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Still radioactive

Cameco Corp. was exhibit A in the bullish analysis of uranium that featured in these pages two weeks ago. Now in progress is a survey of alternative opportunities in the market that is (if possible) even more marginalized than gold.

Cameco shares (CCJ in New York, CCO in Toronto) have risen by 13% since we went to press on May 29, spurred by a 65-cents-per-pound, or 3%, bump up in the uranium spot price. Potentially, this is the start of a bull market, though we have erroneously thought so before (e.g., *Grant's*, March 22, 2013).

Widows, orphans and not a few grown men should now avert their eyes. We here advocate a speculation on higher prices of a commodity of which a leading producer is situated in Kazakhstan. Cameco, headquartered in Saskatoon, is the blue chip of the industry, but even this island of relative safety is at risk of an immense judgment in a tax dispute with the Canadian government (for details, see *Grant's*, Jan. 13, 2017).

Cameco's leading position in the market and long-term contracts provide some cyclical resiliency, though the stock will ultimately follow uranium prices. Pure uranium funds must sit and wait for prices to take their anticipated jog to the upside. Junior miners add the risk inherent in exploration and development as well as potential share dilution from follow-on offers to sustain them through long, drawn-out bear markets.

Last week, Yellow Cake plc. disclosed plans to float shares in an initial public offering on AIM, a market of the London Stock Exchange, in early July. Founded by Peter Bacchus, a former natural-resources investment banker, the company will buy and hold uranium obtained through a contract with the state-owned JSC National Atomic Company Kazatomprom. Based on the agreement, Yellow Cake will purchase 8.1 million pounds of U_3O_8 at $21.01 per pound (10% below the last quoted price by Ux Consulting Co.) from Kazatomprom to be stored at the Port Hope and Blind River facilities of Cameco. The contract provides for the purchase of an additional $100 million of U_3O_8 per year over the next nine years. For starters, the transaction has essentially removed 5% of world production from the market (based on 2017 figures).

The intrepid uranium bull might also consider Toronto-based Uranium Participation Corp. (U in Toronto or URPTF in the pink sheets). The company invests at least 85% of its capital in uranium concentrates (U_3O_8) and uranium hexafluoride (UF_6). It may lever up to 15% of its net asset value to make opportunistic purchases of uranium—although it has never done so since its 2005 market debut. It pays about 30 basis points a year in management fees to uranium explorer Denison Mines, Inc.

At the end of last month, the Participation Corp. held 13.5 million pounds of U_3O_8 and 1.1 million kilograms of UF_6. The company raised an additional C$23 million on May 22 at a slight premium to book value. Based on available working capital, the follow-on proceeds and the latest spot prices of $23.40 per pound of U_3O_8 and $67.50 per kilogram of UF_6, Participation shows a book value of around C$535.5 million, or C$3.88 per share. The stock trades at a 9% premium to that value, at C$4.22. An average of about C$2 million worth of shares has changed hands on each of the past 30 days.

"Investments in funds such as UPC and Yellow Cake remove the exploration and development risk inherent in junior miners, while also providing more immediate upside to the spot market because miners usually engage in long-term price contracts," colleague Fabiano Santin writes. "Nevertheless, junior miners often bring the chance of much higher returns from rising production and operating leverage.

"The uranium market has taken a toll on listed miners, and most have a market value under $100 million with little daily liquidity," Santin proceeds. "For now investors could consider investing in a relatively more liquid vehicle such as the Global X Uranium ETF (URA on NYSE Arca), which tracks German-index provider Solactive A.G.'s Global Uranium & Nuclear Components Total Return Index, representing a cluster of businesses exposed to 'mining, exploration, uranium investments and technologies related to the uranium industry.'"

Large-cap investors may also avert their eyes, as URA boasts, if that's the word for it, a $377 million market cap. The portfolio includes Cameco (24.7% of fund assets), NexGen Energy Ltd. (9.7%), UPC (6.4%), Hyundai Engineering and Construction Co. Ltd. (3.9%), Denison Mines Corp. (3.85%), Ur-Energy, Inc. (3.8%), Energy Fuels, Inc. (3.6%), CGN Mining

Co. Ltd. (3.55%) and 31 other names. The fund charges 69 basis points in annual fees. It's quoted at a 1% premium to net asset value; about $4 million worth of shares traded on each of the past 30 days.

Since inception in late 2010, just before the Fukushima disaster, URA has generated a total return of minus 83.1% vs. a 166.5% gain for the S&P 500 index. U has delivered minus 27.6% vs. 139.2% for the blue chips. It is well that past performance is no guarantee of future returns.

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