

URANIUM PARTICIPATION, YELLOW CAKE

NAVPS Premiums Widening, Indicating Higher Uranium Prices

EVENT

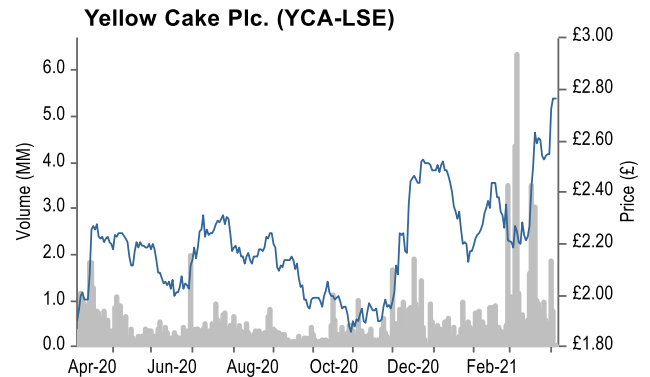
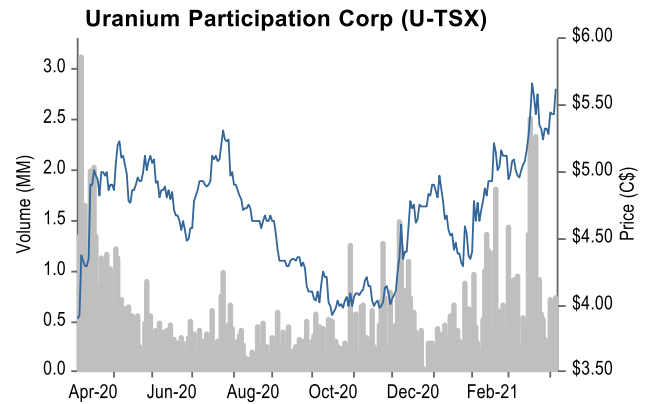
We are raising our near-term spot uranium price target to \$40/lb U₃O₈ from \$35/lb U₃O₈ previously following the spot uranium purchases made over the last month by a number of companies active in the space including Denison Mines (DNN-NYSE, DML-TSX, Buy - \$2.25/C\$2.75 target) and Yellow Cake (refer to our notes [here](#) and [here](#)). As expected, these purchases have removed the perceived “overhang” and all excess supply in the spot market. This has driven spot prices up 12.3% over the last four weeks.

BOTTOM LINE

Positive. As spot uranium prices have strengthened over the last month, the P/NAVPS premiums of both Uranium Participation and Yellow Cake have remained stubbornly high, and in the past few trading sessions, have begun to widen. This is a strong leading indicator that spot uranium prices have further room to run higher in the short-term.

FOCUS POINTS

- **Uranium Spot Price Moving Higher:** The current P/NAVPS premiums of both U and YCA are implying a uranium price of ~\$35/lb U₃O₈, +14% higher than current spot.
- **Raising Spot Uranium Price Target:** We are raising our near-term uranium price target to \$40/lb U₃O₈ from \$35/lb U₃O₈ previously. This results in a higher price target for the two premier uranium holding companies, U and YCA.
- **Uranium Participation Corp. (U-TSX):** Maintaining Buy rating and raising target price to C\$6.50/share from C\$5.50/share.
- **Yellow Cake Plc (YCA-LSE):** Maintaining Buy rating and raising target price to £3.25/share from £3.00/share.



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.

RAISING NEAR-TERM URANIUM PRICE TARGET

We are raising our near-term spot uranium price target to \$40/lb U₃O₈ from \$35/lb U₃O₈ previously following the spot uranium purchases made over the last month by several companies active in the space. Most notably, these include purchases made by Denison Mines and Yellow Cake (refer to our notes [here](#) and [here](#)). As expected, these purchases have removed the perceived “overhang” and all excess supply in the spot market. This has driven spot prices up 12.3% over the last four weeks to \$30.75/lb U₃O₈.

MARKET IMPLYING +14% MOVE HIGHER IN U₃O₈ SPOT

Over the last month as spot uranium prices have strengthened, the P/NAVPS premiums of both Uranium Participation and Yellow Cake have remained stubbornly high, and in the past few trading sessions, have begun to widen. This is a strong leading indicator that spot uranium prices have further room to run higher in the short-term. At U’s and YCA’s most recent closing prices of C\$5.62/share and £2.77/share, based on current spot uranium prices and FX rates, the two companies are both trading at 1.14x NAVPS, well above intrinsic value (Exhibits 1 and 2). Historically, this has proven to be an excellent leading indicator of a sustainable move higher in spot uranium prices. Based on Uranium Participation Corp’s most recent closing price, the market is implying a U₃O₈ spot price of \$34.91/lb, 13.5% higher than the current U₃O₈ spot price of \$30.75/lb. Based on Yellow Cake’s most recent closing price, the market is implying a U₃O₈ spot price of \$35.17/lb, 14.4% higher than the current U₃O₈ spot price. Premiums and discounts to NAVPS are commonplace and indicative of market sentiment as it relates to the direction of uranium prices. NAVPS premiums indicate pending strength in U₃O₈ spot prices, and NAVPS discounts indicate the opposite.

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, U₃O₈ in inventory, current C\$/US\$ FX rates and the current U₃O₈ spot price of \$30.75/lb, Uranium Participation Corp. commands a NAVPS of C\$4.95/share. As such, the Company is currently trading at 1.14x NAVPS (14% above intrinsic value).

Exhibit 1. Uranium Participation NAV Based on Current U₃O₈ Prices

U-TSX	Unit	Inventory	Spot Price \$	Spot Price C\$	Market Value (C\$'000)
U3O8	lb	16,269,658	\$30.75	C\$38.63	C\$628,429
UF6	kg	300,000	\$98.00	C\$123.10	C\$36,930
Inventory					C\$665,359
Net Working Capital					C\$2,680
Net Asset Value					C\$668,039
Net Asset Value Per Share					C\$4.95
P/NAVPS					1.14x

Source: FactSet, Cantor Fitzgerald Estimates, Uranium Participation Corp.

YELLOW CAKE PLC

Yellow Cake Plc. holds inventories of 13.0 MMlb U₃O₈. Based on its existing cash balance, U₃O₈ in inventory, current GBP/US\$ FX rates and the current U₃O₈ spot price of \$30.75/lb, Yellow Cake Plc. commands a NAVPS of £2.42/share. As such, the Company is currently trading at 1.14x NAVPS (14% above intrinsic value).

Exhibit 2. Yellow Cake NAV Based on Current U₃O₈ Prices

YCA-LN	Unit	Inventory	Spot Price \$	Spot Price GBP	Market Value (\$'000)
U3O8	lb	13,008,317	\$30.75	£22.23	\$400,006
Inventory					\$400,006
Net Working Capital					\$30,811
Net Asset Value					\$430,817
Net Asset Value Per Share					£2.42
P/NAVPS					1.14x

Source: FactSet, Cantor Fitzgerald Estimates, Yellow Cake Plc.

POSITIVE SENTIMENT IN URANIUM ACCELERATING

Over the last 3-4 months, sentiment in the uranium sector has turned increasingly positive, as we originally highlighted in our January 25 Macro Report: *A Green Economy and Electric Vehicles Start with Metals* (link [here](#)). More recently, over the last month, this has been confirmed by a sharp move higher in spot uranium prices, which we expect will continue as indicated by the widening P/NAVPS premiums of U and YCA. As a reminder, under the Biden Administration, the United States has rejoined the Paris Climate Agreement that calls for net-zero carbon emissions for most of the developed-world by 2050. With uranium currently generating 80% of carbon-free grid power in the United States, coupled with the aggressive nuclear power expansion plans of China (the world's second largest economy), it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future.

RATINGS AND TARGET PRICES

We are raising our near-term spot uranium price target to \$40/lb U₃O₈ from \$35/lb U₃O₈ previously. This results in a higher price target for the two premier uranium investment holding companies, U and YCA. Our revised ratings and target prices are as follows:

Uranium Participation Corp: Maintaining Buy rating and raising target price to C\$6.50/share from C\$5.50/share.

Yellow Cake Plc: Maintaining Buy rating and raising target price to £3.25/share from £3.00/share.

We note that these price targets are based on a near-term spot price forecast of \$40/lb U₃O₈. At longer-term incentive pricing for uranium supply to ultimately meet demand (\$55/lb, Cantor estimate) our rating and target price (based on 1.0x NAVPS) for both companies would be as follows:

Uranium Participation Corp: Buy – C\$8.75/share target.

Yellow Cake Plc: Buy – £4.40/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: The stock is attractively priced relative to the company’s fundamentals and we expect it to appreciate significantly from the current price over the next 6 to 12 months.

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.

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