

# URANIUM PARTICIPATION CORPORATION

Uranium sentiment still strong as UPC records 3<sup>rd</sup> consecutive monthly premium

## EVENT

Uranium Participation Corp. (“UPC”) has announced its estimated Net Asset Value as at December 31, 2016, which totals \$3.53/share.

## BOTTOM LINE

The market is trading UPC at an 8% premium relative to its fair value as of last close. Based on where it is trading, the market is implying a U<sub>3</sub>O<sub>8</sub> price of US\$23.33/lb. versus the most recently reported spot U<sub>3</sub>O<sub>8</sub> price of US\$21.63/lb. We maintain our buy recommendation and target price of \$5.00/share.

## FOCUS POINTS

- **Premium shows confidence** – UPC has traded at a premium for three consecutive months following 25 consecutive months of trading at a discount. UPC has historically been a leading indicator for the uranium market and we view this change as a signal that U<sub>3</sub>O<sub>8</sub> prices will head higher in the future.
- **Market implying a higher spot price** – Based on UPC’s last close price of \$4.00, the market is implying a US\$23.33/lb. spot price that is above the most recently quoted U<sub>3</sub>O<sub>8</sub> price of US\$21.63/lb. We continue to point out that the current and market implied price are significantly below our US\$40/lb. global marginal cost of production and significantly below our US\$80/lb. long term equilibrium price forecast.

## Recommendation:

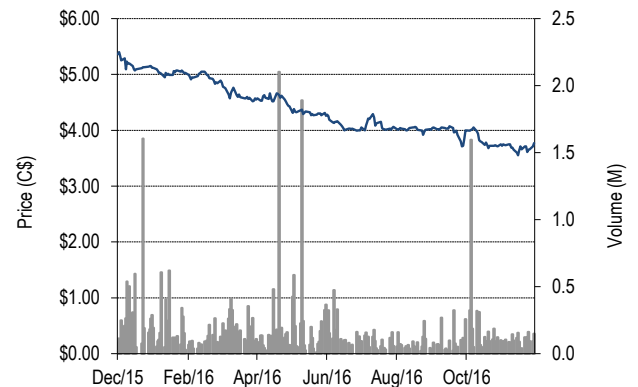
**BUY**

Symbol/Exchange: U/TSX, URPTF/OTC  
Sector: Metals and Mining  
*All dollar values in C\$ unless otherwise noted.*  
Current price \$4.00  
One year target: \$5.00  
Return target 25%  
Market Capitalization \$482M

## Company Summary

Shares O/S (M)	120.8	52-week range	\$3.55 - \$5.40
Market cap (\$M)	\$482.2	Avg. weekly vol. (000)	1.444
Market float (\$M)	\$481.7	Fiscal year-end	28-Feb
<hr/>			
Inventry	Quantity (M)	Mkt Price	Mkt Value
U3O8 (lbs)	10.0	\$28.55	286.3
UF6 (kg)	1.9	\$80.51	153.2
Net Working Capital			6.1
Net Asset Value			\$445.61
NAVPS			\$3.69
Current Premium/Discount to Market NAV			8.2%

Source: Company Reports and Cantor Fitzgerald Canada Estimates



**Company profile:** Uranium Participation Corp. is a Canadian investment holding company which acquires and stores physical stock of U<sub>3</sub>O<sub>8</sub> and UF<sub>6</sub> for investment purposes.

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

### UPC'S NET ASSET VALUE

Based on the current U<sub>3</sub>O<sub>8</sub> and UF<sub>6</sub> spot prices of US\$21.63/lb. and US\$61.00/KgU, respectively, and factoring in a current USD/CAD exchange rate of \$1.3213, the current fair value for UPC totals \$3.69/share.

#### Exhibit 1. UPC Current NAV based on current U<sub>3</sub>O<sub>8</sub> and UF<sub>6</sub> prices

Fair value based on current U <sub>3</sub> O <sub>8</sub> and UF <sub>6</sub> Price					
	Units	Quantity	Market Price		Market Value
			USD	CAD	CAD
U <sub>3</sub> O <sub>8</sub>	lb	10,030,024	\$21.63	\$28.58	286,628
UF <sub>6</sub>	kg	1,903,471	\$61.00	\$80.59	153,404
					440,032
Net Working Capital					6,053
NAV					446,085
NAVPS					\$3.69

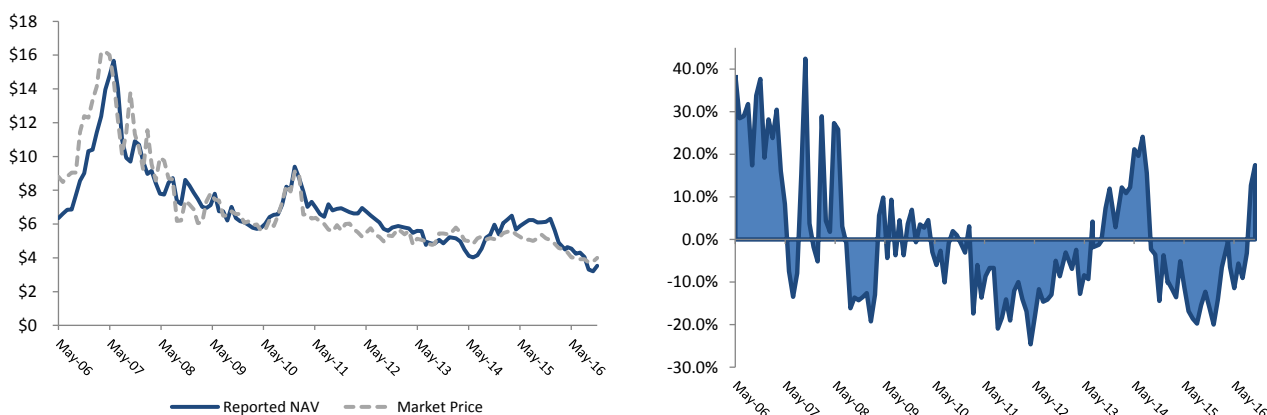
Source: Cantor Fitzgerald Estimates, Uranium Participation Corp.

Since May 2006, UPC has historically traded at its NAVPS on average. It has traded at a high of a 42% premium (Oct 2007) and a low of a 25% discount (May 2012).

Post-Fukushima, UPC has traded at an average discount of 6% with a high of a 24% premium (July 2014) and an aforementioned low of a 25% discount.

As we have noted in earlier reports, UPC tends to trade above its NAV as investors forecast a higher U<sub>3</sub>O<sub>8</sub> spot price into the value of UPC's portfolio. This has come to fruition as of the October NAV update. As can be seen below, UPC shares' current 13.3% premium relative to its December 31 NAVPS is the third consecutive month of trading at a premium following 25 months of trading at a discount.

#### Exhibit 2. Market Price Premium / Discount to NAV Analysis: Now a premium to NAV



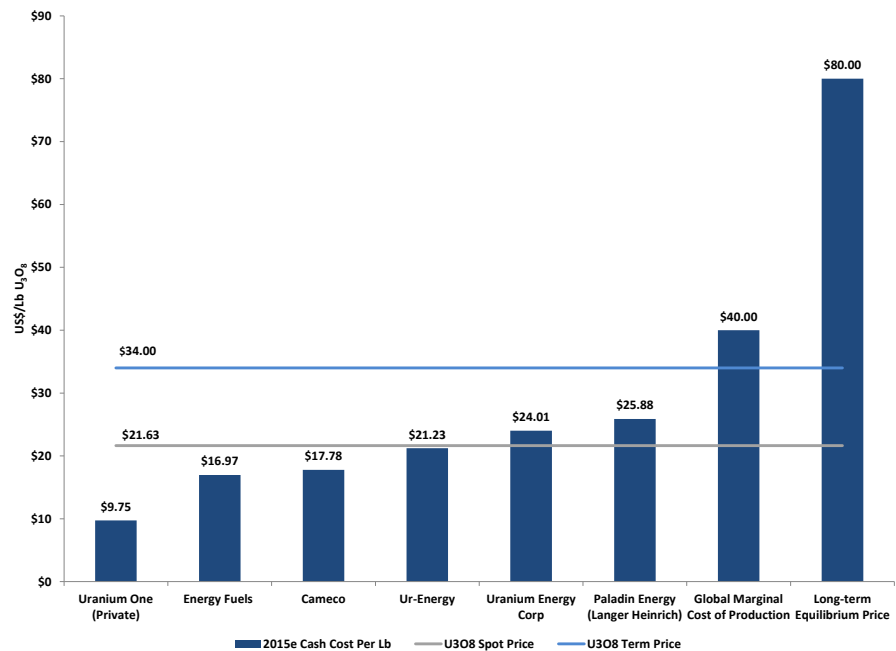
Source: Cantor Fitzgerald Canada Research

### MARKET IMPLYING US\$23.33/LB U<sub>3</sub>O<sub>8</sub>

Based on the January 5 closing price of \$4.00 per share, we calculate that the market is currently implying a spot U<sub>3</sub>O<sub>8</sub> price of US\$23.33 per lb. This market implication is 8% above the current spot price of US\$21.63 per lb. This indicates that the market expects U<sub>3</sub>O<sub>8</sub> prices to rise as it is implying this value into the portfolio of UPC.

Both figures are below our FY/17 forecast U<sub>3</sub>O<sub>8</sub> price of US\$28.63 per lb. Recall that we view \$40 per lb. as the global marginal cost for uranium production and \$80 per lb. as the long term equilibrium price required for future supply to match upcoming uranium demand.

### Exhibit 3. 2016E Global Cost Curve



\* Publicly Traded Uranium-Focused Companies only, with the addition of Uranium One

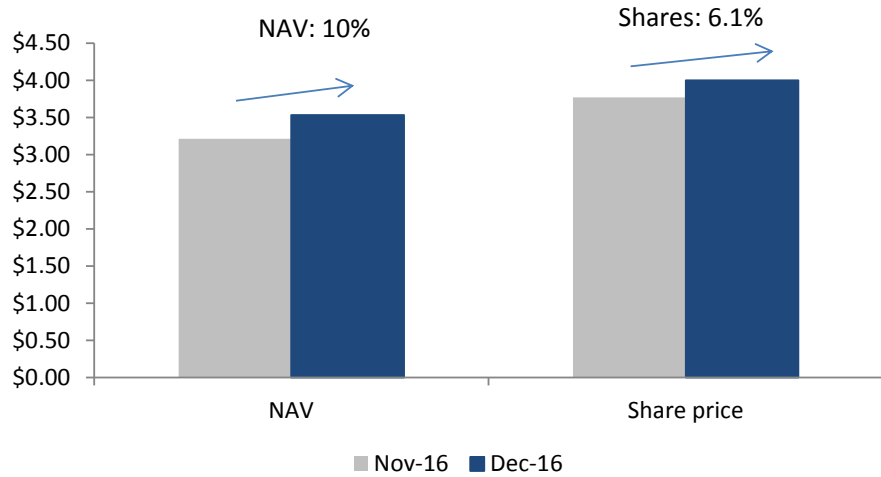
\*\* UEC Cash cost is as of last reported

Source: Cantor Fitzgerald Canada Research, Company Reports

### UPC NAV OUTPERFORMS THE SHARE PRICE

The fair value of the inventory increased by 10.0% compared to the previous NAV update for the end of November. UPC’s reported NAV increased from \$3.21 per share to the current \$3.53 per share, while its share price increased by 6.1% from \$3.77 per share to the current \$4.00 in the same monthly timeframe. Additionally, we note that the month-end spot price increased by 10.6% from US\$18.30/lb to US\$20.25/lb.

**Exhibit 4. UPC NAV outperforms the share price**



Source: Cantor Fitzgerald Canada Research

**VALUATION**

We are maintaining our Buy recommendation and target price of \$5.00/share.

With a last close share price of \$4.00, we see 25% upside to our target of \$5.00 per share. Our target is based on our rolling four quarter U<sub>3</sub>O<sub>8</sub> forecast of US\$28.63/lb. and UF<sub>6</sub> forecast of US\$85.88/KgU, which calculates a valuation of \$4.97 per share (see Exhibit 5 below).

**Exhibit 5. Uranium Participation Valuation**

Valuation Forecast					
	Units	Quantity	Cantor Forecast USD	Cantor Forecast CAD	Market Value CAD
U <sub>3</sub> O <sub>8</sub>	lb	10,030,024	\$28.63	\$37.80	379,112
UF <sub>6</sub>	kg	1,903,471	\$85.88	\$113.39	215,841
					594,953
Net Working Capital					6,053
					<b>NAV</b>
Shares O/S 120,848,713					<b>NAVPS</b>
					<b>\$4.97</b>

Source: Cantor Fitzgerald Canada Research

**Exhibit 6. Uranium Price Forecast**

USD	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	LT
U <sub>3</sub> O <sub>8</sub> Spot Price	\$57.01	\$48.86	\$38.53	\$33.48	\$36.59	\$27.09	\$28.63	\$45.00	\$66.25	\$80.00	\$80.00

Source: Cantor Fitzgerald Canada Research

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**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.

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