

# SPROTT PHYSICAL URANIUM TRUST

## Key Takeaways from Non-Deal Roadshow

### EVENT

Last week we hosted the Sprott Physical Uranium Trust on a two-day in-person non-deal roadshow in New York, following-up on several virtual 1x1 meetings the previous week we arranged for the Trust and institutional accounts across Asia.

### BOTTOM LINE

**Modest Positive** – Interest in the uranium sector continues accelerating and the size of investment managers looking at the Sprott Physical Uranium Trust is growing and diversifying rapidly. Government policy has clearly shifted in favour of nuclear power, and eventually this will translate into considerably higher U<sub>3</sub>O<sub>8</sub> prices. Shift in public sentiment is now giving governments the will to support nuclear reactor extensions and new builds.

### FOCUS POINTS

- **Current State of the Spot Market** – U.U is the largest player in the spot market, and it notes that volumes presently are extremely thin. Spot prices seem to have a firm floor at the ~\$47.50/lb U<sub>3</sub>O<sub>8</sub> level, where other players in the market refuse to part with material. Large volumes of material are not available, and typical transactions are in lots ranging from 100-300 klb U<sub>3</sub>O<sub>8</sub>. In the event U.U had 4-5 MMlb U<sub>3</sub>O<sub>8</sub> to buy (cash of \$200-250 MM), the spot price would likely move to the ~\$60/lb U<sub>3</sub>O<sub>8</sub> level.
- **Long Term Contracting** – U.U's market intelligence suggests that utilities are set to ramp-up long-term contracting in a significant way over the remainder of this year. At present, half a dozen utilities are either out with, or about to go out with Requests for Proposals (RFPs).
- **Maintaining Buy Rating and Target** – Based on an unchanged uranium price forecast of \$75/lb U<sub>3</sub>O<sub>8</sub>, we maintain our Buy rating on the Sprott Physical Uranium Trust and \$20.00/C\$25.00/unit price target.

### Recommendation:

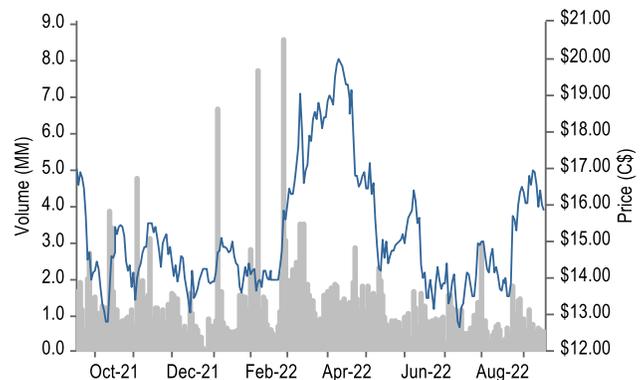
**BUY**

Symbol/Exchange: U.U-TSX/U.UN-TSX  
Sector: Metals & Mining  
*All dollar values in US\$ unless otherwise noted.*  
Current price: \$11.96/C\$15.85  
One year target: \$20.00/C\$25.00  
Return to target: 67.2%

### Financial Summary:

Units O/S (MM)	234.3	52-week range	C\$12.22 - C\$20.19
Market cap (MM)	C\$3,714	Avg. vol. (MM)	0.806
Market float (MM)	C\$3,714	Fiscal year-end	31-Dec
<b>Inventory</b>			
<b>(lb)</b>	<b>(MM)</b>	<b>Mkt Price (\$)</b>	<b>Mkt Value (MM\$)</b>
U3O8	58.6	\$47.50	\$2,782.0
Reported Net Working Capital			\$16.9
Reported Net Asset Value			\$2,809.5
Reported NAVPU			C\$15.91
Current Premium/Discount to Market NAV			-0.4%

Source: Company Reports and Cantor Fitzgerald Canada Estimates



**Company profile:** Sprott Physical Uranium Trust is a closed-end trust that acquires and stores physical stock of U<sub>3</sub>O<sub>8</sub> for investment purposes.

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

## KEY TAKEAWAYS FROM NON-DEAL ROADSHOW

Last week we hosted the Sprott Physical Uranium Trust on a two-day in-person non-deal roadshow in New York, following-up on several virtual 1x1 meetings we arranged the previous week with institutional accounts across Asia. Interest in the uranium sector continues accelerating and the size of investment managers looking at the Sprott Physical Uranium Trust is growing and diversifying rapidly. Government policy has clearly shifted in favour of nuclear power, and eventually this will translate into considerably higher  $U_3O_8$  prices. Shift in public sentiment is now giving governments the will to support nuclear reactor extensions and new builds. While nuclear power is still increasingly being seen as a core component in the shift to net-zero carbon, a common theme across all the meetings during this NDR was the energy security aspect of nuclear power (given the Russia-Ukraine conflict) and its role as the best low-cost reliable power source (given the current energy crisis, particularly in Europe). Below are the most commonly asked questions, key takeaways, and main themes from the NDR we hosted in New York (in person) and across Asia (virtual) over the last two weeks:

► **What is the current state of the spot market?**

It is becoming harder to find material and the number of sellers has dropped considerably, with the spot market described as “thin but stable.” The “easy to source” pounds from hedge funds and the carry trade have already been purchased. In February, Sprott would often see RFPs for 1.0-1.5 MMlb  $U_3O_8$ , but now all transactions are in lots of 100-300 klb  $U_3O_8$ . To buy 1.0 MMlb  $U_3O_8$  in the current market would be “very difficult and require a lot of phone calls.” Utilities remain almost completely absent from the spot market.

► **Where do you think the next resistance level is on the upside?**

The bid/ask spread on a typical day is \$1/lb, sometimes \$2/lb. U.U is on the bid side everyday, but if the spread is too wide (\$51/lb bid and a \$53/lb offer, for example), the Trust does not transact. If U.U was cashed-up and had 4-5 MMlb  $U_3O_8$  to buy (\$200-250 MM), that volume of purchases would likely lift the spot price to the ~\$60/lb  $U_3O_8$  level.

► **Where do you think the support level is on the downside?**

Spot prices seem to have a firm floor at the ~\$47.50/lb  $U_3O_8$  level, where other financial intermediaries and traders in the market refuse to part with material.

► **What were the key takeaways coming out of the WNA last week?**

Exuberance. After over 10-years (post Fukushima) of being viewed as the worst form of power generation (below oil/gas and even coal), public sentiment and government policy has clearly shifted in favour of nuclear power. U.S. utilities and companies involved across the nuclear fuel cycle will be receiving support from various government programs (Build Back Better Act, Inflation Reduction Act, etc.), and there is a feeling across the industry that nuclear power is being given a new lease on life. There is a sense among the utilities that this presents an excellent opportunity, not to be squandered, to completely re-brand nuclear power in a positive way for the long-term.

► **What are you hearing on utilities and long-term contracts?**

U.U’s market intelligence, which comes from its Technical Advisor and contracted uranium trading firm WMC Energy, suggests that utilities are set to ramp-up long-term contracting in a significant way over the remainder of

this year. At present, half a dozen utilities are supposedly either out with, or about to go out with RFPs.

► **How big of a player is U.U in the spot market?**

The main uranium trade journal estimated that U.U accounted for ~40% of all spot market uranium transactions last year. This year, with volumes lower, U.U estimates it may account for up to ~80% of all spot market transactions.

► **What are you hearing about other parts of the nuclear fuel cycle?**

Right now, what utilities and nuclear fuel buyers are scrambling the hardest to find/buy/secure is conversion (UF<sub>6</sub>). The Converdyn facility in Metropolis, Illinois (Honeywell/General Atomics) has been closed since 2017 and is scheduled to restart in mid-2023. At that point, it is expected that North American allied enrichment will likely switch from underfeeding to overfeeding (less SWU, more UF<sub>6</sub>, and by extension, more U<sub>3</sub>O<sub>8</sub>). It is estimated that the transition from underfeeding to overfeeding would equate to additional demand of ~20 MMLb U<sub>3</sub>O<sub>8</sub>/year.

► **With all the positive macro developments recently, why isn't the spot price up more?**

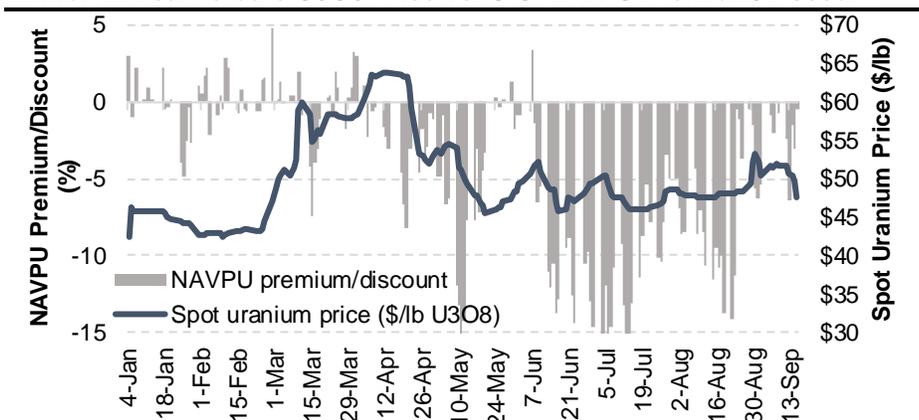
The nuclear fuel cycle is very complex and as a result very slow moving. We note that both enrichment (SWU) and conversion (UF<sub>6</sub>) prices both made parabolic moves and set new all-time record highs this year. The demand for SWU and UF<sub>6</sub> will ultimately cascade down to mined uranium oxide (U<sub>3</sub>O<sub>8</sub>), the feedstock required for the fuel cycle as a whole, ultimately resulting in a similar move considerably higher in its price as well.

**Exhibit 1. U.U NAV Based on Current U<sub>3</sub>O<sub>8</sub> Prices**

U.UN, U.U-TSX		Spot Price	Spot Price	Market Value	
Unit	Inventory	\$	C\$	(C\$'000)	
<b>U3O8</b>	lb	58,569,000	\$47.50	C\$63.29	C\$3,706,899
Inventory				C\$3,706,899	
Net Working Capital				C\$22,505	
Net Asset Value				C\$3,729,404	
Net Asset Value Per Unit (C\$)				C\$15.91	
<b>Net Asset Value Per Unit</b>				<b>\$11.99</b>	
<b>P/NAVPU</b>				<b>0.996x</b>	

Source: FactSet, Cantor Fitzgerald Estimates, Sprott Physical Uranium Trust

**Exhibit 2. Year-to-date U3O8 Price vs. U.U NAVPU Premium/Discount**



Source: FactSet, Cantor Fitzgerald, Sprott Physical Uranium Trust

### **MAINTAINING BUY RATING AND PRICE TARGET**

Based on an unchanged uranium price forecast of \$75/lb U<sub>3</sub>O<sub>8</sub> and target multiple of 1.05x NAVPU, we maintain our Buy rating on the Sprott Physical Uranium Trust and \$20.00/C\$25.00/unit price target.

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The analyst responsible for this report *has* visited the material operations of Sprott Physical Uranium Trust, including the Toronto head office. No payment or reimbursement was received for the related travel costs.

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**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.

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