



Uranium Participation Corp.

(TSX:U)

SECTOR: Mining

| | |
|--------------|-----------|
| STOCK PRICE | \$5.18 |
| RATING | BUY |
| TARGET PRICE | \$5.90 |
| RISK | Very High |

UPC TO BECOME 'SPROTT PHYSICAL URANIUM TRUST'

Conversion to Trust with Sprott Asset Management in Pursuit of US Listing

OUR TAKE: Uranium Participation Corp (UPC) announced this morning plans to reorganize UPC into a Trust Structure format that will allow for a US listing of the physical uranium fund. The new version of UPC will be known as the Sprott Physical Uranium Trust, through an agreement with Sprott Asset Management. The move will require UPC to terminate its existing Management Services Agreement (MSA) with Denison Mines (DML-T, DNN-US, Target: C\$2.20, Rating: Buy). Denison estimates it will receive ~C\$5.3 million in early termination fees as outlined in the current MSA that expires in 2024. That cost will be more than offset on UPC's side by Sprott's entry, where it will contribute ~CAD\$6.7 million in cash, equal to 1.1% of UPC's current NAV of ~\$621M (at UxC BAP of uranium of US\$28.78/lb U₃O₈). Sprott has committed to fund up to C\$1.5 million in costs related to the future US listing of the Trust. A US listing for UPC makes sense to gain a broader audience and larger pool of funds. The US listing is the key motivation here as **UPC's current structure is not eligible for listing in the US. The transition to a Trust structure is expected to make it eligible for US listing by transitioning management to a 'registered investment fund manager', like Sprott Asset Management. Sprott already has a portfolio of physical commodity trust products dual-listed on the TSE and NYSE ARCA.**

Today's news by itself does not have a direct profound impact on our valuation of either U-TSX, which traded at a premium of 8.5% to its NAV as of yesterday's close (its valuation should still be dominated by near-term uranium prices), or Denison, which derives the vast majority of its value from its development assets. **The news does have sector-wide implications for the ever-tightening uranium demand/supply balance and could accelerate our bullish stance on the sector and commodity. With a US listing, the new iteration of UPC will have direct access to a gigantic pool of capital and really has only one option to scale its fund - buy more physical uranium.** Recent producer/neo-producer buying in the spot market has demonstrated just how sensitive spot uranium prices are to unanticipated buying and the renewed interest in the uranium sector and commodity could draw money into the new vehicle placing direct upward pressure on uranium prices.

KEY HIGHLIGHTS

- ◆ **Increased Liquidity:** The US listing will likely result in increased liquidity for UPC as Sprott Physical Uranium Trust shareholders.
- ◆ **Potential for More Active Management:** It is possible that the new management of UPC will be more active/responsive in buying/selling uranium and buying/selling units to manage the NAV premium/discount. This has the **potential to temper the magnitude of NAV premiums/discounts** UPC is known for (See Figures 1-4). The additional liquidity and/or new management may reduce the overall deviation of the units of the physical uranium fund from its NAV, where we traditionally see big swings in times when the uranium price is volatile, or investors speculate in directional price movement of the physical commodity.
- ◆ **Current NAV Premium:** based on mid-day pricing of \$5.18 and the Haywood-calculated CURRENT NAV of \$4.60 (1.13x NAV or 12.7% premium, Fig. 2). UPC's share price implies US\$32.44/lb U₃O₈ while the UxC daily BAP uranium price was US\$28.78/lb (UxC) last night.

RECOMMENDED ACTION

Investors with a constructive long-term view on uranium should consider U-TSX for direct commodity exposure...

- ◆ **Overall perspective remains the same.** We don't see this move materially changing our investment thesis or valuation of either DML-T or U-T. U-T should see enhanced liquidity and increased investor exposure in a more efficient vehicle with a strong marketing force behind it, but as a physical fund, its value will still be determined ultimately by the commodity price, which as noted above, this change has the potential to impact. The termination of the management contract from DML's perspective was not central to our investment thesis on DML and we see it as a non-event as we continue to rate Denison Mines a 'Top-Pick' in the uranium space [<Haywood 2021 Top-Picks report. DML details on p.30>](#).

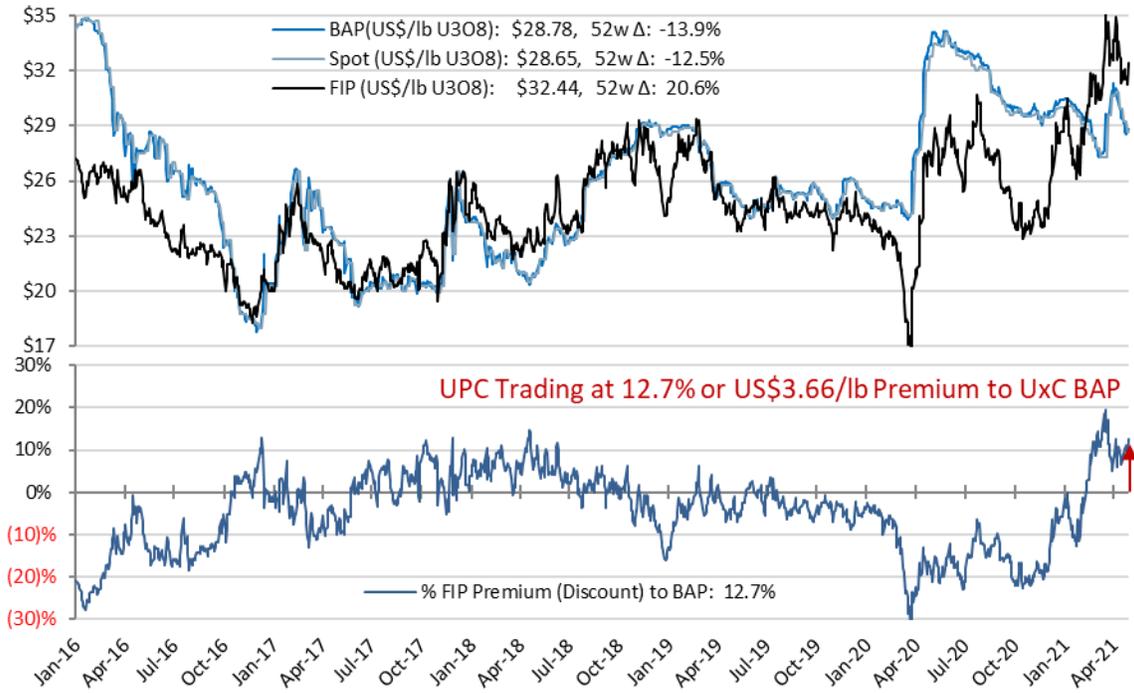
KEY STATISTICS AND METRICS

| | |
|-----------------------|---------------|
| 52-Week High/Low | \$5.83/\$3.93 |
| YTD Performance | 5.5% |
| Dividend Yield | N/A |
| Shares O/S | 134.9M |
| Market Capitalization | \$699.0M |
| Cash | \$1.6M |
| Debt | NIL |
| Enterprise Value | \$697.4M |
| Daily Volume (3 mos.) | 693,950 |
| Currency | CAD |

VALUATION

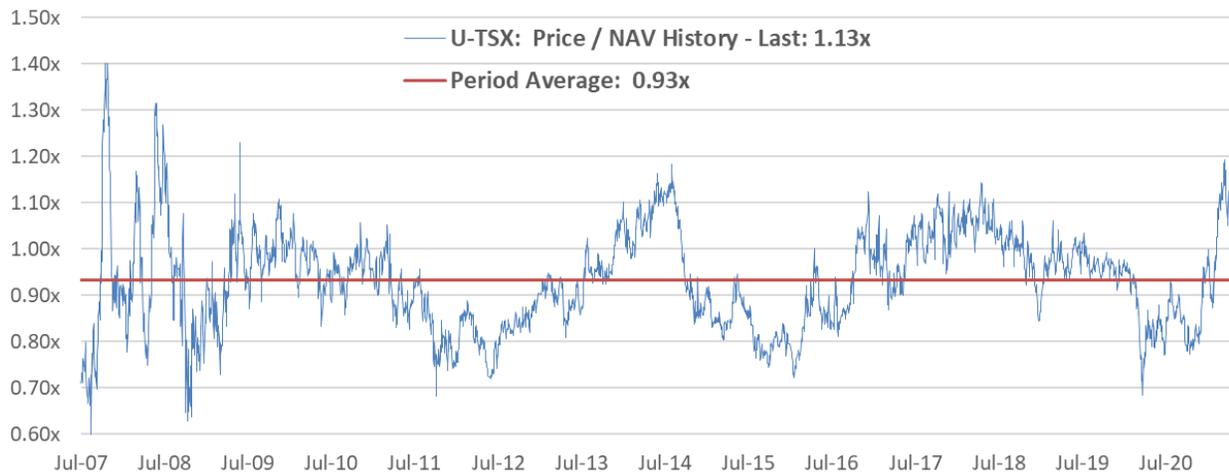
Our target Based on 1.0x our corporate NAV, including valuation of UPC's inventory of physical uranium (U₃O₈) and uranium hexafluoride (UF₆) at the Haywood 12-month average forward spot uranium price forecast of \$39/lb U₃O₈, net of corporate adjustments.

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



Source: UxC, CapitalIQ, Haywood Securities Inc.

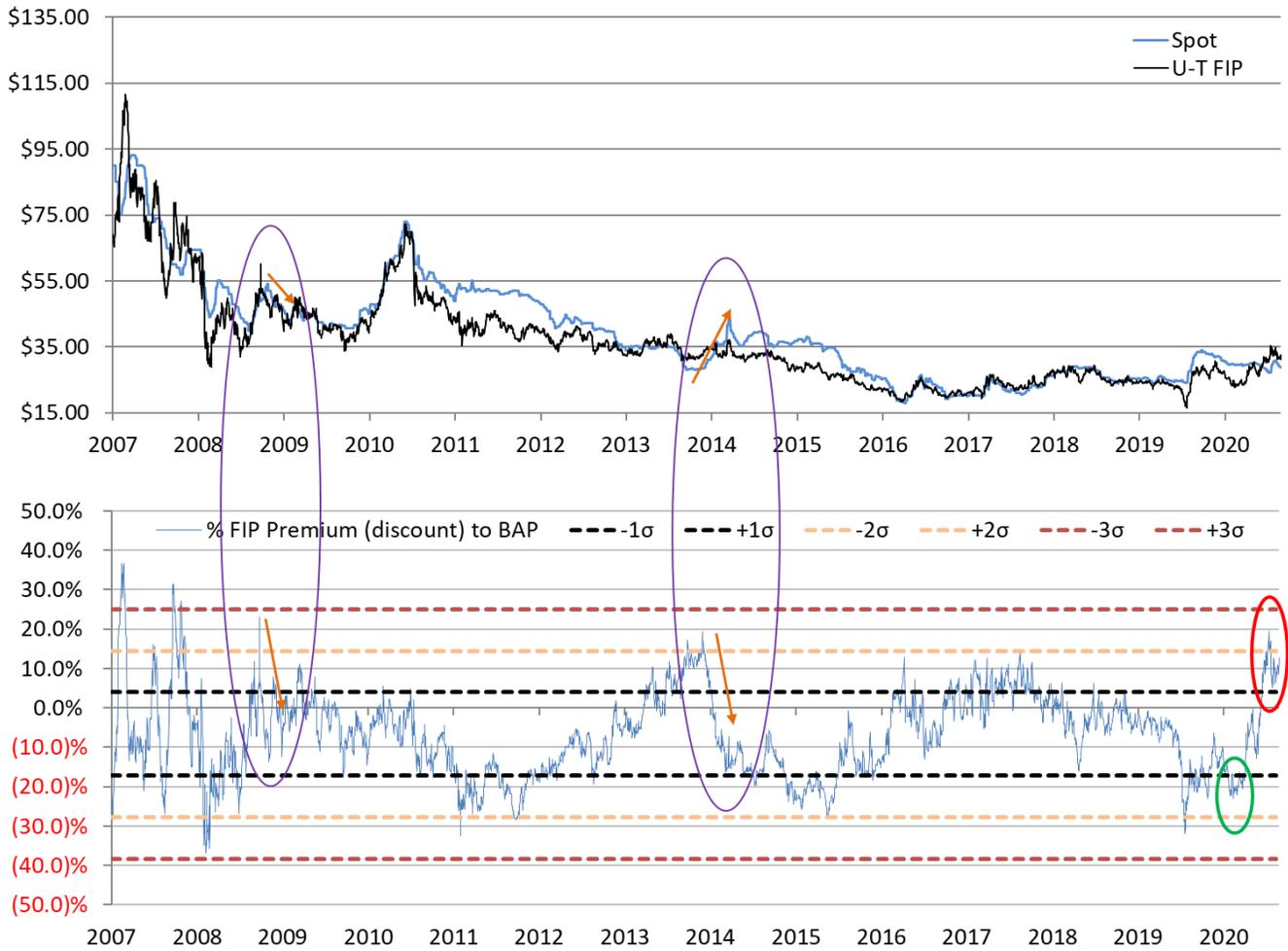
Figure 2. +13-Year U-T NAV Premium / Discount History



Source: UxC, CapitalIQ, Haywood Securities Inc.



Figure 3. +13-Year U-T Trading Relationship vs UxC Spot and BAP uranium prices (select periods of exceptional premiums highlighted)



Source: UxC, CapitalIQ, Haywood Securities Inc.

Figure 4. Historic U-TSX NAV Premium/Discount Trading Ranges for Select Timeframes

| | Premium (Discount) | | | |
|--------------------------------|--------------------|---------|---------|-------|
| | \$ Avg. | % Avg. | Min. | Max. |
| Inception (Sep. 2007) -> | (\$2.86) | (6.6)% | (36.8)% | 36.8% |
| Since Fukushima (Mar. 2011) -> | (\$3.11) | (7.5)% | (32.5)% | 19.5% |
| Last 5-years (Apr. 2016) -> | (\$1.19) | (3.9)% | (31.9)% | 19.5% |
| 12-mth Pre-Pandemic (2019) -> | (\$0.85) | (3.2)% | (13.8)% | 6.2% |
| CY2020 + YTD 2021 -> | (\$3.05) | (10.1)% | (31.9)% | 19.5% |

Source: UxC, CapitalIQ, Haywood Securities Inc.



Important Information and Legal Disclosures

This report is intended for institutional investors and may only be distributed to non-institutional US clients in the following states: nil. Otherwise, this report may only be distributed into those states with an institutional buyer state securities registration exemption.

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

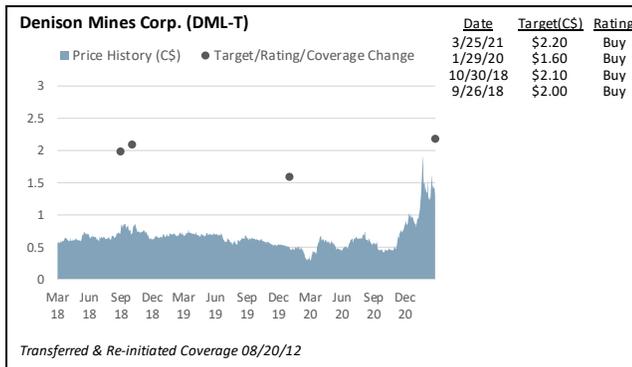
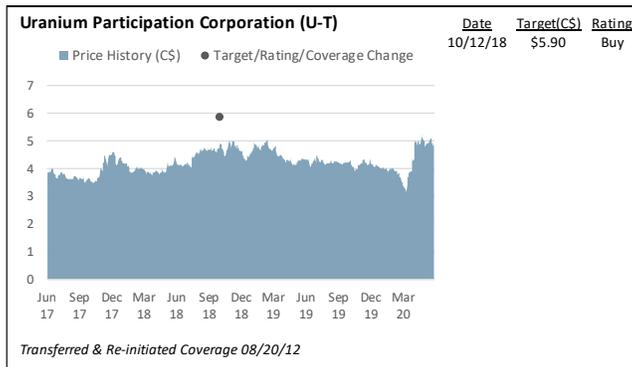
Of the companies included in the report the following Important Disclosures apply:

- ◆ Haywood Securities, Inc. has reviewed lead projects of Denison Mines Corp. (DML-T) and a portion of the expenses for this travel may have been reimbursed by the issuer.
- ◆ Haywood Securities Inc. or one of its subsidiaries has managed or co-managed or participated as selling group in a public offering of securities for Denison Mines Corp. (DML-T) in the last 12 months.

Distribution of Ratings (as of April 28, 2021)

| | % | # | IB Clients (TTM) |
|----------------------|-------|----|------------------|
| Buy | 83.0% | 78 | 92.1% |
| Hold | 7.4% | 7 | 7.9% |
| Sell | 0.0% | 0 | 0.0% |
| Tender | 3.2% | 3 | 0.0% |
| UR (Buy) | 0.0% | 0 | 0.0% |
| UR (Hold) | 0.0% | 0 | 0.0% |
| UR (Sell) | 0.0% | 0 | 0.0% |
| Dropped (TTM) | 6.4% | 6 | 0.0% |

Price Chart, Rating and Target Price History (as of April 28, 2021)



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

Link to Research Policy: <http://haywood.com/what-we-offer/research/research-policy>

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