

Industry Note

Equity Research

August 19, 2020

Metals & Minerals

Uranium Weekly: Kazatomprom to Keep Volumes Curtailed into 2022

Kazatomprom announced today its intention to keep production down by 20% through 2022, compared to the planned levels under Subsoil Use Contracts. The company intends to also maintain a 20% reduction against these contracts in 2021, with no additional production planned to replace volumes lost in 2020 due to COVID-19. The decision to keep production curtailed is due to the lack of market response to existing supply cuts, indicative that the market is still recovering from a long period of oversupply, according to the company.

The full implementation of this decision would remove up to 5,500tU (~14.3mmlbs U3O8) from supply in 2022, lowering Kazatomprom's 2022 production to 22,000-22,500tU from 27,500-28,000tU. For context, the announced curtailment is equal to ~10% of our assumed world mine supply in 2022. While we expect uranium pricing to react positively to the news, the prolonged curtailment demonstrates just how oversupplied the uranium market has been in recent years. We are currently forecasting the market to be in a deficit by ~26mmlbs this year.

UxC Consulting's (UxC) weekly price indicator declined 3.75% this week to US \$30.80/lb (from US\$32.00/lb). The weekly price indicator has declined from its most recent peak of US\$34/lb in late-May on softer activity in the spot market, which is not unusual over the summer months with only two transactions in the spot market so far in August. UxC also reported 3-year and 5-year U3O8 forward prices declining to \$34.00/lb and \$37.00/lb, respectively (\$35.75/lb and \$38.75/lb previously).

Reported term activity remains low compared with prior years. Year-to-date, UxC is reporting that >26mmlbs of uranium has been contracted in the term market; this compares with average utility term contracting volumes over the past five years through to the end of July of ~36mmlbs. That being said, in recent years, term contracting volume has been very volatile with a peak of ~54mmlbs to the end of July in 2017 and low of just ~16mmlbs in 2018. During the peak term contracting years from 2006 through 2012, average annual term volume was ~176mmlbs.

The catalyst that could support the next up-leg in spot and term prices would be a meaningful return of utilities to the term contracting market, in our view. UxC has noted a recent pick-up in term contracting interest from both U.S. and non-U.S. utilities.

Greg Barnes

Craig Hutchison, P. Eng

Derick Ma, CFA, CPA, CA

Joel Brown, P.Eng. (Associate)

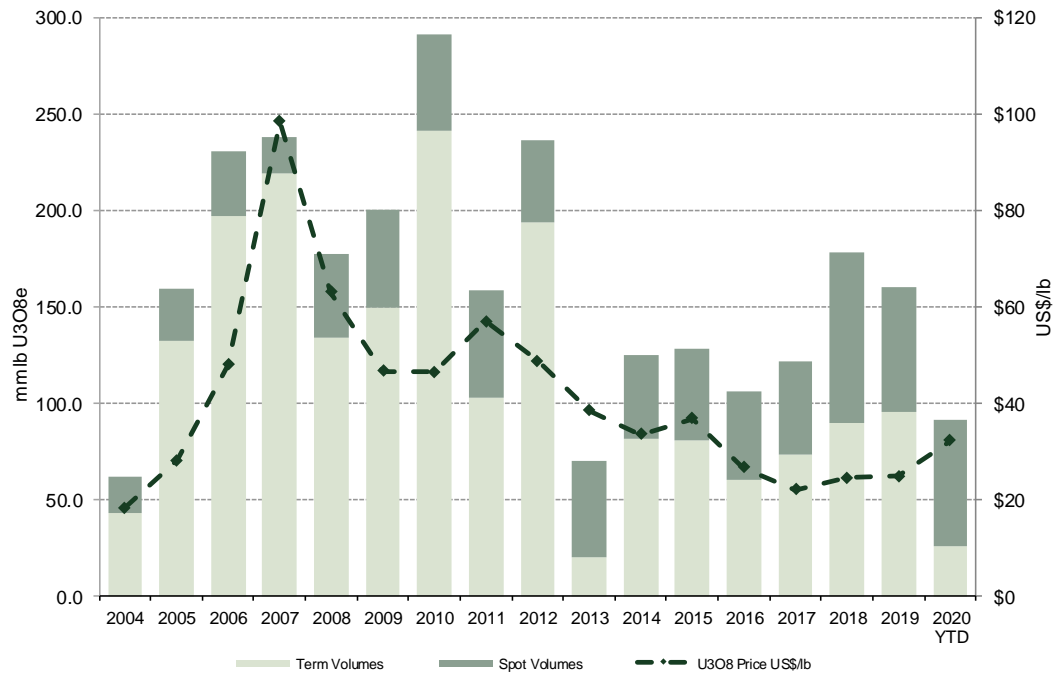


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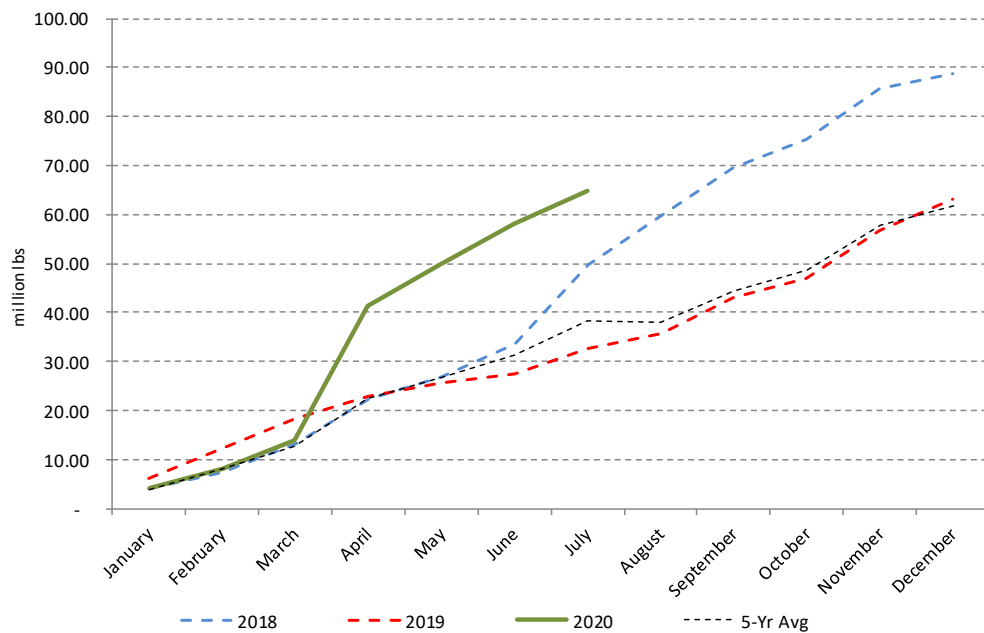
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Exhibit 1. Term Contracting Volumes Lagging in 2020



Source: UxC

Exhibit 2. Historical vs. 2020 Cumulative Monthly Spot Volumes



Source: UxC

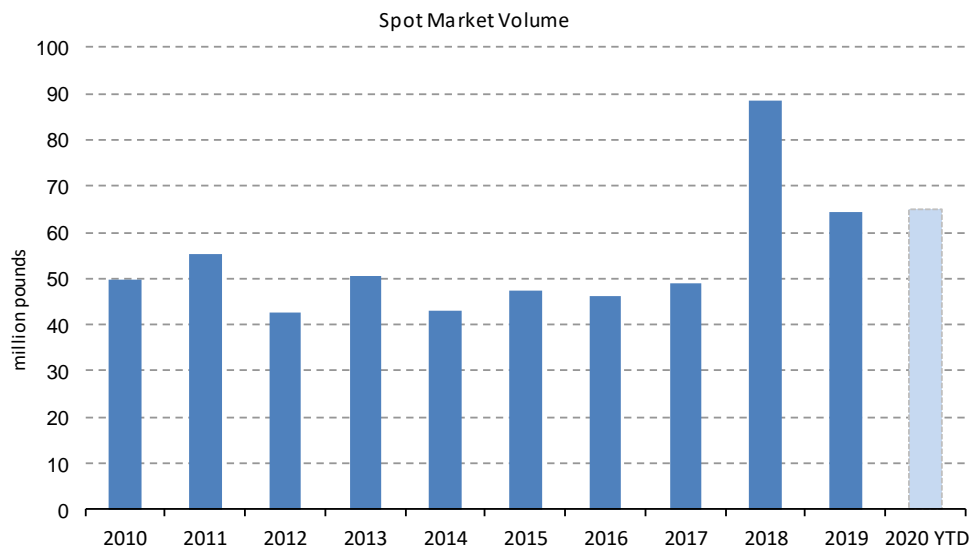


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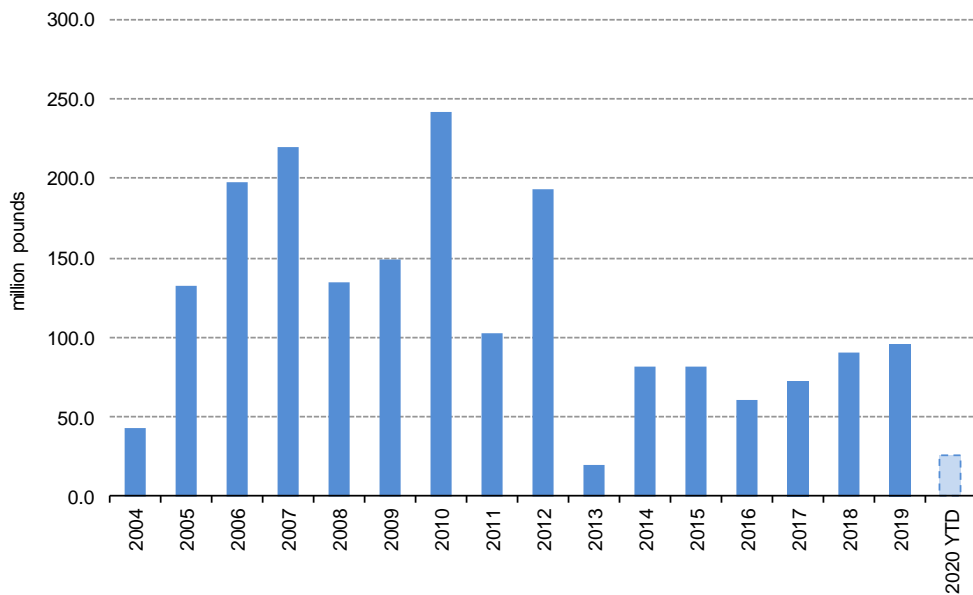
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Exhibit 3. Historical vs. 2020 (YTD) Spot Volumes



Source: UxC

Exhibit 4. Historical vs. 2020 (YTD) Term Volumes



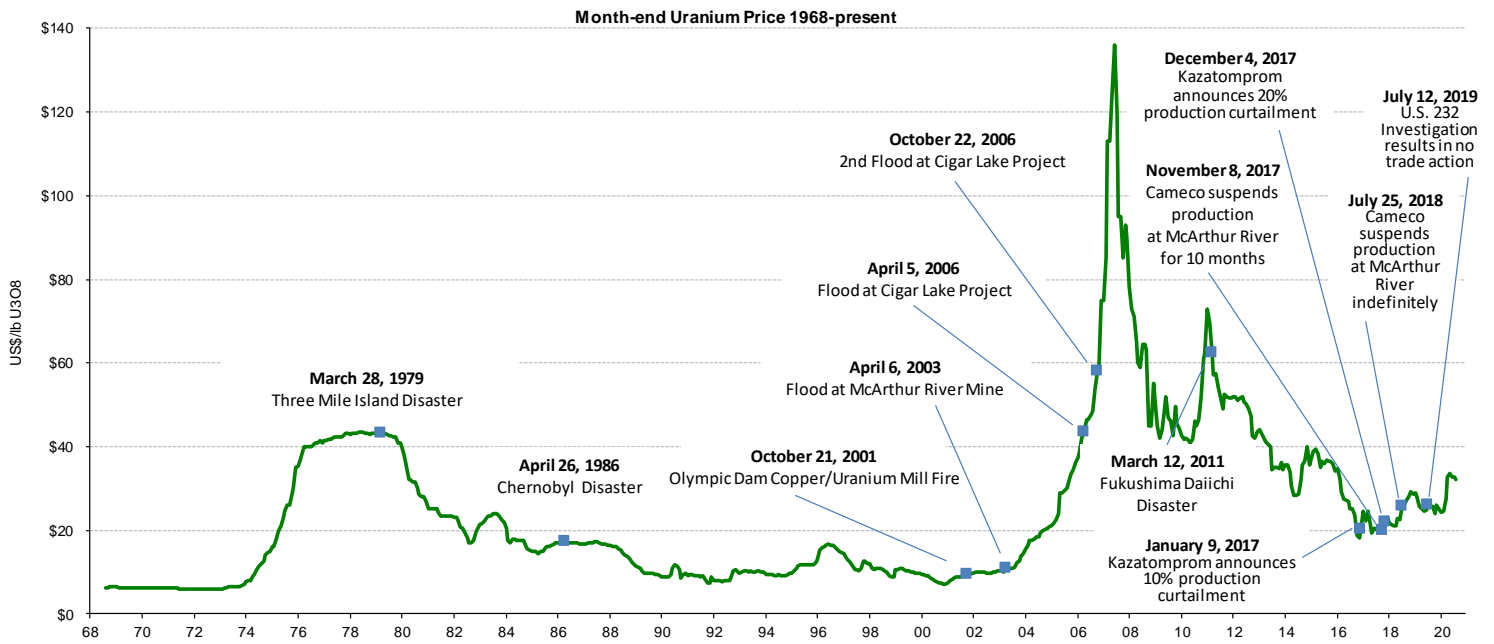
Source: UxC

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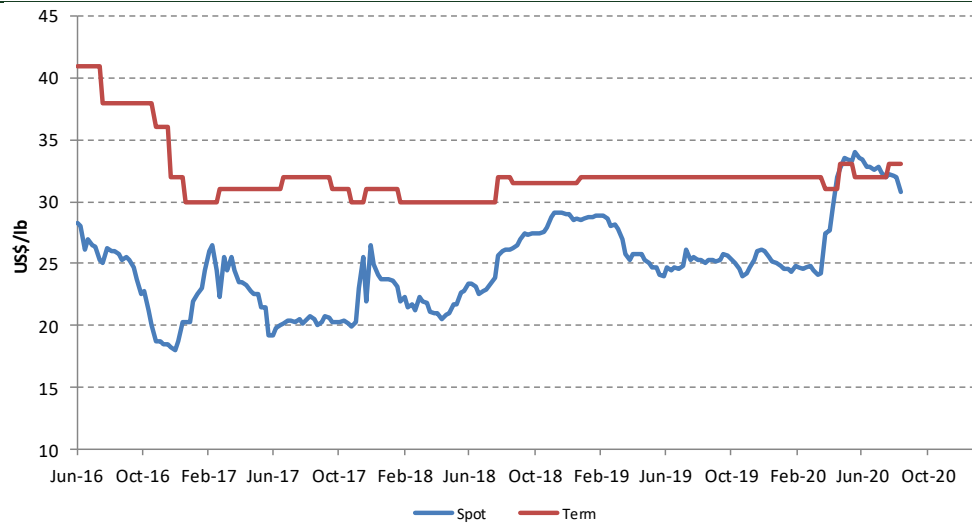
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Exhibit 5. Historical Spot Price and Market Impacting Events (US\$/lb)



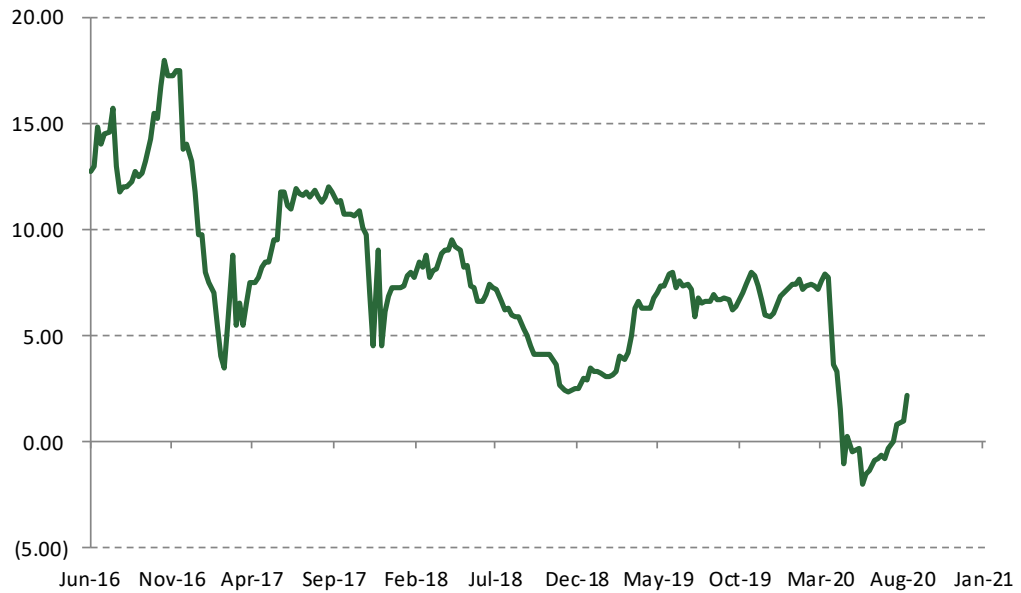
Source: UxC, Companies, TD Securities Inc.

Exhibit 6. Spot and Term Uranium Prices (US\$/lb)



Source: UxC

Exhibit 7. Uranium Term Price Premium to Spot (US\$/lb)



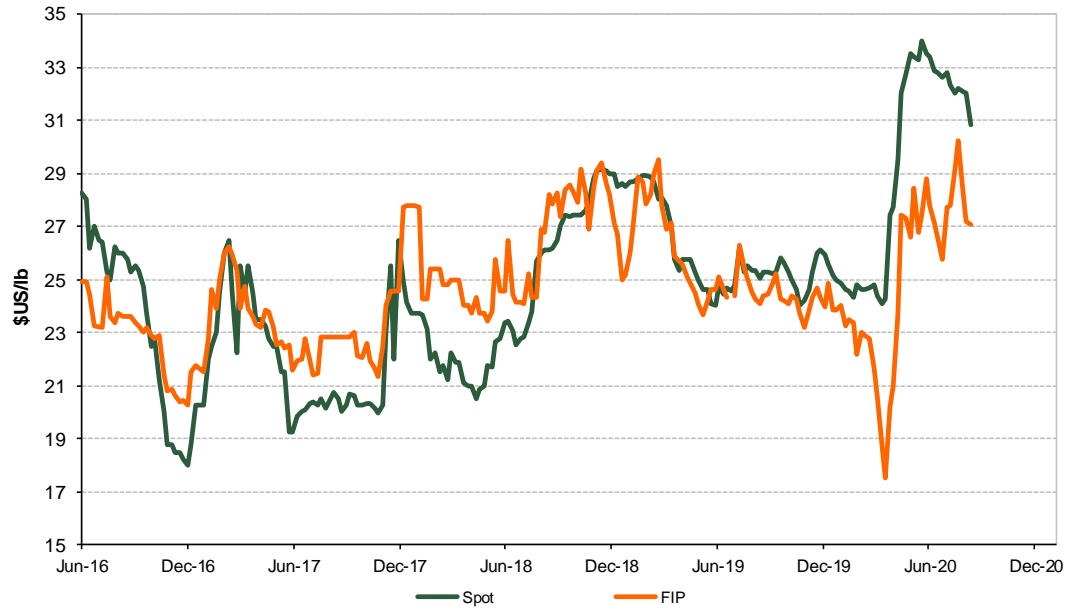
Source: UxC

Exhibit 8. Uranium Prices – Spot, 3yr Fwd and 5yr Fwd



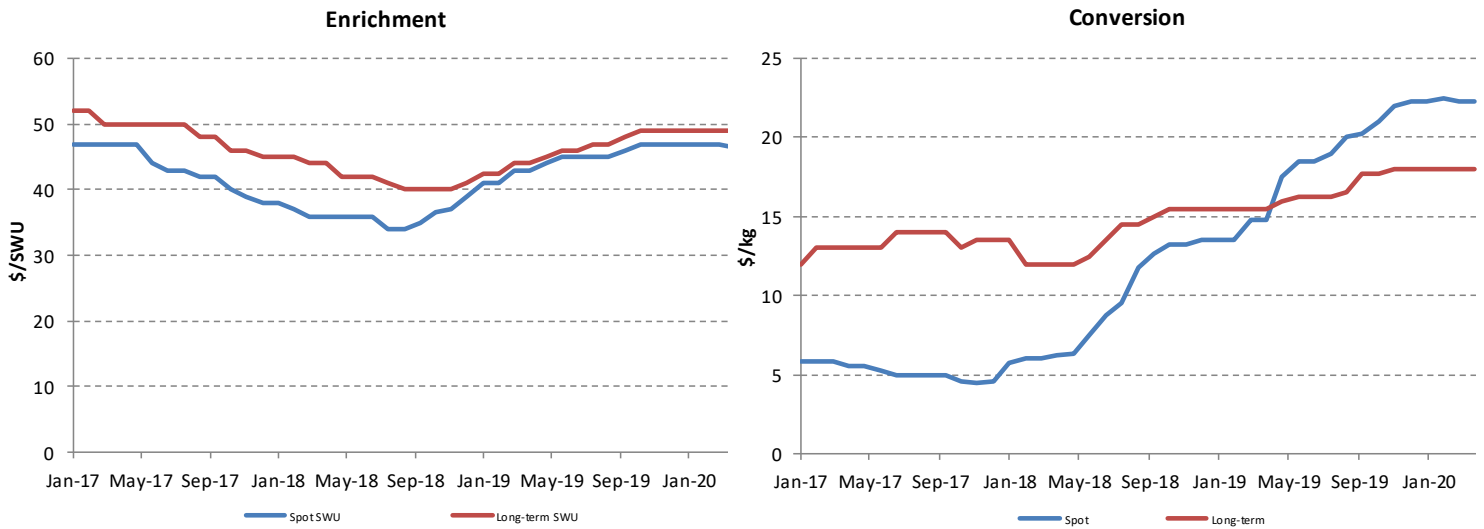
Source: UxC

Exhibit 9. Fund Implied Price (FIP) and Spot Price



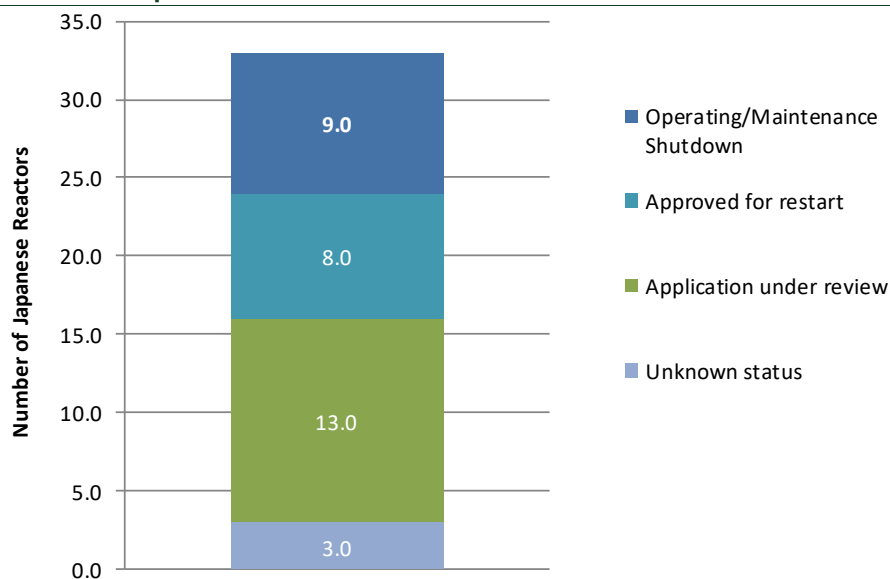
Source: UxC

Exhibit 10. Monthly SWU and Conversion Pricing



Source: UxC

Exhibit 11. Japanese Reactor Status



Source: UxC, Bloomberg, World Nuclear Association

Exhibit 12. TD Securities Uranium Supply/Demand Model

	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Mine Supply - Western World (mm lbs U3O8)										
Total Mine Supply - Western World	106	104	100	83	85	75	81	80	85	88
Net Eastern Mine Supply (lbs U3O8)	57	62	54	54	55	44	49	60	60	66
Total World Mine Supply (mmlb U3O8)	163	166	154	138	140	120	130	140	145	154
YoY % change	12.2%	2.1%	-7.6%	-10.2%	1.7%	-14.7%	8.3%	7.8%	3.5%	6.8%
Secondary Supply										
Global underfeeding and tails re-enrichment*	20	18	19	18	18	16	16	15	15	14
Mixed Oxide Fuel (MOX)*	4	5	5	5	6	6	6	6	6	7
US government sales (DOE Proposed)*	7	4	3	2	2	1	0	0	0	0
Additional Russian secondary supply*	2	2	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total Secondary Supply (mmlb)	34	29	27	24	26	24	22	21	21	21
Secondary supply as % of global reactor demand	21%	17%	16%	14%	15%	13%	12%	12%	12%	11%
Mobilization of Commercial Inventory	8	7	7	7	7	7	7	7	7	7
Total Supply	205	202	187	169	173	150	159	168	173	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)	160	167	169	174	176	177	181	182	184	186
YoY % change	3.4%	3.9%	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%
Supply / Demand Balance (mmlb)	44	35	18	-5	-3	-26	-23	-14	-11	-4
Spot Uranium Price (US\$/lb U3O8)	\$36.89	\$26.57	\$22.12	\$24.82	\$25.94	\$31.30	\$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: UxC, Bloomberg, World Nuclear Association, TD Securities Inc.



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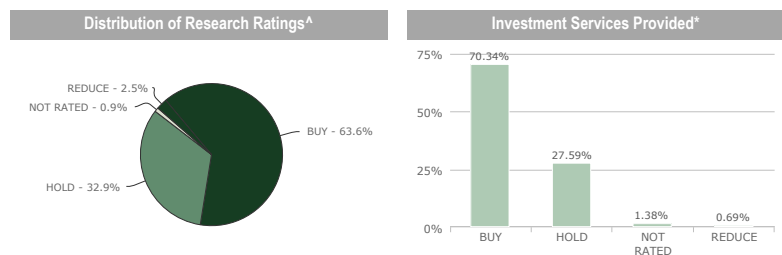
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