

# Action Note

Equity Research

April 22, 2021

## Metals & Minerals

### Uranium Participation Corp.

(U-T) C\$5.16

#### Will UPC Enter the Mix and Buy Uranium?

Craig Hutchison, P. Eng

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#### Event

We have updated our estimates to reflect UPC's most recent holdings along with a sensitivity analysis to a potential equity raise to purchase uranium and maintain a positive working capital position.

#### Impact: NEUTRAL

- Following a flurry of financings used to purchase physical uranium in the spot market, purchases have slowed through April.** Approximately 9Mlbs of U3O8 was purchased at an estimated price of ~US\$29/lb between late February and early April by several non-producers including Denison, UEC, and Yellow Cake. While the most recent round of equity financings point to a resurgence of investor interest in the uranium space, purchase volumes have slowed in April signalling a lack of urgency by utilities to enter the market and secure material themselves.
- When will UPC enter the mix and buy uranium?** This question has been raised by a number of investors over the last couple months, given the company's premium trading multiple and financial position. As at the end of February, UPC had a working capital position of \$2.7mm and therefore is not expected to be able to fund its commitments over the next 12-months without additional liquidity such as a financing or sale of some of its physical holdings. Considering UPC's shares are trading at a P/NAV premium of 9% at yesterday's close, it does not make sense, in our view, to sell uranium to fund its balance sheet. In our view, a more likely outcome would be for the company to take advantage of the renewed investor interest in the space and issue equity.
- In order to be in a position to raise equity, the company will need to file an updated prospectus, as its previous prospectus expired in January 2021. Given the uncertainty on the size and type of financing being explored, we have left our estimates largely unchanged. We have provided a sensitivity to a range of equity financings (Exhibit 7).

#### TD Investment Conclusion

**We are maintaining our \$6.50 target price and BUY rating.** Our target price is based on 1.10x (previously 1.05x) our forward uranium price of US\$36.00/lb. We have raised our multiple to reflect an increase in sector valuations over the last several months.

<b>Recommendation:</b>	<b>BUY</b>
<b>Risk:</b>	<b>HIGH</b>
<b>12-Month Target Price:</b>	<b>C\$6.50</b>
<b>12-Month Dividend (Est.):</b>	<b>C\$0.00</b>
<b>12-Month Total Return:</b>	<b>26.0%</b>

#### Market Data (C\$)

Current Price	C\$5.16
52-Week Range	\$3.93 - \$5.83
Mkt Cap (f.d.) (\$mm)	\$701.8
Float Cap (\$mm)	\$711.6
EV (\$mm)	\$689.3
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,366,151

#### Financial Data (C\$)

Fiscal Y-E	February
Shares O/S (f.d.)(mm)	136.0
Float Shares (mm)	137.9
NAVPS	\$5.75
Working Cap (\$mm)	\$2.7

#### Estimates (C\$)

Year	2020A	2021A	2022E	2023E
EPS (basic)	0.02	0.00	(0.04)	(0.05)
EPS (basic) (old)	-	0.01	0.08	-

#### Valuations

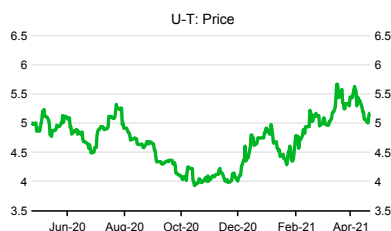
Year	2020A	2021A	2022E	2023E
Disc to NAV	-	-	11.4%	-

#### Supplemental Data

Year	2020A	2021A	2022E	2023E
U3O8 (US\$/lb)	25	31	35	37
UF6 US\$/kg	86	104	115	120

\* 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 (U<sub>3</sub>O<sub>8</sub>) and hexafluoride (UF<sub>6</sub>).

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## Outlook

### Exhibit 1. 2021 Financings Used to Purchase Physical Uranium

Company	Date Equity Offering Announced	Equity Offering (US\$ millions)	Uranium Purchased or Planned to Purchase (million pounds)	Estimated Average Price of Uranium Purchases (Planned or Actual) (US\$/lb)
Yellow Cake	25-Feb-21	140.0	3.9	28.78
Denison Mines	15-Mar-21	86.3	2.50	29.61
Uranium Energy	17-Mar-21	30.5	1.4	29.00
Boss Energy	29-Mar-21	46.0	1.25	30.15
Uranium Energy	6-Apr-21	12.0	0.705	31.70
<b>Total/Average</b>		<b>302.8</b>	<b>9.755</b>	<b>29.41</b>

Source: Company reports, TD Securities

**The Ux Consulting (UxC) weekly spot price indicator, published earlier this week, declined to US\$29.20/lb (down \$0.75/lb), or -2.5% versus the previous week.** Year-to-date, the spot price is down 2.8%. According to UxC, spot market activity has continued to slow in April, retreating to the lower levels reported during December 2020 and the first two weeks of March 2021. Only two spot transactions have been booked over the past week, with volumes for the month still below the one-million-pound mark. For context, ~10.9Mlbs were transacted in March. Over the past five years, excluding 2020, an average of ~5.0Mlbs had been transacted in the spot market in April. April 2020 was highly unusual, coinciding with the early days of the COVID-19 pandemic and the temporary closure of the Cigar Lake operation due to COVID-19 restrictions; total spot market volume in April 2020 was ~27.5Mlbs.

In our view, the weaker spot market volumes and prices of late are the result of two factors: (1) the halt of physical uranium purchases via equity issuances by uranium funds and developers, and (2) the announced restart of Cigar Lake.

**We continue to believe that the missing piece of the puzzle for a sustained upward move in the uranium term price remains the resumption of a term-contracting cycle.**

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## Exhibit 2. Uranium Supply/Demand Balance

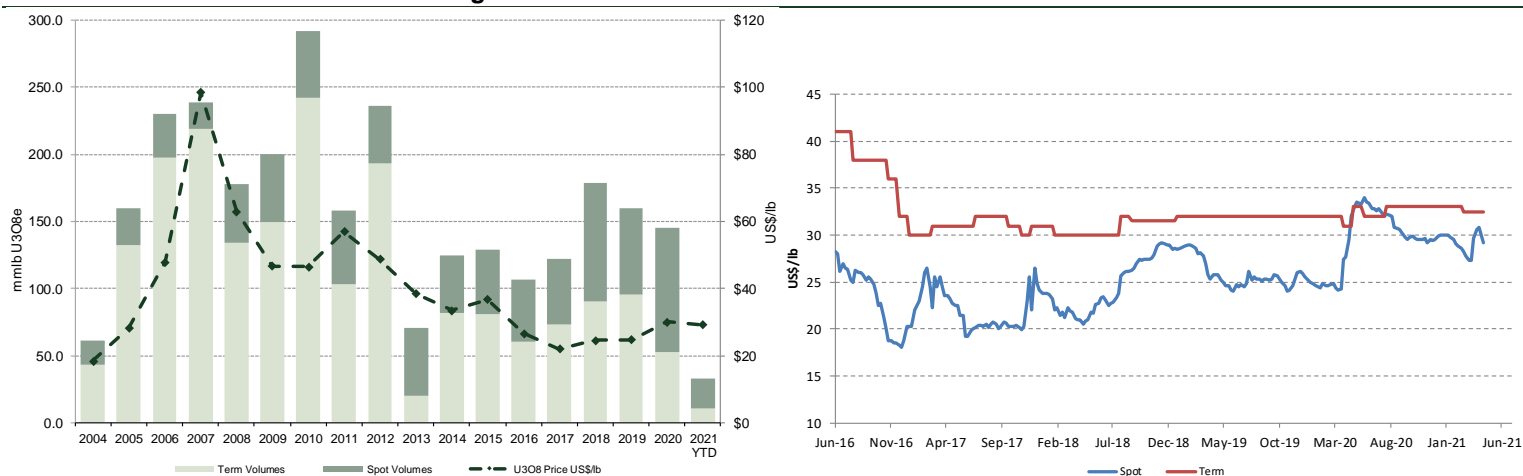
	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
<b>Mine Supply - Western World (Mlb U3O8)</b>									
Total Mine Supply - Western World	100	83	85	75	73	80	85	88	86
Net Eastern Mine Supply (lbs U3O8)	54	54	55	44	52	53	60	66	72
<b>Total World Mine Supply (Mlb U3O8)</b>	<b>154</b>	<b>138</b>	<b>140</b>	<b>119</b>	<b>126</b>	<b>132</b>	<b>145</b>	<b>154</b>	<b>158</b>
YoY % change	-7.6%	-10.2%	1.7%	-15.2%	5.8%	5.3%	9.1%	6.8%	2.6%
<b>Secondary Supply</b>									
Global underfeeding and tails re-enrichment*	19	18	18	16	16	15	15	14	14
Mixed Oxide Fuel (MOX)*	5	5	6	6	6	6	6	7	8
US government sales (DOE Proposed)*	3	2	2	1	0	0	0	0	0
Additional Russian secondary supply*	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
<b>Total Secondary Supply (Mlb)</b>	<b>27</b>	<b>24</b>	<b>26</b>	<b>24</b>	<b>22</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>21</b>
Secondary supply as % of global reactor demand	16%	14%	15%	13%	12%	12%	12%	11%	11%
<b>Mobilization of Commercial Inventory</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Total Supply</b>	<b>187</b>	<b>169</b>	<b>173</b>	<b>150</b>	<b>155</b>	<b>161</b>	<b>173</b>	<b>183</b>	<b>187</b>
<b>Total World Demand</b>									
Total World Nuclear Generating Capacity (MWe) *	358,819	368,571	372,978	374,420	384,508	385,211	389,242	394,906	398,885
Uranium requirements per MWe	472	472	472	472	472	472	472	472	472
Uranium demand (mmlb)	169	174	176	177	181	182	184	186	188
First Core Requirement (2 year lead)	-	-	-	-	-	-	-	-	-
<b>Total World Demand (Mlb U3O8)</b>	<b>169</b>	<b>174</b>	<b>176</b>	<b>177</b>	<b>181</b>	<b>182</b>	<b>184</b>	<b>186</b>	<b>188</b>
YoY % change	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%	1.0%
<b>Supply / Demand Balance (Mlb)</b>	<b>18</b>	<b>-5</b>	<b>-3</b>	<b>-27</b>	<b>-27</b>	<b>-21</b>	<b>-11</b>	<b>-4</b>	<b>-2</b>
<b>Spot Uranium Price (US\$/lb U3O8)</b>	<b>\$22.12</b>	<b>\$24.82</b>	<b>\$25.94</b>	<b>\$29.52</b>	<b>\$32.99</b>	<b>\$36.00</b>	<b>\$38.00</b>	<b>\$40.00</b>	<b>\$45.00</b>

\* 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.

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**UPC trading at a meaningful premium to spot prices (US\$29.31/lb)** — As of yesterday's close, we calculate that the company is currently trading at a 9% premium to our calculated NAVPS of \$4.71.

### Exhibit 4. NAV (April 21, 2021 spot uranium prices)

Current Net Asset Valuation as of Mar-31-2021

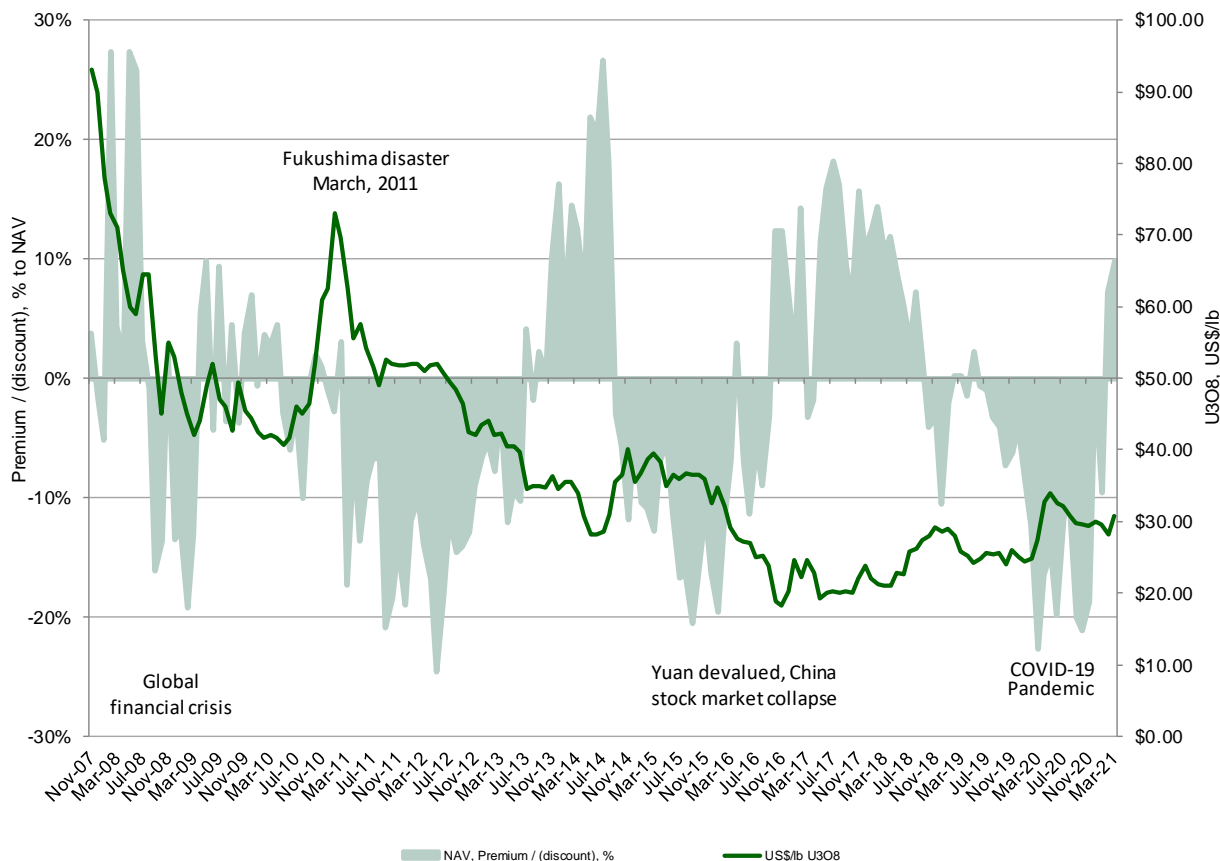
Current Uranium Holdings	Units	Inventories Held	Price US\$/unit	Implied Value US\$, mm	Price C\$/unit*	Implied Value C\$, mm	
Uranium Oxide in Concentrates, U3O8	lb	16,269,658	\$29.31	\$ 476.9	\$36.59	\$ 595.2	
Uranium Hexafluoride, UF6	kg	300,000	\$95.55	\$ 28.7	\$119.27	\$ 35.8	
<b>Implied Value of Inventories Held</b>				<b>\$ 505.5</b>		<b>\$ 631.0</b>	
						Working Capital	\$5.0
						<b>Total NAV</b>	<b>\$ 636.0</b>
						Shares Outstanding, mm	134.9
						<b>NAVPS</b>	<b>C\$4.71</b>
						Recent Price	\$5.16
						Premium / (Discount) to NAV	9%

Forex CAD/USD 0.80

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.

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## Valuation

Our forward NAV of \$775.8mm or \$5.75/share (\$6.05/share previously) for UPC is based on our 12-month price forecast of US\$36.00/lb, using a 0.80 Canadian dollar/U.S. dollar exchange rate (0.76 previously). In addition, we assume a forward negative working capital position of \$4.8mm. Our UF6 price assumes a 3.26x UF<sub>6</sub>/U<sub>3</sub>O<sub>8</sub> ratio to convert the price of U<sub>3</sub>O<sub>8</sub> to UF<sub>6</sub> based on recent trading.

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

Implied 12-Month Forward 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	16,269,658	\$36.00	\$ 585.7	\$45.23	\$ 735.8	
Uranium Hexafluoride, UF6	kg	300,000	\$118.80	\$ 35.6	\$149.25	\$ 44.8	
<b>Implied Value of Inventories Held</b>				\$ 621.3		\$ 780.6	
						Working Capital, C\$m	-\$4.8
						<b>Total NAV, C\$m</b>	<b>\$ 775.8</b>
						Shares Outstanding, mm	134.9
						<b>NAVPS</b>	<b>C\$5.75</b>
						Implied Target, 1.10x multiple to NAV, weighted 100%	\$6.32
						<b>Target Price Rounded</b>	<b>C\$6.50</b>
						Recent Price	\$5.16
						Upside Potential	26%

\* Forex CAD/USD 0.80

Source: TD Securities Inc.

Based on our forward working capital estimates the company will need to raise equity or sell a portion of its physical holdings. Given the current premium to spot uranium prices, we expect the company to enter an equity raise, with 85% of gross proceeds going towards purchasing additional physical uranium. Exhibit 7 provides a sensitivity to NAVPS on the size of the raise and purchase price of uranium. **We currently do not model a forward-looking equity raise or any sales of uranium.**

### Exhibit 7. NAVPS Sensitivity Analysis to an Equity Raise

		NAVPS (C\$/sh.)					
		U3O8 Purchase Price (US\$/lb)					
		\$27.00	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00
Equity Raise (C\$000)	\$20,000	\$5.77	\$5.76	\$5.75	\$5.75	\$5.74	\$5.74
	\$40,000	\$5.78	\$5.77	\$5.76	\$5.75	\$5.74	\$5.73
	\$60,000	\$5.80	\$5.78	\$5.76	\$5.75	\$5.74	\$5.72
	\$80,000	\$5.81	\$5.79	\$5.77	\$5.75	\$5.73	\$5.72
	\$100,000	\$5.82	\$5.80	\$5.77	\$5.75	\$5.73	\$5.71
	\$120,000	\$5.84	\$5.81	\$5.78	\$5.75	\$5.73	\$5.70

\*Assumes 85% of gross proceeds go towards U3O8 purchases

\*\*Assumes a share price of C\$5.16 for the equity raise

Source: TD Securities Inc.

## Justification of Target Price

Our \$6.50 target price (unchanged) is based on 1.10x (1.05x previously) our forward NAVPS estimate of \$5.75.

We have raised our target price valuation to 1.10x from 1.05x to reflect increased valuations in the uranium space supported by the energy transition narrative combined with the potential that the Biden Administration takes a more friendly stance towards the sector. Uranium equities are now trading at an average EV/lb of US\$4.07/lb, compared to US\$2.92/lb to start the year. Furthermore, Cameco which is considered the bellwether in the uranium space has seen its P/NAV increase from 1.19x at the start of the year to 1.38x currently.



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## 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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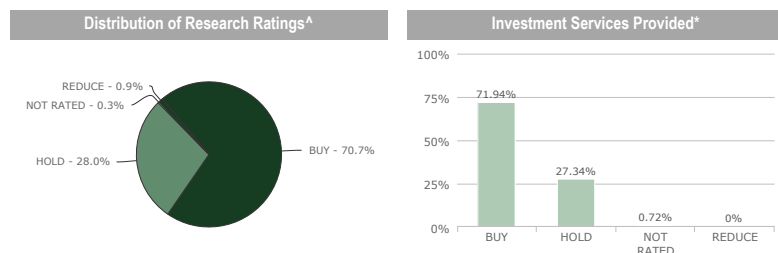
Company	Ticker	Disclosures
Uranium Participation Corp.	U-T	9

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Current as of: April 22, 2021

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