

Uranium Participation Corp.

(TSX:U)

SECTOR: Mining

STOCK PRICE	\$4.60
RATING	BUY
TARGET PRICE	\$5.90
RISK	Very High

DISCOUNT PERSISTS AS URANIUM GAPS UP

Supply Disruptions Bolstering Uranium as Cigar Lake Suspension Extended

OUR TAKE: With Cameco's announcement last night that it has taken the decision to continue the suspension of production at the Cigar Lake Mine indefinitely due to COVID-19 (subject to continuous review) we continue to highlight the discount in UPC shares vs NAV as an opportunity. The original suspension was announced on March 23 and was for an initial 4-week period which has now been extended indefinitely, with Cameco citing a number of factors leading to the decision including, "...precautions and restrictions put in place by the federal and provincial governments, the increasing significant concern among leaders in the remote isolated communities of northern Saskatchewan..." The concerns of the local community in particular should be prioritized and could lead to a more protracted shut-down out of an abundance of caution. The longer major supply sources are disrupted the better the fundamental structure will be when we emerge from the pandemic as more inventory gets absorbed into the system.

With the world's largest producers announcing a string of temporary production cuts and/or mine closures amounting to ~50% of global production due to COVID-19, we continue to favour UPC as a lower-risk way to play the uranium space. UPC has appreciated significantly (+45%) since its peak discount to the value of its uranium holdings (mid-March), but a significant discount still persists as the short-term uranium price has also moved up 23%. UPC shares need to appreciate 17% to trade on par with its physical holdings based on mid-day pricing of \$4.60 and the Haywood-calculated CURRENT NAV of \$5.36. UPC's share price implies US\$25.50/lb U₃O₈ while the daily uranium price was US\$29.75/lb (UxC) last night. We would not be surprised to see an uptick in benchmark daily prices tonight on this news as the spot market tightens further.

KEY HIGHLIGHTS

- ◆ **U-TSX-Implied Uranium Price (U-TSX FIP): US\$25.50/lb U₃O₈**, 1-week Δ to 14-Apr-20: up US\$1.47/lb, or ↑6.1%
 - This places UPC's inventory of physical uranium at an estimated 14.3% (Figure 1) discount to the current uranium price.
 - U-TSX is currently trading around \$4.60, or a 14.1% discount to our calculated CURRENT NAV per share of \$5.36.
- ◆ **Current UxC Broker Average Price (BAP): US\$29.75/lb U₃O₈**, 1-week Δ to 13-Apr-20: up US\$1.95/lb, or ↑7.0%
 - YTD Δ: up US\$4.82/lb, or ↑19.3%
- ◆ **Unmanaged fund market value creates opportunity.** Uranium Participation Corp. is a physical uranium inventory holding fund that is not actively managed to track uranium price. As such, the share price can deviate significantly from the underlying spot market value of the physical inventory it holds (U₃O₈ and UF₆), allowing significant decoupling to occur, creating opportunity.

RECOMMENDED ACTION

Investors with a constructive long-term view on uranium should view the current NAV discount as an attractive entry point

- ◆ **Large discount still good entry point for long gamers.** The current discount of ~14% is still significant (just <1σ limit, Fig. 2), despite recent compression from +30%. We see the current risk profile as asymmetric as global production cuts tighten the physical market. We expect UPC shares to recover toward the long-term mean discount to uranium price of ~5%, which would mean a ~17% recovery in UPC shares from current level of C\$4.60 to current estimated NAV of C\$5.36 (Target NAV of C\$5.90).

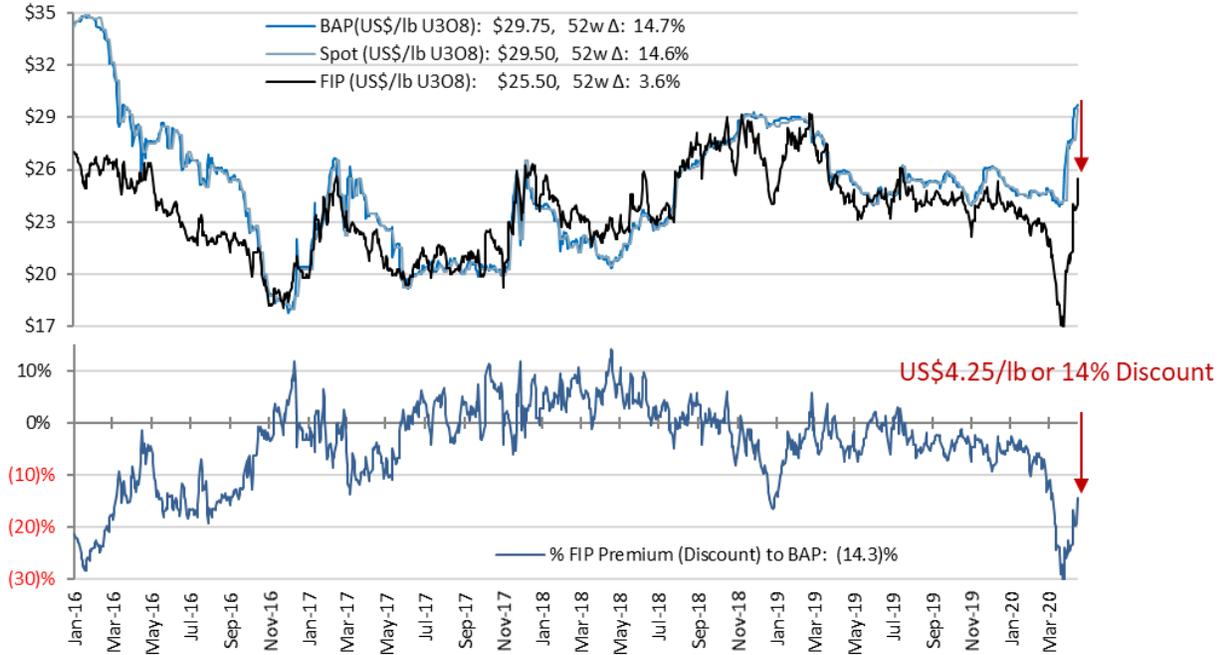
KEY STATISTICS AND METRICS

52-Week High/Low	\$4.59/\$3.12
YTD Performance	12.7%
Dividend Yield	N/A
Shares O/S	138.1M
Market Capitalization	\$635M
Cash	\$4.7M
Debt	NIL
Enterprise Value	\$630M
Daily Volume (3 mos.)	596,777
Currency	CAD

VALUATION

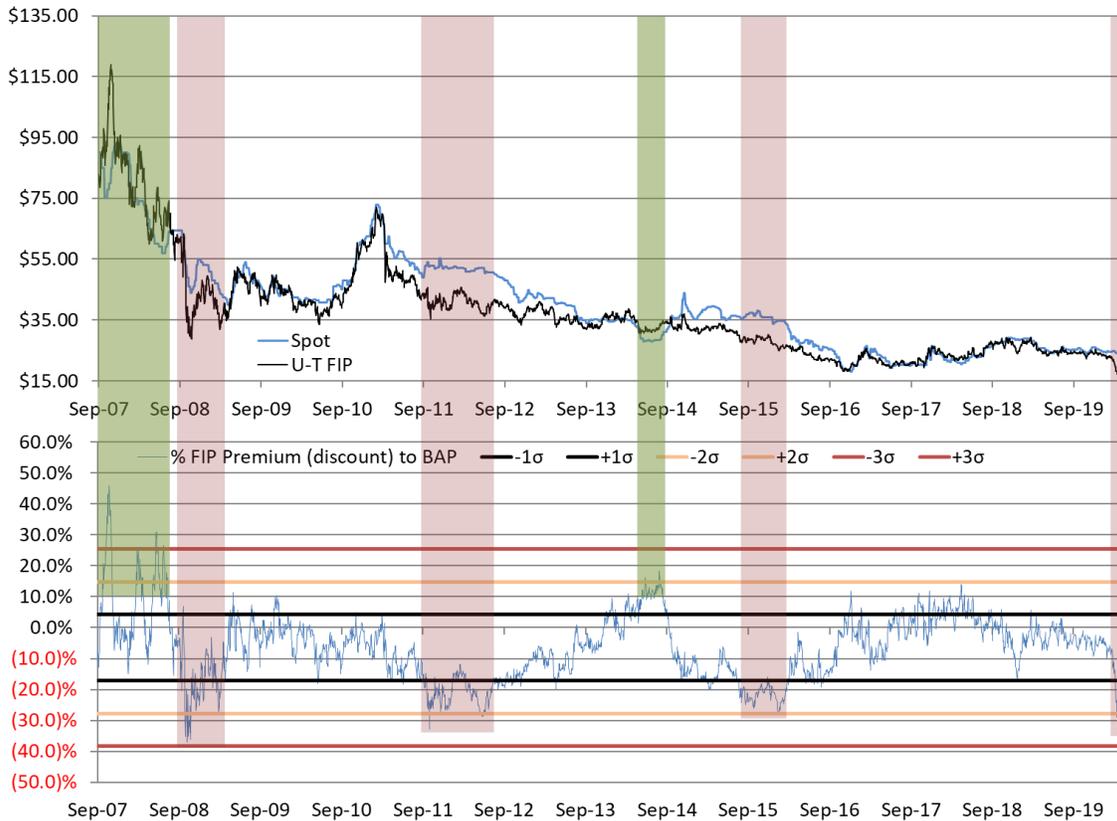
Our target Based on 1.0x our corporate NAV, including valuation of UPC's inventory of physical uranium (U₃O₈) and uranium hexafluoride (UF₆) at the Haywood 12-month average forward spot uranium price forecast of \$39/lb U₃O₈, net of corporate adjustments.

Figure 1. 4-Year U-T Trading Relationship vs UxC Spot and BAP uranium prices



Source: UxC, CapitalIQ, Haywood Securities Inc.

Figure 2. 12-Year U-T Trading Relationship vs UxC Spot and BAP uranium prices (periods of exceptional premiums highlighted)



Source: UxC, CapitalIQ, Haywood Securities Inc.



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Analyst Certification

I, Colin Healey, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

Important Disclosures

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- ◆ n/a

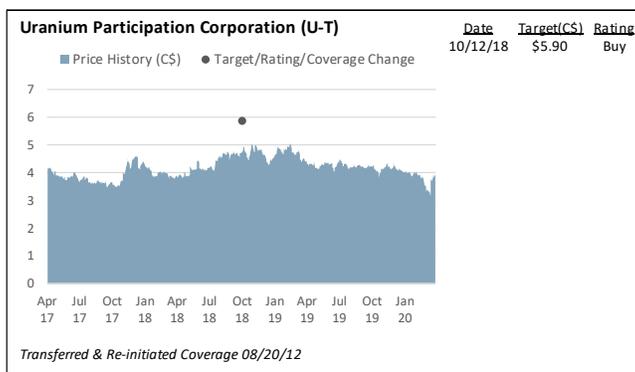
Other material conflict of interest of the research analyst of which the research analyst or Haywood Securities Inc. knows or has reason to know at the time of publication or at the time of public appearance:

- ◆ n/a

Distribution of Ratings (as of April 14, 2020)

	%	#	IB Clients (TTM)
Buy	67.0%	69	92.3%
Hold	19.4%	20	3.8%
Sell	3.9%	4	3.8%
Tender	1.9%	2	0.0%
UR (Buy)	1.0%	1	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	6.8%	7	0.0%

Price Chart, Rating and Target Price History (as of April 14, 2020)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review
Source: Capital IQ and Haywood Securities

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