

Action Note

Equity Research

May 26, 2020

Metals & Minerals

Uranium Participation Corp.

(U-T) C\$5.00

Upgrading to BUY on Higher Uranium Price Assumptions

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Event

We are raising our target price to \$6.50 from \$5.00 and upgrading the stock to BUY from Hold to reflect our higher uranium-price forecasts.

Impact: POSITIVE

- Uranium market in deficit.** We are projecting that the uranium market will record a supply deficit of ~28mm lbs in 2020 and sustained deficits over the next several years. In our view, these deficits will be of sufficient magnitude to materially draw down surplus inventories that have been over-hanging the market. Various estimates have placed surplus uranium inventory that is readily available to the market at between 60mm-80mm lbs. Our forecast deficits would cut the surplus by >50% by YE2021.
- Uranium price deck increased.** We have increased our price deck to reflect what we believe is a more constructive market backdrop. We recognize that continued supply discipline from the producers will be a key factor supporting higher prices. Another important signal that the market has returned to health will be sustained utility demand in the term market. We have increased our uranium price deck by an average of ~15% between 2021 and 2023 to an average of ~US\$38/lb. We have maintained our long-term price at US\$45/lb, which we believe is in line with industry expectations for the market equilibrium price.
- Balance sheet** — At the end of February, UPC had a working capital position of C\$4.1mm, including cash of C\$3.2mm. UPC has been recently active in the sale of U3O8 to fund its NCIB program to acquire and cancel up to ~12.3mm shares. In April, UPC repurchased 470,538 shares that was funded by its working capital and the sale of 25,000lbs of U3O8. The company has also agreed to sell an additional 50,000lbs for gross proceeds of ~\$2.32mm that is expected to settle this month. The net proceeds will go toward replenishing working capital and repurchasing more shares.

TD Investment Conclusion

Our revised target price of \$6.50 is based on 1.0x our NAVPS estimate (0.95x previously) of \$6.29 using our forward 12-month uranium price forecast of US\$36.00/lb (previously US\$31.00/lb). We are upgrading our rating to BUY from Hold, given our expectation of a continued improvement in uranium prices over the next 12 months.

Recommendation:

BUY↑

Prior: HOLD

Risk:

HIGH

12-Month Target Price:

C\$6.50↑

Prior: C\$5.00

12-Month Dividend (Est.):

C\$0.00

12-Month Total Return:

30.0%

Market Data (C\$)

Current Price	C\$5.00
52-Week Range	\$3.12 - \$5.36
Mkt Cap (f.d.) (\$mm)	\$690.5
Float Cap (\$mm)	\$689.5
EV (\$mm)	\$687.1
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,423,761

Financial Data (C\$)

Fiscal Y-E	February
Shares O/S (f.d)(mm)	138.1
Float Shares (mm)	137.9
NAVPS	\$6.29
Working Cap (\$mm)	\$4.1

Estimates (C\$)

Year	2019A	2020A	2021E	2022E
EPS (basic)	(0.03)	0.02	(0.04)	(0.03)
EPS (basic) (old)	-	-	-	(0.02)

Valuations

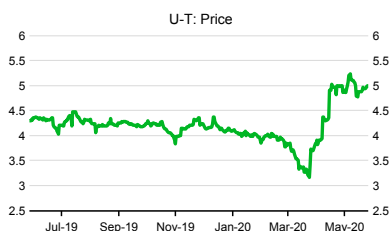
Year	2019A	2020A	2021E	2022E
Disc to NAV	-	-	25.8%	-

Supplemental Data

Year	2019A	2020A	2021E	2022E
U3O8 (US\$/lb)	26	25	34	36
UF6 US\$/kg	80	86	116	118

* 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 (U₃O₈) and hexafluoride (UF₆).

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Outlook

The uranium price has increased 35% year-to-date and now appears to be stabilizing in the mid-US\$30.00/lb range. The catalyst for the upward move is mine supply cuts, principally by Cameco and Kazatomprom. On a combined basis, the two producers have reduced mine supply by 15 million to 20 million pounds for 2020, and we expect that lower production this year will have a knock-on effect into 2021, although the extent of the hit to 2021 production is unclear. We estimate that 2020 primary mine supply of uranium will be ~118mmlbs, with further downside possible depending on how long the Cigar Lake operation remains on care and maintenance (we are assuming all of Q2/20 and Q3/20). Based on our forecasts, global uranium mine supply this year will be at its lowest point since 2008.

Negative factors reversing. Since the Fukushima disaster in March 2011, overproduction, declining demand, and an inventory overhang forced the uranium price into the low-US\$20/lb range — a price level that is clearly unsustainable for the long-term viability of most uranium mine production. These negative factors have or are reversing — global nuclear electricity generation is now higher than it was before the Fukushima disaster, the world's largest uranium producers have adopted price vs. volume strategies, and surplus inventories are being drawn down quickly.

We have increased our uranium price estimate by an average of 15% between 2021 and 2023 to an average of US\$38/lb (Exhibit 1). We have maintained our long-term price at US\$45/lb, which we believe is in line with industry expectations for the market equilibrium price. Our increased uranium price assumption reflects our positive view of mine supply curtailments on helping to rebalance the uranium pricing fundamentals.

Exhibit 1. Revised Uranium Price Deck

	Q1/20A	Q2/20E	Q3/20E	Q4/20E	2020E	2021E	2022E	2023E	2024E	2025/LT
Old	24.77	31.00	30.00	30.00	28.94	31.00	33.00	35.00	40.00	45.00
New	24.77	32.00	33.00	35.00	31.19	36.00	37.50	40.00	40.00	45.00
% Change	0.0%	3.2%	10.0%	16.7%	7.8%	16.1%	13.6%	14.3%	0.0%	0.0%

Source: UxC, TD Securities Inc. estimates



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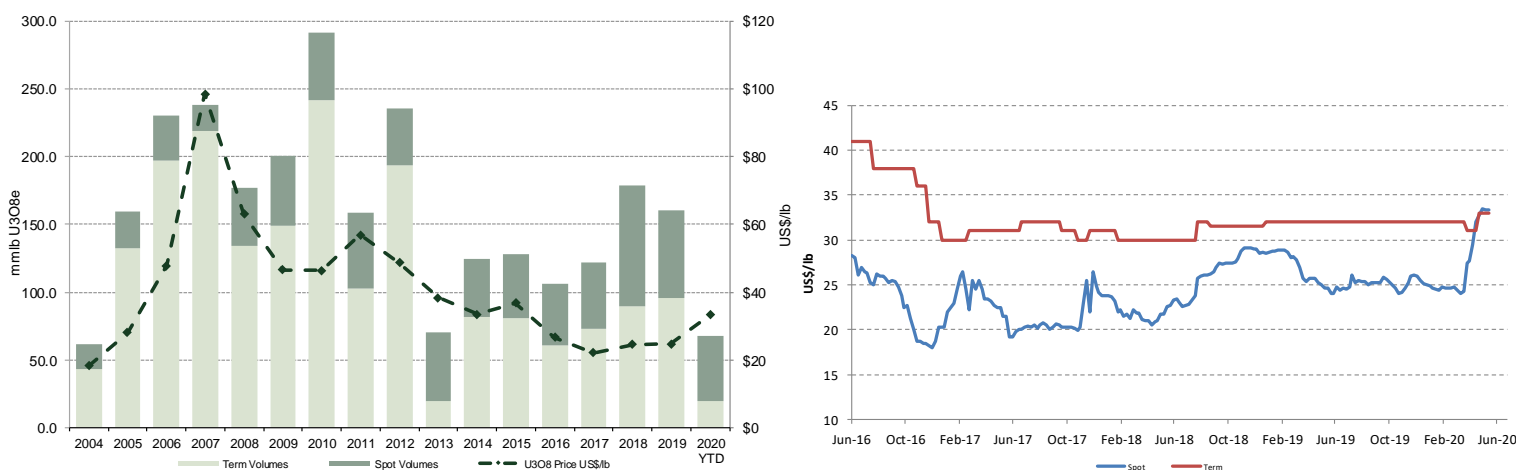
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Exhibit 2. Uranium Supply/Demand Balance

	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Mine Supply - Western World (mm lbs U3O8)													
Total Mine Supply - Western World	90	93	85	106	104	100	83	85	74	82	82	86	88
Net Eastern Mine Supply (lbs U3O8)	59	60	60	57	62	54	54	55	44	49	60	60	66
Total World Mine Supply (mmlb U3O8)	150	153	145	163	166	154	138	140	118	131	142	146	154
YoY % change	5.9%	2.4%	-5.3%	12.2%	2.1%	-7.6%	-10.2%	1.7%	-15.9%	10.9%	8.6%	2.6%	5.9%
Secondary Supply													
Global underfeeding and tails re-enrichment*	5	15	20	20	18	19	18	18	16	16	15	15	14
Mixed Oxide Fuel (MOX)*	10	8	8	4	5	5	5	6	6	6	6	6	7
US government sales (DOE Proposed)*	5	8	8	7	4	3	2	2	1	0	0	0	0
Additional Russian secondary supply*	24	24	5	2	2	0	0	0	0	0	0	0	0
Other			0	0	0	0	0	0	0	0	0	0	0
Total Secondary Supply (mmlb)	43	55	41	34	29	27	24	26	24	22	21	21	21
Secondary supply as % of global reactor demand	28%	32%	26%	21%	17%	16%	14%	15%	13%	12%	12%	12%	11%
Mobilization of Commercial Inventory	4	8	7	7	7	7	7	7	7	7	7	7	7
Total Supply	193	208	190	205	202	187	169	173	149	160	170	174	183
Total World Demand													
Total World Nuclear Generating Capacity (MWe) *				345,377	351,271	358,819	368,571	372,978	374,420	384,508	385,211	389,242	394,906
Uranium requirements per MWe				464	474	472	472	472	472	472	472	472	472
Uranium demand (mmlb)				160	167	169	174	176	177	181	182	184	186
First Core Requirement (2 year lead)				-	-	-	-	-	-	-	-	-	-
Total World Demand (mmlbs U3O8)	155	170	155	160	167	169	174	176	177	181	182	184	186
YoY % change	0.0%	9.7%	-8.8%	3.4%	3.9%	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%
Supply / Demand Balance (mmlb)	38	38	35	44	35	18	-5	-3	-28	-22	-11	-10	-4
Spot Uranium Price (US\$/lb U3O8)	\$48.73	\$38.57	\$33.60	\$36.89	\$26.57	\$22.12	\$24.82	\$25.94	\$31.19	\$36.00	\$37.50	\$40.00	\$40.00

* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case
 Note - TD LT price assumption starts in 2025; a flat US\$45/lb price is assumed for 2025 and beyond.
 Source: World Nuclear Association, UxC, company reports, TD Securities Inc.

Exhibit 3. Uranium Volumes and Pricing



Source: World Nuclear Association, UxC, TD Securities Inc.

UPC's share-price is trading at a significant discount to current spot prices (US\$34.04/lb) — As of yesterday's close, we calculate that the company is currently trading at an 18% discount to our calculated NAVPS of \$6.13, based on the company's April 30, 2020 reported uranium holdings and the May 25 uranium spot price of US\$34.04/lb.



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Exhibit 4. NAV (May 25, 2020 spot uranium prices)

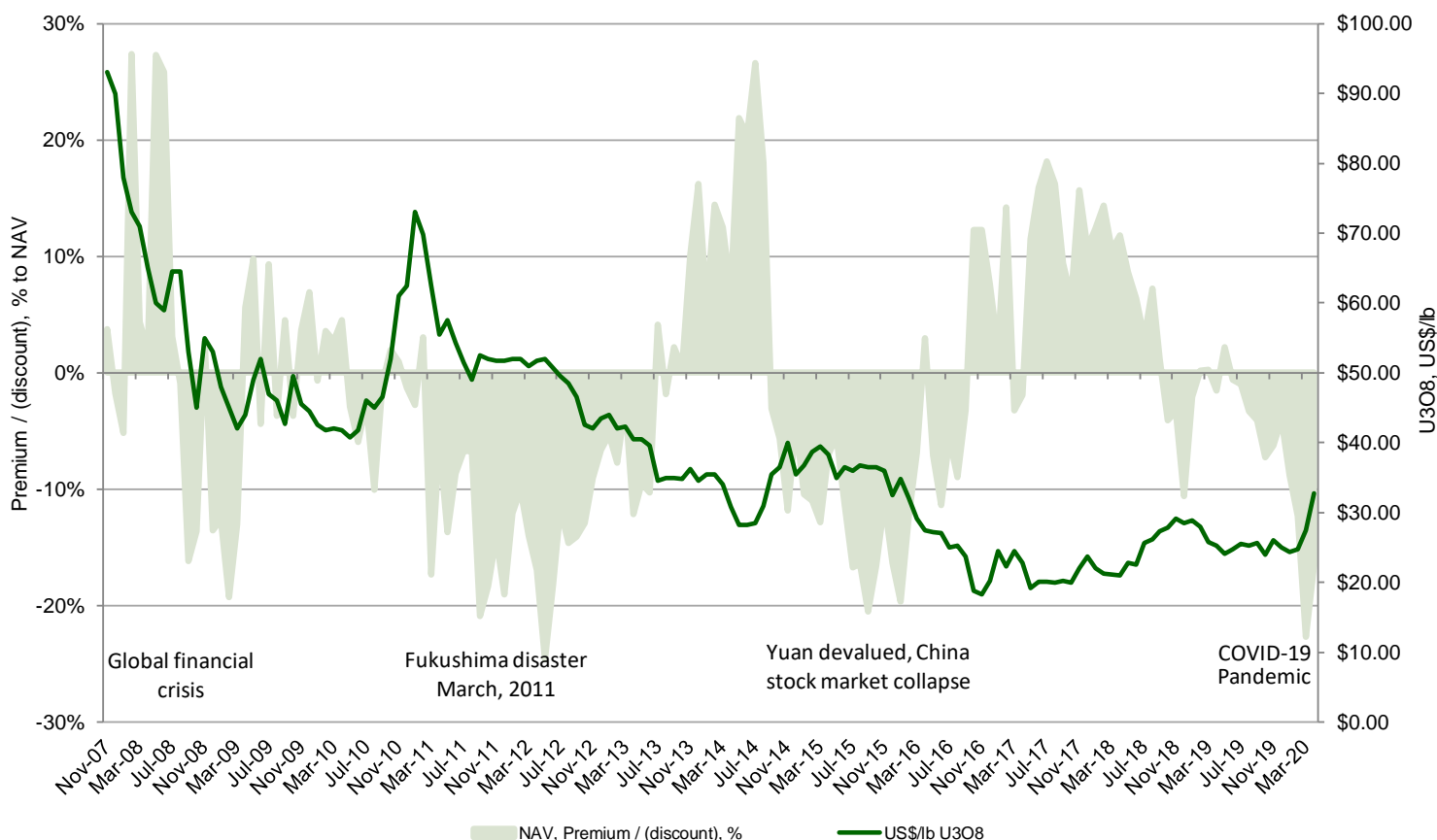
Current Uranium Holdings	Units	Inventories Held	Price US\$/unit	Implied Value US\$, mm	Price C\$/unit*	Implied Value C\$, mm	
Uranium Oxide in Concentrates, U3O8	lb	15,662,101	\$34.04	\$ 533.1	\$47.58	\$ 745.1	
Uranium Hexafluoride, UF6	kg	600,000	\$110.63	\$ 66.4	\$154.62	\$ 92.8	
Implied Value of Inventories Held				\$ 599.5		\$ 837.9	
						Working Capital	\$5.4
						Total NAV	\$ 843.4
						Shares Outstanding, mm	137.6
						NAVPS	C\$6.13

Forex CAD/USD 0.72

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.

Exhibit 5. Historical NAV Premium/Discount to the Uranium Price



Source: Company, TD Securities Inc.

Valuation

Our forward NAV of \$864.6mm or \$6.29/share (previously \$5.21) for UPC is based on our 12-month price forecast of US\$36.00/lb (previously US\$31.00/lb), using a 0.73 Canadian dollar/U.S. dollar exchange rate (0.76 previously). In addition, we assume a forward working capital position of \$2.1mm. Our UF6 price assumes a 3.25x UF₆/U₃O₈ ratio to convert the price of U₃O₈ to UF₆ based on recent trading.

Exhibit 6. Implied 12-month Forward NAV and Target Price Calculation

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	16,188,372	\$36.00	\$ 582.8	\$49.32	\$ 798.3
Uranium Hexafluoride, UF6	kg	400,000	\$117.00	\$ 46.8	\$160.27	\$ 64.1
Implied Value of Inventories Held				\$ 629.6		\$ 862.4
					Working Capital, C\$m	\$2.1
					Total NAV, C\$m	\$ 864.6
					Shares Outstanding, mm	137.5
					NAVPS	C\$6.29
				Implied Target, 1.00x multiple to NAV, weighted 100%		\$6.29
					Target Price Rounded	C\$6.50

* Forex CAD/USD 0.73

Source: TD Securities Inc.

Exhibit 7. NAVPS Sensitivity Analysis

C\$NAVPS to Spot U3O8 and Forex CAD/USD		0.67	0.70	0.73	0.76	0.79	0.82
U3O8 US\$/lb	\$28.00	\$5.33	\$5.10	\$4.89	\$4.70	\$4.52	\$4.36
	\$30.00	\$5.71	\$5.47	\$5.24	\$5.04	\$4.85	\$4.67
	\$32.00	\$6.09	\$5.83	\$5.59	\$5.37	\$5.17	\$4.98
	\$34.00	\$6.47	\$6.19	\$5.94	\$5.71	\$5.49	\$5.29
	\$36.00	\$6.85	\$6.56	\$6.29	\$6.04	\$5.81	\$5.60
	\$38.00	\$7.23	\$6.92	\$6.64	\$6.38	\$6.13	\$5.91
	\$40.00	\$7.61	\$7.28	\$6.99	\$6.71	\$6.46	\$6.22
	\$42.00	\$7.99	\$7.65	\$7.33	\$7.05	\$6.78	\$6.53
	\$44.00	\$8.37	\$8.01	\$7.68	\$7.38	\$7.10	\$6.84

Assumes the UF6/U3O8 price exchange ratio is constant at 3.25x

Potential Return to Share Price (assumes 1.0x multiple to NAVPS)		0.67	0.70	0.73	0.76	0.79	0.82
U3O8 US\$/lb	\$28.00	7%	2%	-2%	-6%	-10%	-13%
	\$30.00	14%	9%	5%	1%	-3%	-7%
	\$32.00	22%	17%	12%	7%	3%	0%
	\$34.00	29%	24%	19%	14%	10%	6%
	\$36.00	37%	31%	26%	21%	16%	12%
	\$38.00	45%	38%	33%	28%	23%	18%
	\$40.00	52%	46%	40%	34%	29%	24%
	\$42.00	60%	53%	47%	41%	36%	31%
	\$44.00	67%	60%	54%	48%	42%	37%

Source: TD Securities Inc.

Justification of Target Price

Our \$6.50 target price (up from \$5.00 previously) is based on 1.00x (previously 0.95x) our forward NAVPS estimate of \$6.29 (\$5.21 previously). We have increased our forward NAV multiple to more closely reflect the positive uranium pricing momentum following the announced mine supply curtailments in 2020.

Key Risks to Target Price

The key risks to our target price 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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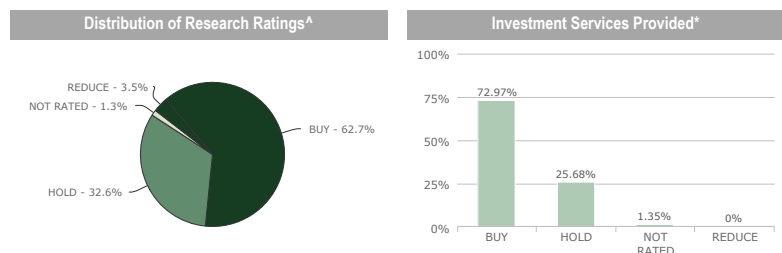
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Uranium Participation Corp.	U-T	n/a

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