

# URANIUM MACRO UPDATE

## Kazatomprom Joins the Party, Raising Uranium Spot and Term Price Forecasts

### EVENT

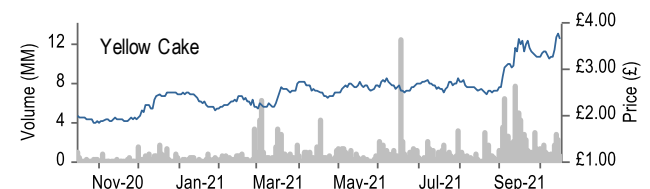
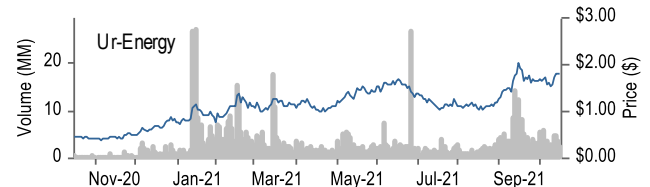
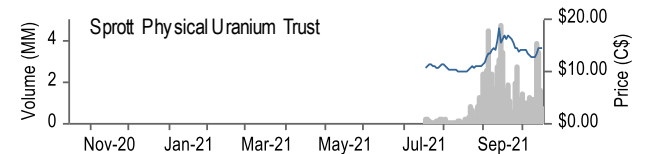
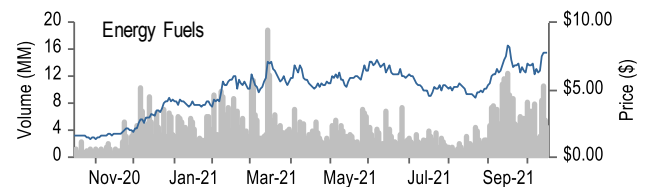
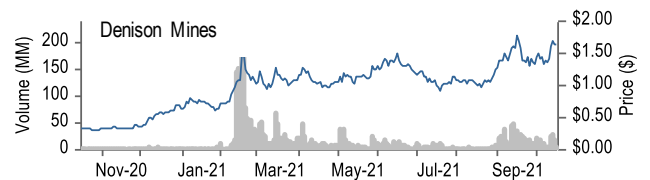
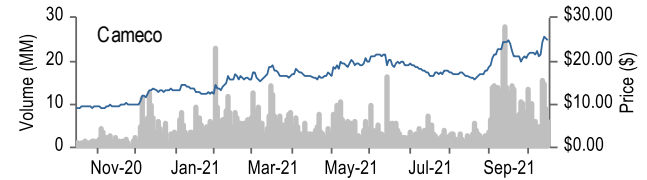
We are raising our short-term (12-month) spot price forecast to \$60/lb U<sub>3</sub>O<sub>8</sub> from \$50/lb U<sub>3</sub>O<sub>8</sub> previously and our long-term price deck to \$75/lb U<sub>3</sub>O<sub>8</sub> from \$65/lb U<sub>3</sub>O<sub>8</sub> previously following Kazatomprom's (KAP-LSE, Not Covered) announcement that it will be seeding ANU Energy, a new physically backed uranium fund similar to Yellow Cake (YCA-LSE, Buy – £4.75 target) and the Sprott Physical Uranium Trust (U.UN/U.U-TSX, Buy – \$18.50/C\$23.00 target).

### BOTTOM LINE

**Positive** – By setting up a physically backed uranium fund, Kazatomprom is effectively signalling that nuclear utilities worldwide can no longer rely on uncommitted supply from the world's largest and lowest-cost uranium producer. KAP accounts for ~23% of primary uranium supply annually.

### FOCUS POINTS

- Uranium Prices to Continue Higher** – According to Kazatomprom, newly created ANU Energy is expected to raise \$500 MM from institutional and/or private investors, with the proceeds to be used for uranium purchases. Combined with the \$650 MM of “dry powder” U.U has remaining on its at-the-market (ATM) equity facility, there is a lot more uranium buying yet to come in the spot market. We expect the sharp move higher in spot uranium prices over the recent weeks will continue and accelerate following this watershed development out of Kazatomprom.
- Raising Price Targets** – The increase in our short-term and long-term uranium price forecasts results in target price increases across our uranium coverage universe. We also expect long-term contracting to pick-up, providing an added tailwind to the uranium equities.



### Mike Kozak

mike.kozak@cantor.com  
(416) 350-8152

**Sales/Trading — Toronto:** (416) 363-5757, (866) 442-4485

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

## KAZATOMPROM TO SEED NEW PHYSICAL U FUND

This morning, Kazatomprom, the world's largest and lowest-cost uranium producer, in partnership with National Investment Corporation (NIC), the investment arm of the National Bank of Kazakhstan (Kazakhstan's Central Bank), announced that it is starting a physical uranium fund, referred to as ANU Energy. The fund will compete with, and/or be a direct comparable to, Yellow Cake PLC and the Sprott Physical Uranium Trust, and we note that both YCALSE and U.U/U.UN-TSX were referred to in the Kazatomprom press release, although not named directly. At ANU Energy's outset, it will be 48.5% owned by KAP, 48.5% owned by NIC, and 3.0% owned by Genchi Global, who will manage the fund. A "founders round" financing of \$50 MM will be completed as Stage One, seeding ANU Energy with capital to make its first uranium purchases, presumably coming directly from Kazatomprom. Stage Two will be a capital raising of up to \$500 MM from institutional and private investors with all the proceeds used to make additional purchases of physical uranium, also presumably directly from Kazatomprom. KAP's and NIC's equity stake in ANU will likely be diluted down at this stage. ANU Energy will be listed on the Astana International Financial Centre (effectively the Kazakhstan stock exchange), a financial hub serving Central Asian countries, the Middle East, Western China, Mongolia, and Europe, among other areas. The intent is to provide these emerging markets with their first physically backed fund that offers exposure to uranium, which has an important and growing role to play in ESG, clean energy, net-zero carbon targets, and the green economy (refer to our report entitled *Green Metals Macro: A Green Economy and Electric Vehicles Start with Metals* linked [here](#)).

## IMPACT TO THE SPOT MARKET

Kazatomprom accounts for ~23% of primary uranium supply globally. By setting up a physically backed uranium fund, the Company is effectively signalling that nuclear utilities worldwide can no longer rely on uncommitted supply from the world's largest and lowest-cost uranium producer. According to Kazatomprom, newly created ANU Energy is expected to raise \$500 MM from institutional and/or private investors, with the proceeds to be used for uranium purchases. The Sprott Physical Uranium Trust has ~\$650 MM worth of "dry powder" remaining on its at-the-market (ATM) equity facility for future spot market uranium purchases. Yellow Cake's option agreement will renew in January of next year, giving it the option to purchase another \$100 MM of uranium direct from Kazatomprom. Between the three vehicles, up to \$1.25 BB of uncommitted uranium has effectively been removed from the spot market over the next year. At current spot prices, this equates to +27 MMlb U<sub>3</sub>O<sub>8</sub> against typical spot market volumes (going back over the last decade), of ~60 MMlb U<sub>3</sub>O<sub>8</sub>. We note that over the last several years spot market transactions have been abnormally high, in the 70-90 MMlb U<sub>3</sub>O<sub>8</sub> range, due to a significant amount of "churn" between traders and intermediaries.

## SPOT AND TERM URANIUM PRICES GOING HIGHER

We expect the sharp move higher in spot uranium prices over the recent weeks will continue and accelerate following this watershed development out of Kazatomprom, who have signalled that there is a new size buyer of physical uranium in the spot market. In the term market, it is our view that if the Sprott Physical Uranium Trust's ATM facility was not enough to "scare" the nuclear

utilities back into new contract negotiations with the producers, the advent of ANU Energy announced by Kazatomprom this morning certainly will. We expect that a new round of long-term contracting in the \$65-75/lb U<sub>3</sub>O<sub>8</sub> range is coming and will likely be a major theme in the uranium sector in 2022. This will provide an added tailwind to the uranium equities, particularly those with idled production capacity and top-tier development-stage projects.

### Exhibit 1. Price Target Revisions

			Previous	
Company	Ticker	Target Multiple	Price Target	Rating
Cameco	CCJ-US/CCO-CN	75/25 blend, 2.0x NAVPS/20.0x 2022E CFPS	\$28.00/C\$35.00	Buy
Denison	DNN-US/DML-CN	1.5x NAVPS	\$3.25/C\$4.00	Buy
Energy Fuels	UUUU-US/EFR-CN	1.5x NAVPS	\$8.00/C\$10.00	Buy
Sprott Physical U	U.UN/U.U-CN	1.2x NAVPU	\$15.50/C\$19.25	Buy
Ur-Energy	URG-US/URE-CN	1.5x NAVPS	\$2.75/C\$3.50	Buy
Yellow Cake	YCA-LSE	1.1x NAVPS	£4.00	Buy
			Revised	
Company	Ticker	Target Multiple	Price Target	Rating
Cameco	CCJ-US/CCO-CN	75/25 blend, 2.0x NAVPS/20.0x 2022E CFPS	\$32.00/C\$40.00 ↑	Buy
Denison	DNN-US/DML-CN	1.5x NAVPS	\$3.75/C\$4.75 ↑	Buy
Energy Fuels	UUUU-US/EFR-CN	1.5x NAVPS	\$8.75/C\$11.00 ↑	Buy
Sprott Physical U	U.UN/U.U-CN	1.2x NAVPU	\$18.50/C\$23.00 ↑	Buy
Ur-Energy	URG-US/URE-CN	1.5x NAVPS	\$3.50/C\$4.50 ↑	Buy
Yellow Cake	YCA-LSE	1.1x NAVPS	£4.75 ↑	Buy

Source: Cantor Fitzgerald

### RAISING PRICE TARGETS ACROSS THE SECTOR

We are raising our short-term (12-month) spot price forecast to \$60/lb U<sub>3</sub>O<sub>8</sub> from \$50/lb U<sub>3</sub>O<sub>8</sub> previously and our long-term price deck to \$75/lb U<sub>3</sub>O<sub>8</sub> from \$65/lb U<sub>3</sub>O<sub>8</sub> previously. The increase in our short-term and long-term uranium price forecasts results in target price increases across our uranium coverage universe. Our price target changes are summarized below:

**Cameco:** Maintaining Buy rating and raising target price to \$32.00/C\$40.00/share from \$28.00/C\$35.00/share previously. This price target increase is entirely driven by our revised spot and term uranium price forecasts. Our target multiple on CCJ of a 75/25 blend of 2.0x NAVPS<sub>7.5%</sub> and 20.0x 2022E CFPS (rounded) is unchanged. For generalist investors looking for exposure to the uranium sector and slightly more beta to the upside over U.U or YCA, CCJ should be a core holding.

**Denison Mines:** Maintaining Buy rating and raising target price to \$3.75/C\$4.75/share from \$3.25/C\$4.00/share previously. This price target increase is entirely driven by our revised spot and term uranium price forecasts. Our target multiple on DNN of 1.5x NAVPS<sub>7.5%</sub> (rounded) is unchanged. Denison's 95%-owned Wheeler River project in the Athabasca Basin is Tier One

by any and all metrics and is perfectly positioned to supply nuclear utilities with low-cost uranium in the 2026+ period, when the supply-demand imbalance in the sector is expected to widen considerably, driving prices higher. The next catalyst for the Company will be the commercial scale well (CSW) field test results at Wheeler River (due in 3-5 weeks, Cantor estimate) that should demonstrate the project's amenability to in-situ-recovery (ISR).

**Energy Fuels:** Maintaining Buy rating and raising target price to \$8.75/C\$11.00/share from \$8.00/C\$10.00/share previously. This price target increase is entirely driven by our revised spot and term uranium price forecasts. Our target multiple on UUUU of 1.5x NAVPS<sub>7.5%</sub> (rounded) is unchanged. We note that Energy Fuels' Rare Earth Element (REE) business unit and White Mesa mill in Utah still drive the vast majority of our DCF-based NAVPS estimate for the Company. We also note that Energy Fuels has 0.69 MMlb of drummed U<sub>3</sub>O<sub>8</sub> in inventory, highly sought-after U.S. origin material with a current market value, based on spot prices, of ~\$32 MM.

**Sprott Physical Uranium Trust:** Maintaining Buy rating and raising target price to \$18.50/C\$23.00/unit from \$15.50/C\$19.25/unit previously. This price target increase is entirely driven by our revised near-term spot uranium price forecast of \$60/lb U<sub>3</sub>O<sub>8</sub>. Our target multiple of 1.2x NAVPU is unchanged as we expect retail and institutional demand in U.U units to exceed the rate at which it can issue new units via its ATM and purchase material in the spot market with the proceeds. Note that 1.2x NAVPU at \$60/lb U<sub>3</sub>O<sub>8</sub> is equivalent to 1.0x NAVPU at \$72/lb U<sub>3</sub>O<sub>8</sub>. At our long-term uranium price deck of \$75/lb U<sub>3</sub>O<sub>8</sub>, based on its existing inventory, U.U would command a NAVPU of C\$23.70.

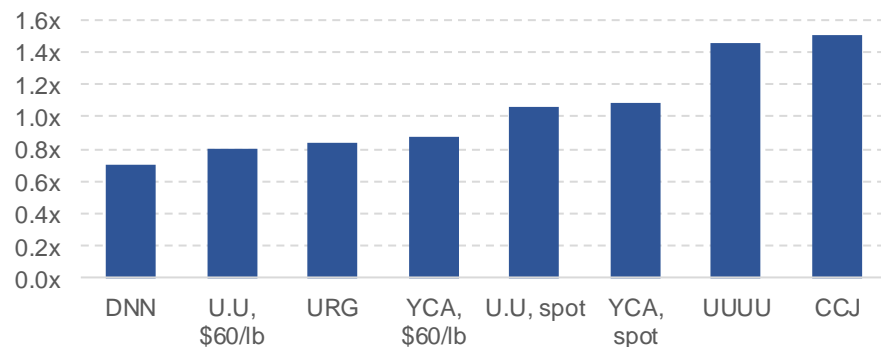
**Ur-Energy:** Maintaining Buy rating and raising target price to \$3.50/C\$4.50/share from \$2.75/C\$3.50/share previously. This price target increase is entirely driven by our revised spot and term uranium price forecasts. Our target multiple on URG of 1.5x NAVPS<sub>7.5%</sub> (rounded) is unchanged. Without question, fundamentally, Ur-Energy is poised to benefit more on a relative basis than any of its peers from higher spot and term prices in the near-term. Its in-situ recovery (ISR) Lost Creek uranium operation in Wyoming is being kept on care-and-maintenance, in a state of "operational readiness" in anticipation of higher uranium prices and term contracts. Lost Creek can be put into production the fastest, and at the lowest cost, relative to any other U.S. based uranium mine or project. It is a proven operation with a dependable production history and cash costs among the lowest in the industry globally. We also note that Ur-Energy has 0.29 MMlb of drummed U<sub>3</sub>O<sub>8</sub> in inventory, highly sought-after U.S. origin material with a current market value, based on spot prices, of ~\$13 MM.

**Yellow Cake:** Maintaining Buy rating and raising target price to £4.75/share from £4.00/share previously. This price target increase is entirely driven by our revised near-term spot uranium price forecast of \$60/lb U<sub>3</sub>O<sub>8</sub>. Our target multiple of 1.1x NAVPS (rounded) is unchanged as we expect retail and institutional demand in the physically backed investment vehicles to remain elevated for the foreseeable future. Interestingly, over the last several weeks Yellow Cake's premium to NAVPS has expanded considerably relative to the Sprott Physical Uranium Trust's premium to NAVPU, which has contracted, closing at a <1% discount on Friday. In our view, this is a function of the ATM facility that U.U has been actively using, a mechanism that provides for continually issuing new units in the context of the market to purchase uranium (if available), thereby limiting the size of the premium. Yellow Cake does not have this ATM feature, and therefore maintaining a large premium to NAVPS is

a clear indicator of tightness (lack of supply) in the spot market. At our long-term uranium price deck of \$75/lb U<sub>3</sub>O<sub>8</sub>, based on its existing inventory, YCA would command a NAVPS of £5.42.

### Exhibit 2. Uranium Equities Under Coverage, P/NAVPS Valuations

Company	Symbol	Share Price	NAVPS	P/NAVPS
Cameco	CCJ-US/CCO-CN	C\$33.25	C\$22.06	1.51x
Denison Mines	DNN-US/DML-CN	C\$2.29	C\$3.28	0.70x
Energy Fuels	UUUU-US/EFR-CN	C\$8.45	\$5.79	1.46x
Sprott U @ spot	U.U/U.UN-CN	C\$15.36	C\$14.48	1.06x
Sprott U @ \$60/lb	U.U/U.UN-CN	C\$15.36	C\$19.06	0.81x
Ur-Energy	URG-US/URE-CN	C\$1.96	\$2.33	0.84x
Yellow Cake @ spot	YCA-LSE	£3.83	£3.53	1.09x
Yellow Cake @ \$60/lb	YCA-LSE	£3.83	£4.35	0.88x



Source: Cantor Fitzgerald

### URANIUM SENTIMENT CONTINUES TO IMPROVE

Over the last 9-10 months, sentiment in the uranium sector has turned increasingly positive. Most recently, in the European Union, the Finnish government has made the decision to lobby the EU to declare nuclear power as a “sustainable energy source” putting it in the same category as wind and solar, which have already been approved by the EU. Interestingly, this effort is being championed by the Green Party in Finland, who are completely reversing their previous anti-nuclear power stance. Finland operates four nuclear power plants and is building a fifth, with nuclear power supplying 30% of the country’s power requirements. The net impact to the uranium sector from this development in Finland on a standalone basis is immaterial, but it is clear evidence that the “tide is turning” more in favor of nuclear power in the developed world. Also, earlier this month, in Asia, Japan’s incoming Minister of Economy, Trade and Industry (METI), Mr. Koichi Hagiuda, stated that nuclear power in Japan is “indispensable.” As a reminder, Japan is the fourth largest country in terms of installed nuclear power capacity (32 GW vs. the United States in the #1 spot at 98 GW by comparison). In the United States, most recently the FY2022 U.S. Federal Government Budget has allocated \$14.75 BB over the next 10-years to nuclear, specifically to “procure advanced nuclear power” and “provide allocated credit for electricity generation from existing nuclear power facilities.” With uranium currently generating 80% of carbon-free grid power in the United States, it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future.

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**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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