

URANIUM PARTICIPATION, YELLOW CAKE

Rossing Shuts Down, U Prices Continue Marching Higher

EVENT

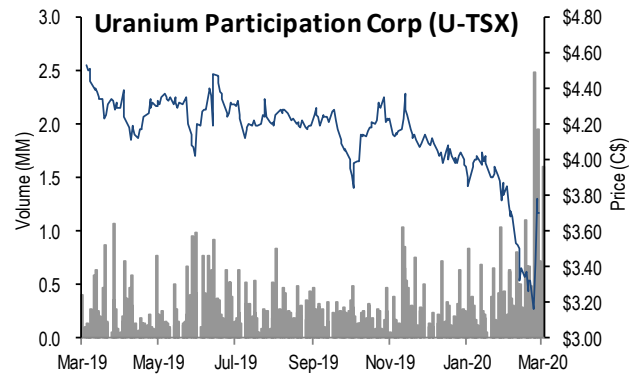
Over the weekend, China National Nuclear Corp. (CNNC) suspended operations at its Rossing uranium mine in Namibia, in response to the partial lockdown of the country as it responds to COVID-19.

BOTTOM LINE

Positive. Rossing is one of the world's largest operating uranium mines, supplying approximately 5.5 MMLb U3O8/yr. equating to ~5% of global production. We expect this supply shock, similar to the shutdown of Cigar Lake last week (note linked [here](#)), to drive further strength in spot and term uranium prices.

FOCUS POINTS

- **Another Supply Shock:** Between Cigar Lake last week and now Rossing, over the past seven days, ~23.5 MMLb of primary uranium mine production has been shut-down, equating to ~19% of global output.
- **Spot Prices to Move Higher:** Since the Cigar Lake shutdown, spot uranium prices have already increased by ~15%, but the buyers have primarily been traders and intermediaries. With utilities globally already low on inventory, we expect the Rossing supply shock to trigger further increases to spot and term uranium prices as fundamental end users (utilities) scramble to secure material. U-TSX and YCA-LSE are both trading at significant (+20%) discounts to NAVPS and remain the easiest and lowest-risk ways to gain exposure to higher uranium prices.
- **Uranium Participation (U-TSX):** Maintain Buy rating and C\$5.50/share target price.
- **Yellow Cake (YCA-LSE):** Maintain Buy rating and £3.00/share target price.



Company profile: Uranium Participation Corp and Yellow Cake PLC are investment holding companies that acquire and store physical stock of U3O8 (and in the case of UPC, UF6 as well) for investment purposes.

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

OUR SPOT PRICE OUTLOOK

Our NAVPS estimates and target prices for both U and YCA are based on a 12-month spot price forecast of \$35/lb U3O8, approximately 29% higher than the current spot price level of \$27/lb U3O8. Longer-term (3+ years), given the supply demand outlook for nuclear energy, our uranium price projections are considerably higher.

URANIUM PARTICIPATION CORP

Uranium Participation Corp holds inventories of 17.6 MMlb in U3O8 equivalent (in the form of U3O8 and UF6). Based on its existing cash balance, U3O8e in inventory, our C\$/US\$ FX rate of 0.8:1, and our \$35/lb 12-month spot uranium price forecast, we calculate a NAVPS for U of C\$5.58/share. Based on current spot prices, and current FX rates, Uranium Participation Corp. commands a NAVPS of C\$4.97/share. We are maintaining our Buy rating and C\$5.50/share target price, based on 1.0x NAVPS (rounded) using spot prices of \$35/lb U3O8.

Exhibit 1. Uranium Participation Corp Updated Spot Price NAVPS

U-TSX			Spot Price	Spot Price	Market Value
	Unit	Inventory	\$	C\$	(C\$'000)
U3O8	lb	15,687,101	\$27.13	C\$38.59	C\$605,338
UF6	kg	600,000	\$85.95	C\$122.25	C\$73,350
Inventory					C\$678,688
Net Working Capital					C\$7,712
Net Asset Value					C\$686,400
Net Asset Value Per Share					C\$4.97
P/NAVPS					0.77x

Source: Cantor Fitzgerald

YELLOW CAKE PLC

Yellow Cake PLC holds inventories of 9.6 MMlb U3O8 that it acquired from Kazatomprom. Based on its existing cash balance, U3O8 in inventory, our GBP/US\$ FX rate of 1.34:1, and our \$35/lb 12-month spot uranium price forecast, we calculate a NAVPS for YCA of £2.90/share. Based on current spot prices, and current FX rates, Yellow Cake PLC commands a NAVPS of £2.44/share. We are maintaining our Buy rating and £3.00/share target price, based on 1.0x NAVPS (rounded), using spot prices of \$35/lb U3O8.

Exhibit 2. Yellow Cake Updated Spot Price NAVPS

YCA-LN			Spot Price	Spot Price	Market Value
	Unit	Inventory	\$	GBP	(\$'000)
U3O8	lb	9,616,385	\$27.13	£21.96	\$260,893
Inventory					\$260,893
Net Working Capital					\$4,180
Net Asset Value					\$265,073
Net Asset Value Per Share					£2.44
P/NAVPS					0.77x

Source: Cantor Fitzgerald

RATINGS AND TARGET PRICES

Driven via a 12-month spot price forecast of \$35/lb U₃O₈, our ratings and targets for the two premier uranium investment holding companies are as follows:

Uranium Participation Corp: Buy – C\$5.50/share target.

Yellow Cake PLC: Buy – £3.00/share target.

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The analyst responsible for this report has not visited the material operations of U or YCA. No payment or reimbursement was received for any related travel costs.

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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.

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