projects and 868 reactors at various stages. As always, we provide two versions.

The first assumes “perfect production” in that all uranium mines and projects will produce exactly according to company guided plans (or study suggested plans) and that all production levels are price insensitive. It includes projects that have break-even costs estimated at the US\$70/lb level and higher. This can be viewed as a worst-case scenario for uranium as it is effectively the maximum supply available given all available information (Exhibit 1). Note that everything has to go perfectly to plan in order for this scenario to occur, however historically things have rarely gone perfectly according to plan in mining.

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<sup>1</sup> The 2018, 2019, and 2020 uranium cuts do not add up to the total cut due to rounding.

**Exhibit 1. Uranium Supply & Demand Forecast – Conservative (Perfect Production Scenario)**



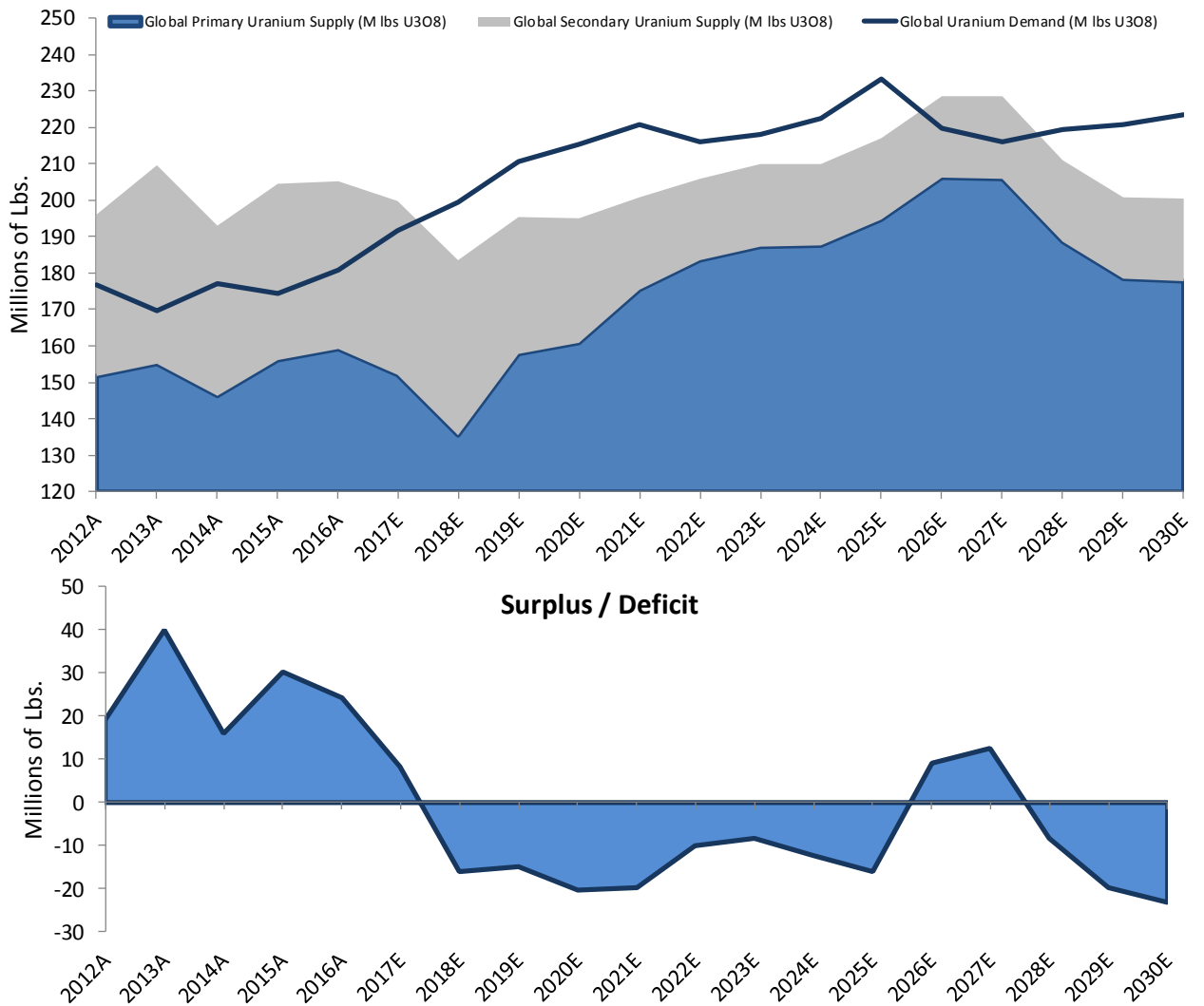
Source: Cantor Fitzgerald Canada Research

Our second model is an adjusted uranium production forecast assuming uranium prices remain at US\$40/lb for the foreseeable future. In this model we forecast production shutdowns based on the expiration of long term contracts as well as adopting a more realistic view of production costs for certain projects and mines that we believe would be uneconomic at a sustained US\$40/lb price level.

We view the second scenario as the more realistic one since it is unreasonable to assume producers will continue producing at a loss indefinitely. Moreover with spot uranium prices currently closer to US\$20/lb, there would be even fewer producers that can survive. In both scenarios, an unavoidable shortfall between supply and demand occurs.

As such, we continue to forecast a violent increase in the price of uranium over the longer term.

Exhibit 2. Uranium Supply & Demand Forecast – US\$40/lb long-term

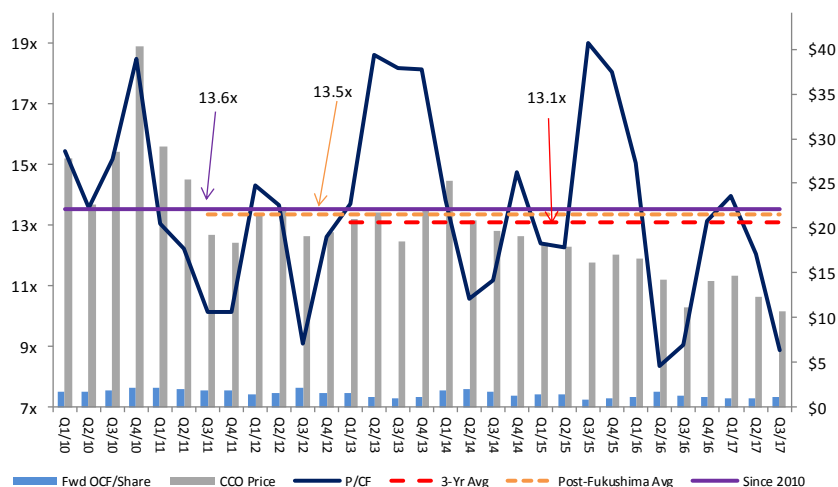


Source: Cantor Fitzgerald Canada Research

## CAMECO CORPORATION (CCO-TSX, CCJ-NYSE): BUY, \$15.55 (+14%)

We are maintaining our BUY recommendation on Cameco and increasing our target price to \$15.55 per share on the back of our increased near- and mid-term uranium price forecasts. Our target price is based on the application of a 13.0x multiple to our forward cash flow estimate of \$1.20/share. This valuation is inline relative to historical trends as Cameco has traded at an average 13.1x multiple over the last three years, 13.4x post-Fukushima, and 13.5x since the beginning of 2010. It is currently trading at a 10.6x multiple to our forward cash flow estimate while paying a 0.6% yield.

### Exhibit 3: Cameco historical forward P/CF trading multiple



Source: Cantor Fitzgerald Canada Research

### Exhibit 4: Cameco Net Asset Value

Projects	NAV (\$C Millions) Per Share		Comment
Uranium, Fuel Services, and Nukem Divisions	4,608.0	\$11.64	2018 DCF @ 8% Discount Rate
Wheeler River/Millennium/Kintyre	238.6	\$0.60	In-Situ Valuations
UEX Corp.	15.5	\$0.04	22.58% Ownership at a 20% discount
Working Capital	1,520.9	\$3.84	Q3/17 Financials
<b>Total</b>	<b>6,383.0</b>	<b>\$16.13</b>	

Source: Cantor Fitzgerald Canada Estimates, Company Reports

**DENISON MINES (DML-TSX, DNN-NYSE): BUY, \$1.40, (+4%)**

We are maintaining a BUY recommendation and are raising our target price to \$1.40 per share, or by 4%, for Denison Mines. The target price increase primarily reflects the higher value of the Uranium Participation Corp. management contract, which is based in part on a percentage of the fund's net assets. As a result of positive developments in the sector, the NAV value of U-TSX has increased 29% since our last update on October 26, 2017. Our target price is based on a 1.0x multiple to our NAV valuation of \$1.38 per share. Denison currently trades at 0.54x NAVPS, a material discount to intrinsic value.

**Exhibit 5. Denison Mines Net Asset Value**

Asset	Attributable M Lbs U <sub>3</sub> O <sub>8</sub>	EV/Lb	Value US(\$M)	Per share	Ownership	Notes
<b>Revenue Generating Assets</b>						
Wheeler River Project			\$247.2	\$0.44	60%	NPV @ 10%. Cameco 30% & JCU 10%
McClean Lake Mill			\$219.6	\$0.39	22.5%	7% DCF for processing expected Wheeler River feed; C\$1B Residual value
UPC Contract Value			\$30.5	\$0.05		Minimum annual fee at a 5% Discount Rate
<b>In-Situ Valuation</b>						
McClean Lake Deposits	5.9	\$2.00	\$11.9	\$0.02	22.5%	McLean Lake, McLean Lake North, & Sue D; Areva 70% & OURD 7.5%
Midwest	13.4	\$2.00	\$26.9	\$0.05	25.17%	Areva 69.16% & OURD 5.67%; Development on hold reviewed every 6 months
Waterbury Lake	7.8	\$2.00	\$15.6	\$0.03	60%	40% KEPCO
<b>Other Assets</b>						
25% stake in GoviEx Uranium			\$10.3	\$0.018		80% of the market value for conservatism
18.7% stake in Skyharbour Resources			\$5.4	\$0.010		80% of the market value for conservatism
Working Capital Net of Cash			\$27.2	\$0.05		As of Q3/17 Financials
Cash + proceeds from options and warrants			\$4.4	\$0.01		As of Q3/17 Financials
<b>Valuation</b>			<b>\$598.9</b>	<b>\$1.07</b>		
<b>Valuation in CAD</b>			<b>\$770.9</b>	<b>\$1.38</b>		in CAD

Source: Cantor Fitzgerald Canada Research

**ENERGY FUELS (EFR-TSX, UUUU-NYSE): RESTRICTED**

We are currently restricted on Energy Fuels Inc.

**FISSION URANIUM (FCU-TSX): BUY, \$1.30 (UNCHANGED)**

Our recommendation for Fission Uranium remains a BUY at a target price of \$1.30 per share. Our target price is based on a 1.0x multiple to our NAV valuation of \$1.29 per share. Fission Uranium currently trades at 0.62x NAVPS, a discount to intrinsic value.

**Exhibit 6. Fission Uranium Net Asset Value**

Mining Assets		Value		Notes
		C\$ 000s	Per share	
Patterson Lake South	(100%)	580,541	1.20	NPV @ 10%, US\$80/lb, US\$0.90/CAD
<b>Total Mining Assets</b>		<b>580,541</b>	<b>1.20</b>	
Financial Assets				
		C\$ 000s	Per share	
Cash		33,181	0.07	As of most recent financials
Working Capital Net of Cash		9,958	0.02	As of most recent financials
LT Liabilities		1,349	0.00	As of most recent financials
Proceeds from ITM Instruments		162	0.00	
12.36% Stake in Fission 3.0		2,309	0.00	
		<b>46,959</b>	<b>0.10</b>	
<b>Net Asset Value</b>		<b>627,500</b>	<b>1.29</b>	
Shares Outstanding (000's)		484,827		
NAV/sh		\$1.29		
<b>Diluted shares outstanding</b>		<b>485,474</b>		
<b>NAV per Diluted share (C\$/share)</b>		<b>\$1.29</b>		
Current share price (C\$/share)		\$0.80		
<b>Price / NAV</b>		<b>0.62x</b>		

(1) Corporate adjustments are as of last reported Financial Statements

Source: Cantor Fitzgerald Canada Research



**NEXGEN ENERGY (NXE-TSX): BUY, \$5.55 (-1%)**

We are maintaining a BUY recommendation and are moderately decreasing our target price to \$5.55/share from \$5.60/share on NexGen Energy to reflect the Q3/17 change in the company's cash and working capital position. Our target price is based on a 1.0x multiple to our NAV<sub>10%</sub> of \$5.54/share. NexGen Energy currently trades at 0.63x NAVPS, a discount to intrinsic value.

**Exhibit 7: NexGen Energy Net Asset Value**

Asset	Value (\$M)	Per share	Ownership	Notes
<b>Development Projects</b>				
Rook I	\$2,057.5	\$5.54	100%	2018 NPV @ 10%, US\$80/lb, US\$0.90/CAD
<b>Other</b>				
Present Value of Debenture	(\$126.3)	(\$0.34)		10% discount rate at current exchange rate
Working Capital Net of Cash	(\$6.6)	(\$0.02)		As of Q3/17 Financials
Cash + Proceeds from In-the-Money	\$216.2	\$0.58		As of Q3/17 Financials
Options and Warrants				
NPV of Corporate G&A	(\$85.4)	(\$0.23)		NPV of corporate costs at 10%
<b>Valuation in CAD</b>	<b>\$2,055.5</b>	<b>\$5.54</b>		in CAD

Source: Cantor Fitzgerald Canada Research

**UR-ENERGY (URE-TSX, URG-NYSE): BUY, \$1.10 (+10%)**

We are maintaining our BUY rating on Ur-Energy and increasing our target price to \$1.10 per share, or by 10%, based on our increased near- and mid-term uranium price forecasts. Our valuation is based on a 1.0x multiple to our NAV valuation of \$1.11 per share. Ur-Energy currently trades at 0.82x NAVPS, a discount to intrinsic value.

**Exhibit 8. Ur-Energy Net Asset Value**

Projects	NAV	Per Share	Comment
Lost Creek	\$91.9	\$0.60	2018 DCF @ 8% Discount Rate
Shirley Basin	\$67.5	\$0.44	2018 DCF @ 10% Discount Rate
Lost Soldier	\$14.9	\$0.10	2018 DCF @ 10% Discount Rate
Disposal Revenue	\$4.7	\$0.03	2018 DCF @ 8% Discount Rate
Debt	(\$19.9)	(\$0.13)	PV of LT Debt @ 10% Discount Rate
NPV of Corporate Costs	(\$37.0)	(\$0.24)	PV of Corp Costs @ 10% Discount Rate
Working Capital	\$8.9	\$0.06	Q3/17 Financials + Cash Proceeds from ITM Options
<b>Total in USD</b>	<b>131.0</b>	<b>\$0.86</b>	
<b>Total in CAD</b>	<b>168.6</b>	<b>\$1.11</b>	

Source: Cantor Fitzgerald Canada Research

**URANIUM ENERGY CORP. (UEC-NYSE): RESTRICTED**

We are currently restricted on Uranium Energy Corp.

## URANIUM PARTICIPATION (U-TSX): BUY↑, \$5.15 (+36%)

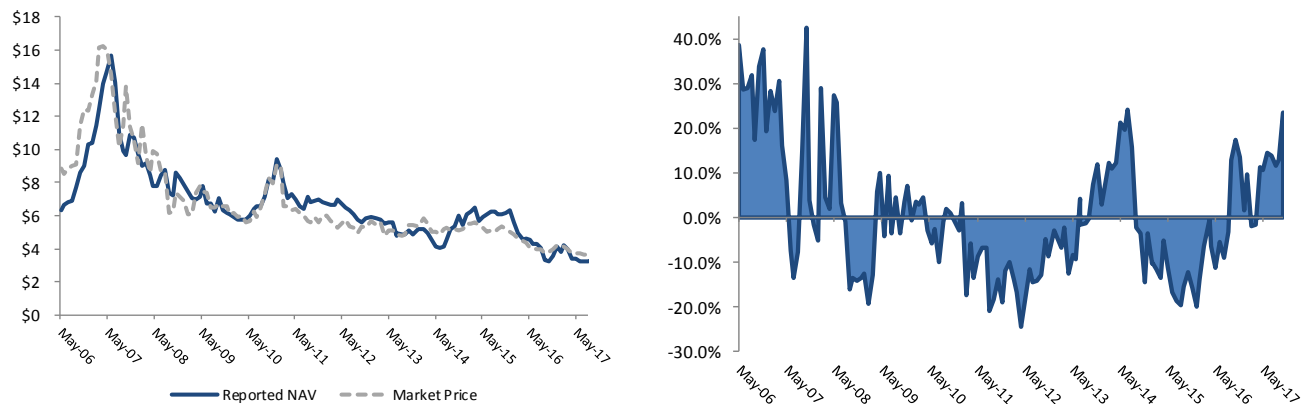
We are upgrading our recommendation for Uranium Participation to BUY from HOLD and are increasing our target price to \$5.15 per share, or by 36%. The catalyst for the change is our increased near-term uranium price forecasts. Our target price is based on a 1.0x multiple to our forecasted portfolio NAV of \$5.17/share. The portfolio NAV is derived from the application of a U<sub>3</sub>O<sub>8</sub> price of US\$31.25/lb. and a UF<sub>6</sub> price of US\$93.75/kg to the portfolio, which is our rolling forward four quarter average estimate. UPC currently trades at 0.89x NAVPS. Note that in periods of uranium market bullishness, UPC has historically traded at a premium to its NAV.

### Exhibit 9. Uranium Participation Corp. Valuation

		Valuation Forecast			Market Value
			Cantor Forecast	Cantor Forecast	
	Units	Quantity	USD	CAD	CAD
U <sub>3</sub> O <sub>8</sub>	lb	10,800,024	\$31.25	\$40.23	434,527
UF <sub>6</sub>	kg	1,903,471	\$93.75	\$120.70	229,752
					664,279
Net Working Capital					20,182
					NAV
					684,461
Shares O/S	132,448,713				NAVPS
					\$5.17

Source: Cantor Fitzgerald Canada Estimates, Company Reports

### Exhibit 10. Market price Premium / Discount to NAV analysis



Source: Cantor Fitzgerald Canada Estimates, Company Reports

## APPENDIX

## Exhibit 11. Comparable Valuations – Uranium

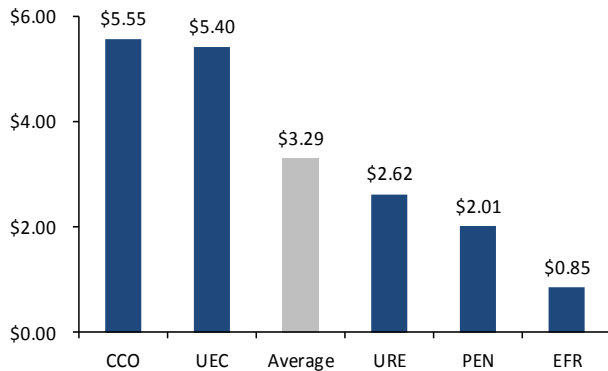
Uranium Producer Company Name	Stage	Stock Price (Local \$)	Market Cap (\$'000)	Enterprise Value (\$'000)	NI43-101 Resources/JORC (M lbs)				MKT / LB	EV / LB	CF P/NAV	
					Avg Grade	P&P	M&I	Inferred				Total
Cameco Corporation (TSX:CCO)	Production	12.97	5,133,431.7	6,275,744.7	6.089%	416.7	471.2	243.4	1,131.3	\$4.54	\$5.55	0.80
Energy Fuels Inc. (TSX:EFR)	Production	2.40	172,863.6	146,745.9	0.078%	0.0	112.7	60.4	173.1	\$1.00	\$0.85	Restricted
Peninsula Energy Ltd. (ASX:PEN)*	Production	0.47	107,410.8	95,313.9	0.050%	0.0	17.2	30.2	47.4	\$2.27	\$2.01	0.91
Uranium Energy Corp. (NYSE:UEC)*	Production	1.84	369,899.1	371,182.0	0.062%	0.0	32.4	36.3	68.7	\$5.38	\$5.40	Restricted
UR-Energy Inc. (TSX:URE)	Production	0.91	132,868.4	117,577.7	0.080%	0.0	34.5	10.3	44.9	\$2.96	\$2.62	0.82
<b>Producer Average</b>			<b>\$1,183,294.7</b>	<b>\$1,401,312.9</b>		<b>83.3</b>	<b>133.6</b>	<b>76.1</b>	<b>293.1</b>	<b>\$3.23</b>	<b>\$3.29</b>	<b>0.84</b>

\*Market Cap and Enterprise value for PEN and UEC has been converted to \$CAD at the prevailing \$AUD/\$CAD or \$USD/\$CAD market exchange rates

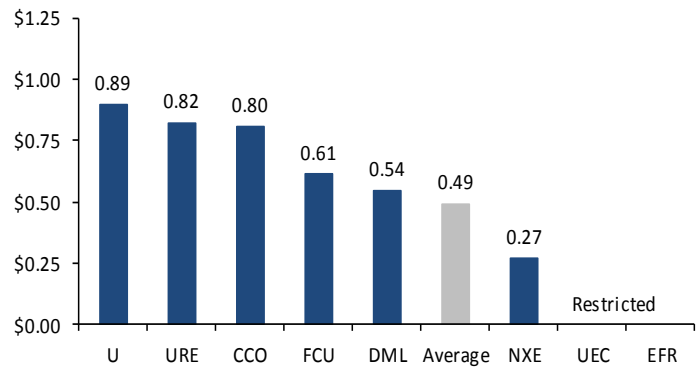
Uranium Explorer/Developer Company Name	Stage	Stock Price (\$Local)	Market Cap (C\$'000)	Enterprise Value (C\$'000)	NI43-101/JORC Resources (M lbs)				MKT / LB	EV / LB	CF P/NAV
					Avg Grade	M&I	Inferred	Total			
Hathor Exploration (Acquired)	Exploration	4.70	654,240.0	581,240.0	8.63%	17.2	40.7	57.9	\$11.29	\$10.03	Acquired
Denison Mines (TSX:DML)	Exploration	0.75	419,313.3	289,009.0	2.29%	102.0	97.6	199.7	\$2.10	\$1.45	0.54
Fission Uranium Corp. (TSX:FCU)	Exploration	0.79	383,326.7	345,134.4	1.51%	79.6	25.9	105.5	\$3.63	\$3.27	0.62
NexGen Energy (TSX:NXE)	Exploration	3.49	1,181,773.4	1,161,287.3	2.54%	179.5	122.1	301.6	\$3.92	\$3.85	0.63
Kivalliq Energy Corp. (TSXV:KIV)	Exploration	0.11	25,934.7	23,518.6	0.69%	0.0	43.3	43.3	\$0.60	\$0.54	n/a
UEX Corp. (TSX:UEX)	Exploration	0.36	116,927.6	111,966.9	0.84%	68.2	16.5	84.7	\$1.38	\$1.32	n/a
Azarga Uranium (TSX:AZZ)	Development	0.24	19,017.1	17,749.5	0.17%	18.1	5.7	23.8	\$0.80	\$0.75	n/a
<b>Average</b>			<b>\$400,076.1</b>	<b>\$361,415.1</b>		<b>66.4</b>	<b>50.3</b>	<b>116.7</b>	<b>\$3.39</b>	<b>\$3.03</b>	<b>0.60</b>

Company Name	Stage	Stock Price (\$Local)	Market Cap (C\$'000)	Enterprise Value (C\$'000)	\$/lb		
					U3O8 Spot	NAV	Premium/Discount
Uranium Participation Corp. (TSX:U)	Holding Co.	\$4.62	611,913.1	608,946.1	24.00	3.93	17.5%

## Uranium Producer EV/Resource



## Uranium Coverage P/NAV



Source: Cantor Fitzgerald Canada Estimates, Company Reports, Bloomberg

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**BUY:** The stock is attractively priced relative to the company’s fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

**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.

### Member-Canadian Investor Protection Fund.

Customers' accounts are protected by the Canadian Investor Protection Fund within specified limits. A brochure describing the nature and limits of coverage is available upon request