

Uranium Sector

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10-yr, \$1.5 B White House Support for Domestic Uranium Producers, But Higher Prices Needed to Incentivize

- "Establishing a Uranium Reserve provides assurance of availability of uranium in the event of a market disruption and supports strategic U.S. fuel cycle capabilities. This action addresses immediate challenges to the production of domestic uranium and reflects the Administration's Nuclear Fuel Working Group (NFWG) priorities. The NFWG will continue to evaluate issues related to uranium supply chain and fuel supply."
- US\$150 MM is earmarked to create a strategic uranium reserve, part of a 10-year, \$1.5 billion plan to support the US domestic uranium industry. This news was mentioned by certain politicians as early as 31-Jan-20, and US uranium stocks jumped between 1-10% each when Bloomberg picked up these rumours early last week. The uranium stocks didn't move much yesterday on the actual news, but are moving today with Cameco (NEUTRAL, \$13 TP, covered by R. Profit) leading the way.

Yesterday's Uranium Reserve budget request from the White House ([link](#)) is the first real action taken to help the uranium sector directly. While we believe this is a significant step in the right direction, and we might see some upwards pressure on the stocks, it might not be immediately impactful to the US uranium companies. We believe that US producers need higher prices. We await further details on what pricing would apply to Government purchases, and how many companies would stand to benefit. While the US\$150 MM pa budget request is a step in the right direction in providing relief to US producers amid low uranium prices, we fear that it may not be enough to incentivize production. It might take up inventory, although even that pricing would need to be enough to entice producers to sell. Ur-Energy has about 260,000 lbs and EFR has about 500,000 lbs of finished product in inventory. Unless Government offers approach US\$50/lb, we don't see this as a sustainable long term solution. And let's wait and see if it even gets approved. We have not seen any change in spot uranium prices since this news was leaked last week.

US Government appears to be paying attention to the U3O8 sector. The agreement does touch on certain industry requests, including a signal that the White House won't let the industry fall flat; a long term solution is offered; and that direct purchases are needed. Uranium company management teams are still trying to digest the flurry of news coming from The White House, US DOE Secretary Dan Brouillette, WY Senator John Barrasso and others. Democrat-held Congress may reject this budget request, although we believe it may be sensitive to the fact that Russia is a key uranium supplier to the USA. Perhaps more assistance will come from other Government sources...a stockpile was always supposed to be just a small part of the package. That said, without seeing the big picture, the U3O8 industry doesn't know what the next steps might be. Perhaps domestic production of 10 MM lbs is required to support the conversion industry. Enrichment would require yet another step up in funding.

Uranium to be acquired from domestic sources. It isn't clear how quickly the reserve would be set up. US\$150 MM could buy significant amounts of uranium at current prices, representing 4.7 MM and 6.1 MM lbs U3O8, respectively, if current term (US\$32.00/lb) or spot (US\$24.65/lb) prices are used. The US only produced ~4 MM lbs pa during its most recent heyday from 2010-2012. During the Section 232 uranium review, the industry suggested that it could provide 13.5 MM lbs pa (1/4 of all US reactor requirements). We believe this to be unrealistic, and that all US producers might be able to achieve 8.8 MM lbs pa by 2027, assuming prices incentivize both new build and restarting older mines. UxC's potential and hypothetical US production estimates are 11.6 MM lbs by 2025 and 16.4 MM lbs by 2027. UxC forecasts that ~US\$40/lb is required to exceed 4 MM lbs pa and that ~US\$45/lb is required to exceed 8 MM lbs pa, under both its potential scenario (base case) and hypothetical scenario (high case).

Uranium pricing, purchase mechanism unknown. Some uranium industry players have been asking for \$65/lb to help sustainably support US production. Energy Fuels believes we need \$65/lb sustainably to incentivize a return to production and make a profit without wasting assets. Ur-Energy is the lowest cost producer and management believes that at least twice the current spot price (currently US\$24.65/lb U3O8) is needed. Thus, we don't believe much will happen at current prices. Furthermore, no one yet knows how the mechanism is going to work - details need to be worked out.

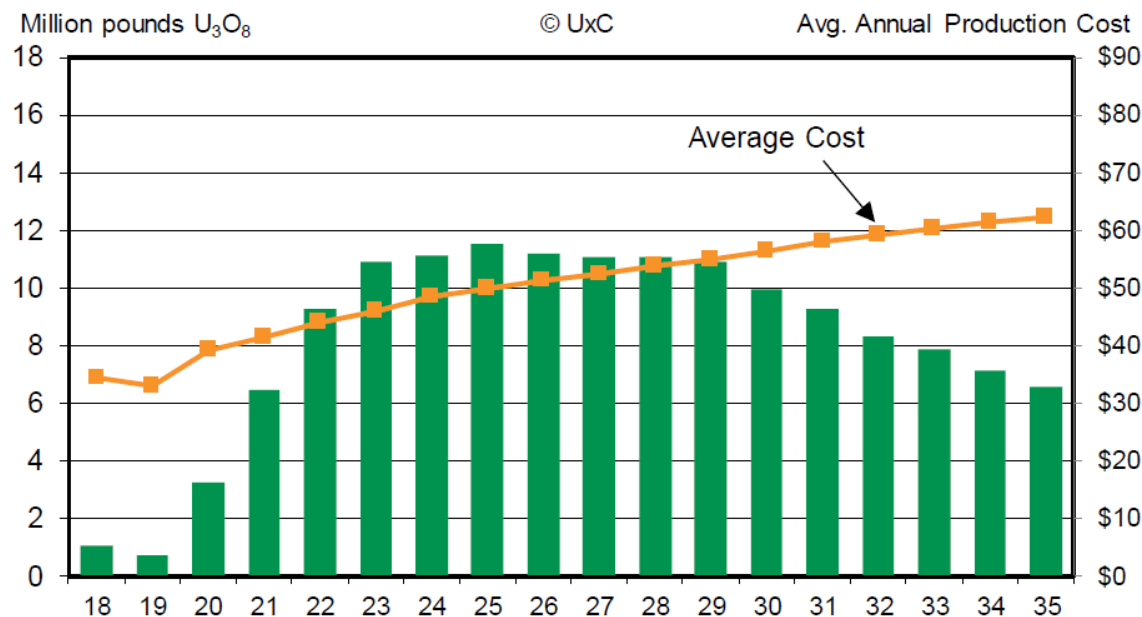
Energy Fuels and Ur-Energy might be the immediate beneficiaries of this deal, assuming the right sustained uranium price. It may not be large enough to incentivize Cameco to resume production in WY or NE, and Peninsula Energy (Not Rated) already has off-takes in place. There is some fear by some that smaller uranium developers may wish to deliver at very low prices, but they probably can't fill the reserve requirements. Other companies with exposure include Uranium Energy, Azarga Uranium and Laramide Resources (Not Rated). Ultimately, this won't sustain the global uranium mining industry. We believe utilities must get back to contracting. US uranium inventories fell 10% to 111.6 MM lbs in 2019, and US/EU utilities inventories have declined from about 260 MM lbs to 230 MM lbs in the past three years. WNA suggests annual demand is 177 MM lbs pa, while UxC estimates production of about 140 MM lbs U3O8 in 2019, with <0.5 MM coming from the USA.

Figure 1: Excerpt from Trump's budget request that outlines \$150 MM per year beginning in 2021 for the purchase of uranium, which is subject to approval by congress.

Account and Subfunction Code	2019		Estimate									
	Actual	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Department of Energy - continued												
Energy supply (subfunction 271):												
Appropriations, discretionary	271 BA	1,154	1,340	1,042	1,042	1,042	1,042	1,042	1,042	1,042	1,042	1,042
Spending authority from offsetting collections, discretionary	BA	154	120	120	120	120	120	120	120	120	120	120
Outlays, discretionary	O	1,175	942	1,182	1,220	1,208	1,176	1,162	1,162	1,162	1,162	1,162
Energy supply (gross)	BA	1,308	1,460	1,162	1,162	1,162	1,162	1,162	1,162	1,162	1,162	1,162
	O	1,175	942	1,182	1,220	1,208	1,176	1,162	1,162	1,162	1,162	1,162
Offsets against gross BA and outlays:												
Federal sources, discretionary	BA/O	-109	-120	-120	-120	-120	-120	-120	-120	-120	-120	-120
Non-Federal sources, discretionary	BA/O	-14	---	---	---	---	---	---	---	---	---	---
Additional offsets against gross BA only:												
Change in uncollected customer payments from Federal sources, discretionary	BA	-31	---	---	---	---	---	---	---	---	---	---
Total Energy supply (subfunction 271)	BA	1,154	1,340	1,042	1,042	1,042	1,042	1,042	1,042	1,042	1,042	1,042
	O	1,052	822	1,062	1,100	1,088	1,056	1,042	1,042	1,042	1,042	1,042
Total Nuclear Energy	BA	1,386	1,582	1,180	1,183	1,186	1,189	1,192	1,192	1,192	1,192	1,192
	O	1,228	1,062	1,226	1,240	1,231	1,202	1,191	1,192	1,192	1,192	1,192
Uranium Reserve (019-20-2296):												
Appropriations, discretionary	271 BA	---	---	150	150	150	150	150	150	150	150	150
Outlays, discretionary	O	---	---	45	90	150	150	150	150	150	150	150
Electricity (019-20-0318):												
Appropriations, discretionary	271 BA	151	190	195	195	195	195	195	195	195	195	195
Spending authority from offsetting collections, discretionary	BA	-3	6	6	6	6	6	6	6	6	6	6
Outlays, discretionary	O	205	241	247	225	200	201	201	201	201	201	201
Electricity (gross)	BA	148	196	201	201	201	201	201	201	201	201	201
	O	205	241	247	225	200	201	201	201	201	201	201
Offsets against gross BA and outlays:												
Federal sources, discretionary	BA/O	-2	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Additional offsets against gross BA only:												
Change in uncollected customer payments from Federal sources, discretionary	BA	5	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3
Total Electricity	BA	151	190	195	195	195	195	195	195	195	195	195
	O	203	238	244	222	197	198	198	198	198	198	198
Cybersecurity, Energy Security, and Emergency Response (019-20-225b):												

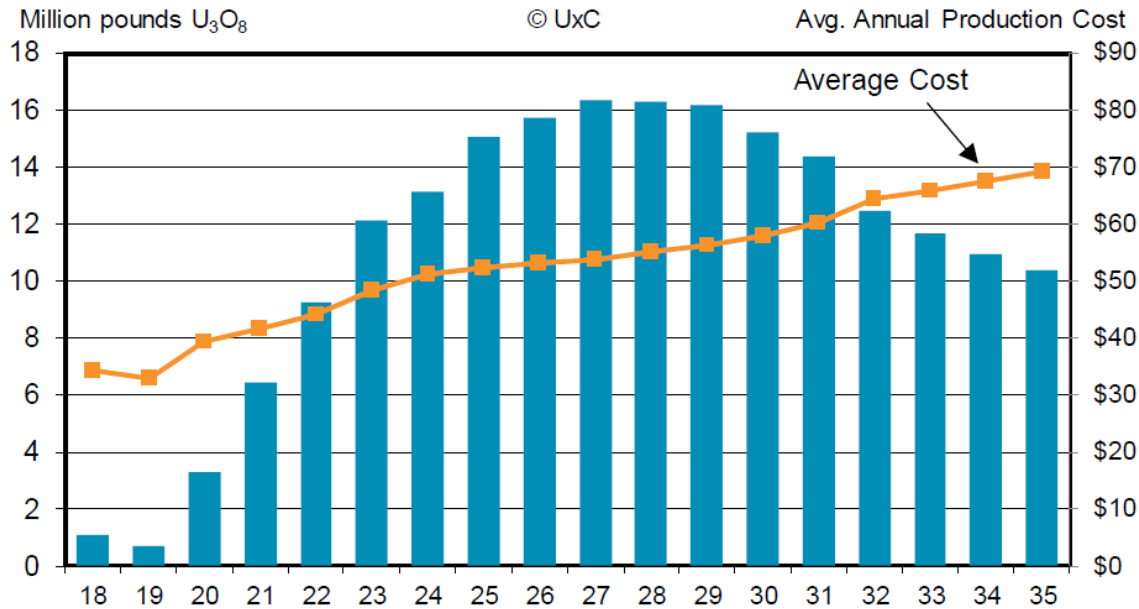
Source: White House ([link](#))

Figure 2: UxC Potential Future US Production (base case) vs. Average Annual Production Cost



Source: UxC Q4 2018 Market Outlook

Figure 3: UxC Hypothetical Future US Production (high case) vs. Average Annual Production Cost



Source: UxC Q4 2018 Market Outlook

Figure 4: Eight Capital's uranium peer table for companies under coverage.

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PEER TABLE - URANIUM															February 11, 2020					Performance					Net Asset Value	
Ticker	Currency	Last Price	Analyst	Rating	Target Price	Return to TP	Shares O/S	Mkt Cap (\$MM)	Cash (\$MM)	Debt (\$MM)	EV (\$MM)	Avg Grade %U3O8	Inventory MMlbs U3O8	EV/lb US\$/lb	1 wk	1 mo	3 mo	6 mo	1 yr	NAVPS	P/NAV					
Inventory Holders																										
Uranium Participation	U-TSX	CAD	C\$ 3.97	D. Talbot	BUY	C\$ 5.30	34%	138	C\$ 556	C\$ 6	C\$ 0	C\$ 551	n/a	16.2	25.6	1%	1%	(2%)	(4%)	(17%)	C\$ 5.30	0.75x				
Yellow Cake	YCA-LON	GBP	GBP\$ 1.93	n/a	n/a	n/a	n/a	88	GBP\$ 172	GBP\$ 7	GBP\$ 0	GBP\$ 165	n/a	9.6	22.2	4%	(1%)	3%	(3%)	n/a	n/a	n/a				
Inventory Holder Average															23.9	2%	0%	0%	(3%)	(17%)	0.75x					
Producers																										
Cameco Corp	CCO-TSX	CAD	C\$ 12.30	R. Profit	NEUTRAL	C\$ 13.00	6%	396	C\$ 4,868	C\$ 1,062	C\$ 1,010	C\$ 4,815	6.4%	1065	3.4	6%	5%	(3%)	8%	(25%)	C\$ 11.07	1.11x				
Energy Fuels	EFR-TSX	CAD	C\$ 2.22	D. Talbot	BUY	C\$ 3.55	60%	99	C\$ 221	C\$ 57	C\$ 22	C\$ 185	0.14%	152	0.9	(2%)	(1%)	(14%)	6%	(45%)	C\$ 3.54	0.63x				
UR Energy	URE-TSX	CAD	C\$ 0.72	D. Talbot	BUY	C\$ 1.40	94%	160	C\$ 115	C\$ 9	C\$ 20	C\$ 127	0.061%	43	2.2	(5%)	(1%)	(9%)	(1%)	(26%)	C\$ 1.43	0.50x				
Peninsula Energy	PEN-ASX	AUD	A\$ 0.17	D. Talbot	n/a	n/a	n/a	301	A\$ 50	A\$ 10	A\$ 23	A\$ 63	0.064%	62	0.7	3%	(0%)	(10%)	(15%)	(8%)	n/a	n/a				
Kazatomprom	KAP-LON	GBP	GBP\$ 13.35	n/a	n/a	n/a	n/a	259	GBP\$ 3,462	GBP\$ 340	GBP\$ 526	GBP\$ 3,649	0.054%	1391	3.4	(1%)	1%	(1%)	(10%)	n/a	n/a	n/a				
Producer Average															2.1	0%	1%	(7%)	(2%)	(26%)	0.75x					
Developers																										
Uranium Energy	UEC-NYSE	USD	US\$ 0.86	D. Talbot	BUY	US\$ 1.70	97%	184	US\$ 158	US\$ 18	US\$ 20	US\$ 160	0.048%	105	1.5	(1%)	(4%)	(16%)	(6%)	(35%)	US\$ 1.83	0.47x				
Denison Mines	DML-TSX	CAD	C\$ 0.47	D. Talbot	BUY	C\$ 1.35	187%	597	C\$ 281	C\$ 23	C\$ 0	C\$ 257	2.9%	153	1.3	1%	(11%)	(20%)	(19%)	(30%)	C\$ 1.61	0.29x				
NexGen Energy	NXE-TSX	CAD	C\$ 1.39	D. Talbot	BUY	C\$ 5.55	301%	356	C\$ 493	C\$ 125	C\$ 138	C\$ 506	2.0%	348	1.1	(3%)	(11%)	(20%)	(18%)	(44%)	C\$ 6.94	0.20x				
Fission Uranium	FCU-TSX	CAD	C\$ 0.25	D. Talbot	BUY	C\$ 2.00	700%	486	C\$ 122	C\$ 21	C\$ 0	C\$ 100	1.8%	135	0.6	(4%)	(14%)	(9%)	(29%)	(51%)	C\$ 2.28	0.11x				
Azarga Uranium	AZZ-TSX	CAD	C\$ 0.19	D. Talbot	BUY	C\$ 0.45	137%	186	C\$ 35	C\$ 0	C\$ 0	C\$ 35	0.094%	45	0.6	(10%)	(14%)	36%	6%	(21%)	C\$ 0.54	0.35x				
Boss Resources	BOE-ASX	AUD	A\$ 0.05	n/a	n/a	n/a	n/a	1,587	A\$ 71	A\$ 11	A\$ 4	A\$ 65	0.07%	63	0.7	(4%)	(10%)	(22%)	(25%)	(13%)	n/a	n/a				
Laramide Resources	LAM-TSX	CAD	C\$ 0.21	n/a	n/a	n/a	n/a	165	C\$ 35	C\$ 1	C\$ 11	C\$ 45	0.11%	118	0.3	5%	(5%)	2%	(11%)	(46%)	n/a	n/a				
Global Atomic	GLO-TSX	CAD	C\$ 0.47	n/a	n/a	n/a	n/a	145	C\$ 68	C\$ 8	C\$ 0	C\$ 61	0.18%	189	0.2	(4%)	(3%)	(4%)	(2%)	34%	n/a	n/a				
Deep Yellow	DYL-ASX	AUD	A\$ 0.25	n/a	n/a	n/a	n/a	247	A\$ 61	A\$ 15	A\$ 0	A\$ 46	0.032%	149	0.2	(3%)	(7%)	(10%)	(18%)	(51%)	n/a	n/a				
Govix	CXU-TSX	CAD	C\$ 0.13	n/a	n/a	n/a	n/a	423	C\$ 53	C\$ 2	C\$ 0	C\$ 52	0.081%	230	0.2	0%	(17%)	(11%)	(19%)	(11%)	n/a	n/a				
Vimy Resources	VMY-ASX	AUD	A\$ 0.04	n/a	n/a	n/a	n/a	619	A\$ 27	A\$ 1	A\$ 0	A\$ 26	0.33%	116	0.2	5%	(6%)	(12%)	(36%)	(21%)	n/a	n/a				
Plateau Energy Metals	PLU-TSX	CAD	C\$ 0.28	n/a	n/a	n/a	n/a	86	C\$ 24	C\$ 1	C\$ 0	C\$ 22	0.021%	124	0.1	15%	6%	34%	6%	(62%)	n/a	n/a				
Banneman	BMN-ASX	AUD	A\$ 0.03	n/a	n/a	n/a	n/a	1,059	A\$ 35	A\$ 6	A\$ 4	A\$ 33	0.019%	271	0.1	(13%)	(15%)	(15%)	(23%)	(17%)	n/a	n/a				
Berkeley Energia	BKY-ASX	AUD	A\$ 0.20	n/a	n/a	n/a	n/a	259	A\$ 50	A\$ 97	A\$ 36	-10	0.049%	89	-0.1	(3%)	(11%)	(29%)	(30%)	(58%)	n/a	n/a				
Developers Average															0.5	(2%)	(9%)	(7%)	(13%)	(26%)	0.28x					
Explorers																										
Toro Energy	TOE-ASX	AUD	A\$ 0.01	n/a	n/a	n/a	n/a	2,490	A\$ 20	A\$ 5	A\$ 16	A\$ 31	0.48%	91	0.2	14%	14%	(27%)	(62%)	(68%)	n/a	n/a				
UEX Corp	UEX-TSX	CAD	C\$ 0.12	n/a	n/a	n/a	n/a	394	C\$ 47	C\$ 10	C\$ 0	C\$ 37	0.43%	99	0.3	4%	(4%)	(4%)	(14%)	(25%)	n/a	n/a				
U3O8 Corp	UWE-TSX	CAD	C\$ 0.07	n/a	n/a	n/a	n/a	23	C\$ 1	C\$ 0	C\$ 0	C\$ 2	n/a	n/a	n/a	n/a	(28%)	(32%)	8%	(59%)	(68%)	n/a	n/a			
Skyharbour Resources	SYH-TSX	CAD	C\$ 0.15	n/a	n/a	n/a	n/a	64	C\$ 10	C\$ 1	C\$ 0	C\$ 8	n/a	n/a	n/a	n/a	(3%)	(6%)	(17%)	(44%)	(58%)	n/a	n/a			
IsoEnergy Ltd	ISO-TSX	CAD	C\$ 0.45	n/a	n/a	n/a	n/a	76	C\$ 34	C\$ 6	C\$ 0	C\$ 28	n/a	n/a	n/a	n/a	23%	5%	18%	(38%)	(8%)	n/a	n/a			
Explorer Average															0.3	2%	(5%)	(4%)	(44%)	(45%)						

Source: Company Reports, FactSet, Eight Capital Estimates

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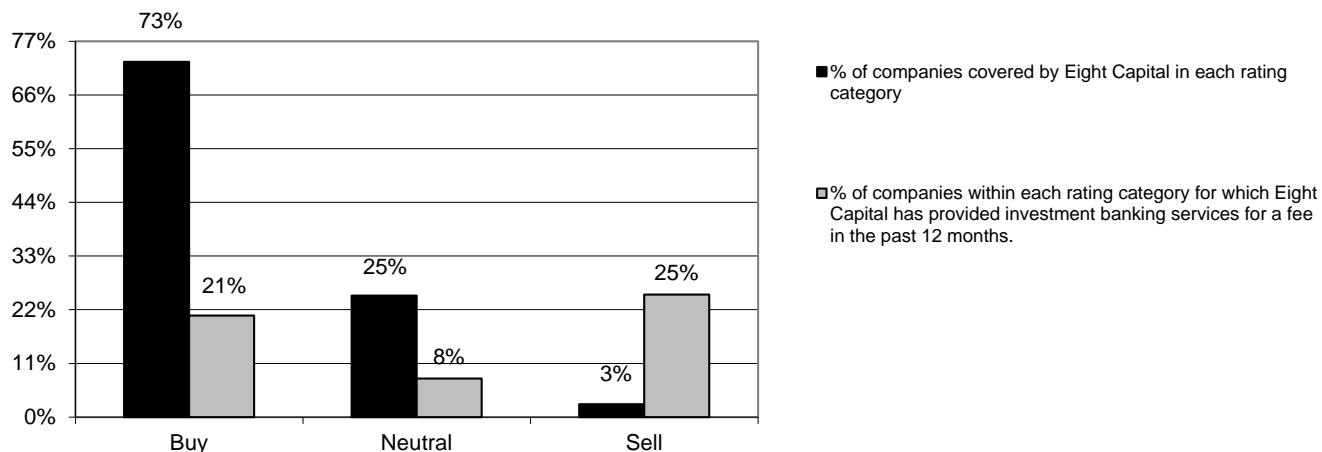
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