

YELLOW CAKE PLC

Accretively Adds 3 MMlb U3O8 to Inventory

EVENT

Yellow Cake has completed a \$150 MM equity financing to fund the purchase of 3 MMlb U₃O₈ at an average price of \$46.74/lb, 1.1% below the spot price at the time of the announcement.

BOTTOM LINE

Positive – Increasingly greater amounts of material that would likely have otherwise been destined for the spot market are being purchased by buy-and-hold financial entities. This should continue to drive upward momentum in spot and term uranium prices.

FOCUS POINTS

- **YCA Increases U₃O₈ Inventory by 19%** – The Company will purchase 1 MMlb U₃O₈ from Kazatomprom (KAP-LSE, Not Covered) at \$47.58/lb, and 2 MMlb from uranium trader Curzon (private) at \$46.32/lb. This brings Yellow Cake's total inventory to 18.86 MMlb U₃O₈, including material pending delivery, at a consolidated average purchase price of \$28.77/lb, 33% below current spot prices, and 62% below the incentive price for new production of \$75/lb U₃O₈ (Cantor estimate).
- **Retains Premium to NAVPS** – Incorporating the new net cash balance, uranium in inventory, and shares outstanding, Yellow Cake continues to trade at a premium to NAVPS, at 1.06x, presently. Historically, this has proven to be an excellent leading indicator of a continued move higher in spot uranium prices.
- **Maintaining Buy Rating and Target** – We are maintaining our Buy rating and £4.75 target price on Yellow Cake based on a multiple of 1.1x NAVPS and a short-term uranium price forecast of \$60/lb U₃O₈.

Recommendation:

BUY

Symbol/Exchange: YCA-LSE
Sector: Metals & Mining
All dollar values in US\$ unless otherwise noted.
Current price: £3.52
One-year target: £4.75
Return to target: 35.3%
Working capital*: \$25.4 MM

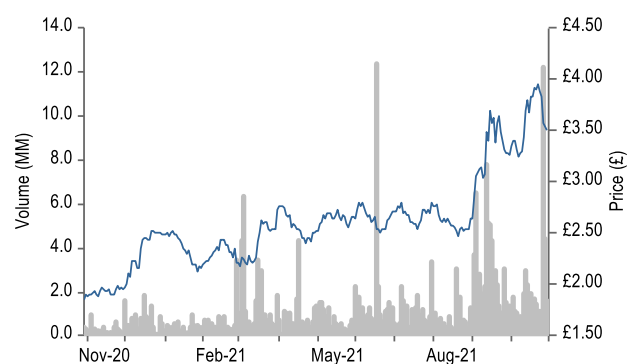
Financial Summary:

Shares O/S (MM)	183.7	52-week range	£1.87 - £4.00
Market cap (MM)	£645.6	Avg. vol. (MM)	1.8
Market float (MM)	£591.7	Fiscal year-end	31-Mar

Inventory	Quantity (MM lb)	Mkt Price (\$)	Mkt Value (MM\$)
U3O8*	18.86	\$43.00	\$811.0
Net Working Capital*			\$25.4
Net Asset Value			\$836.4
NAVPS			£3.33
Current Premium/Discount to Market NAV			5.7%

Source: Company Reports and Cantor Fitzgerald Canada Estimates

*adjusted for pending purchases



Company profile: Yellow Cake Plc. is a specialist company operating in the uranium sector, created to purchase and hold U₃O₈ to offer shareholders exposure to the price appreciation of uranium.

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

BOOSTS INVENTORY 19% TO 18.86 MMLB U₃O₈

Late last week, Yellow Cake completed a \$150 MM equity financing to fund the purchase of 3 MMLb U₃O₈ at a blended average purchase price of 46.74/lb, 1.1% below the spot price at the time of the announcement, making the transaction immediately accretive to the Company's net asset value. Cantor Fitzgerald acted as Joint Bookrunner in the placement that was completed at £3.64 per YCA share, a 5.2% discount to Yellow Cake's previous closing price and a 0.8% premium to its NAVPS prior to the announcement. The Company will purchase 1 MMLb U₃O₈ from Kazatomprom at \$47.58/lb, and 2 MMLb U₃O₈ from CGN Global Uranium, a subsidiary of CGN Mining (1164-HK, Not Covered) via uranium trader Curzon (private) at \$46.32/lb. After speaking with Yellow Cake's management last week, it is our understanding that the 2 MMLb U₃O₈ component of the purchase relates to a sale agreement between the *UK-based uranium trading* division of CGN and Curzon dating back to 2018. In other words, to view CGN's sale of 2 MMLb U₃O₈ to Curzon as "the Chinese utilities selling material" would be entirely incorrect. The 3 MMLb U₃O₈ purchase brings Yellow Cake's total inventory to 18.86 MMLb U₃O₈, including material pending delivery, at a consolidated average purchase price of \$28.77/lb, 33% below current spot prices, and 62% below the incentive price for new production of \$75/lb (Cantor estimate). Moreover, YCA's net working capital position now stands at \$25.4 MM (Cantor estimate), and it carries zero debt, so the Company is primed for additional follow-on U₃O₈ purchases at the discretion of management.

Exhibit 1. NAV Based on Current U₃O₈ Prices

YCA-LN	Unit	Inventory	Spot Price \$	Spot Price GBP	Market Value (\$'000)
U3O8	lb	18,860,000	\$43.00	£31.40	\$810,980
Inventory					\$810,980
Net Working Capital					\$25,401
Net Asset Value					\$836,381
Net Asset Value Per Share					£3.33
P/NAVPS					1.06x

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

YELLOW CAKE NET ASSET VALUE

Based on the current U₃O₈ spot price of \$43.00/lb, the current GBP/USD FX rate of 1.3695, and Yellow Cake's pro-forma uranium in inventory and cash balance post the \$150 MM placement, the current intrinsic value (1.0x NAVPS) for YCA totals £3.33/share (Exhibit 1).

MARKET IMPLYING SPOT PRICE OF \$45/LB U₃O₈

At its most recent price of £3.52/share, Yellow Cake continues to trade at a premium to its NAVPS, at 1.06x, presently. Historically, this has proven to be an excellent leading indicator of a sustainable move higher in spot uranium prices. Based on YCA's most recent closing price, the market is implying a U₃O₈ spot price of \$45.46/lb, 5.7% higher than the current U₃O₈ spot price of \$43.00/lb. 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.

RECENT SPOT MARKET VOLATILITY

On August 17 the Sprott Physical Uranium Trust (U.U/U.UN-TSX, Buy – \$18.50/C\$23.00 target) put its at-the-market equity facility in place (note [here](#)) that in part, acted as one of several catalysts that lifted spot uranium prices from \$30/lb U₃O₈ to a peak of over \$50/lb U₃O₈ exactly one month later. Spot uranium prices have since consolidated in the mid-to-high \$40/lb U₃O₈ range, but fell under considerable pressure late last week, falling from \$47/lb U₃O₈ on Wednesday to \$43/lb U₃O₈ at the close on Friday. We view this as a short-term dip, likely related to typical spot market trading activity at month-end, when the reference price for long-term contract deliveries is usually set. In our view, any near-term weakness in the uranium equities, including Yellow Cake, resulting from the spot price volatility late last week, should be bought. Directionally, the supply and demand set-up for uranium is pointing toward higher prices in both the spot and term markets.

URANIUM SENTIMENT CONTINUES TO IMPROVE

Over the last year, sentiment in the uranium sector has turned increasingly positive. The narrative has clearly shifted as it has become abundantly clear that nuclear power has a critically important and *growing* role to play in the energy mix of the future. We point to a number of positive developments in the last month alone:

- ▶ **October 29:** UK Adopts Nuclear Energy Finance Plan (source: Nuclear Engineering International, link [here](#)).
- ▶ **October 18:** Kazatomprom Announces Physical Uranium Fund (source: World Nuclear News, link [here](#), Cantor note [here](#)).
- ▶ **October 16:** UK Net Zero Emission Plan to Focus on Nuclear Power (source: Bloomberg, link [here](#)).
- ▶ **October 15:** France's EDF Offers to Build Six Nuclear Reactors in Poland (source: Power Engineering International, link [here](#)).
- ▶ **October 12:** Led by France, 10 EU Countries Call on Brussels to Label Nuclear Energy as Green Source (source: Euronews.com, link [here](#)).
- ▶ **October 11:** Japan's new PM Defends Pro-Nuclear Stance in Parliamentary Debut (source: Reuters, link [here](#)).

MAINTAINING BUY RATING AND TARGET

Incorporating the 3.0 MMLb U₃O₈ purchase and pro-forma net working capital position and outstanding shares, we are maintaining our Buy rating and £4.75/share price target on Yellow Cake. This target is based on an unchanged multiple of 1.1x P/NAVPS (rounded), on our 12-month U₃O₈ price forecast of \$60/lb, the Company's current financial position, and a GBP/USD FX rate of 1.45. A target price sensitivity to uranium prices and GBP/USD FX rates is provided in Exhibit 2 below.

FURTHER UPSIDE LONGER-TERM

Our £4.75/share price target on Yellow Cake is based on a 12-month U₃O₈ price forecast of \$60/lb. We believe this spot price is certainly achievable over the next 12-months, and likely even overly conservative. Over the longer-term (3+ years), our U₃O₈ price estimate forecast is considerably higher at \$75/lb, our best estimate as to the price required to sustain current mine production, incentivize

the re-start of shuttered operations, and build new Tier 1 low-cost uranium projects to meet growing global utility demand. At current FX rates, a \$75/lb U₃O₈ price drives a NAVPS for Yellow Cake of £5.41/share. As such, over the longer-term, our target has a clear bias to the upside.

Exhibit 2. NAVPS Sensitivities

GBP/USD	Short-term U3O8 Price Forecast (\$/lb)				
	\$40.00	\$50.00	\$60.00	\$70.00	\$80.00
1.52	£2.80	£3.45	£4.15	£4.80	£5.50
1.49	£2.85	£3.55	£4.25	£4.95	£5.60
1.45	£2.95	£3.65	£4.35	£5.05	£5.75
1.41	£3.00	£3.75	£4.45	£5.20	£5.90
1.38	£3.10	£3.85	£4.55	£5.30	£6.05

Source: Cantor Fitzgerald

INVESTMENT THESIS

Yellow Cake is an excellent low-risk vehicle offering exposure to a commodity that investors cannot physically hold. The Company offers unlevered exposure to uranium price appreciation on its physical holdings and to its uranium-based financing initiatives via potential streaming, royalty, or logistics optimization associated with trading. In short, for institutional investors desiring exposure to the uranium price that are unwilling to take on the operating risk and financial gearing of a uranium producer, Yellow Cake is one of only two “pure play” vehicles, the other being the Sprott Physical Uranium Trust. YCA’s competitive advantage relative to U.U/U.UN, is its supply agreement (at YCA’s option) with Kazatomprom, the world’s largest and lowest cost producer of uranium oxide.

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The analyst responsible for this report has not visited the material operations of Yellow Cake Plc.

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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.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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