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More in store

Semiconductors, used cars and houses get the ink, but uranium is in short supply, too. In preview, this publication remains bullish on the silver-grey metal and on Cameco Corp. (CCO in Toronto and CCJ in New York), which mines it. We remain friendly, in a measured way, toward Uranium Participation Corp. (U in Toronto and URPTF on the pink sheets).

This year the world will consume 178 million pounds of uranium, according to research boutique UxC, but miners will extract only 166 million pounds of that radioactive haul from the earth. Inventories that bulged following the 2011 Fukushima nuclear disaster are expected to furnish the balance.

Contrary to appearances, demand is growing. According to the World Nuclear Association, approximately 50 reactors are under construction today compared with an operating stable of about 440. Then, too, producers have become consumers in a speculative bet on higher prices. In the year to date, junior miners and listed commodity funds have purchased more than 13 million pounds of U_3O_8, Nick Carter, an executive vice president at UxC, informs colleague Evan Lorenz via email. For a sense of scale, spot market transactions ordinarily run to 60–80 millions pounds a year.

Bearing in mind the estimated remaining life of the world's major mines, one can imagine the supply-demand imbalance becoming more acute over the next seven years. "[A]t least 33.5 million pounds/year will be removed from the market," Marcelo Lopez, senior portfolio manager at L2 Capital Partners, wrote in his first-quarter letter to investors. "If we look at the potential projects that are ahead to replace this loss and still assume that all will go into production on the date and volumes announced (something that happens very seldom…), we will not even reach half of that."

You'd hardly guess it from price action, as spot uranium ended May at \$31.40 per pound, down from \$33.93 a year earlier. Then, again, a decade can separate the discovery of a uranium ore body from the start of mine production of that deposit. Based on the industry cost curve, Lopez believes that miners need a \$60-plus price to add enough capacity to meet demand. "[W]e should be investing now to replace that lost production, but, at today's prices, that makes zero sense," Cameco CEO Timothy Gitzel lamented on the May 7 earnings call.

Buying pressure may materialize soon. On April 28, Sprott, Inc. announced its intention to acquire the Uranium Participation Corp., which holds uranium oxide and uranium hexafluoride, from Denison Mines Corp. in a transaction that's expected to close soon.

At present, it's costly for UPC to issue new shares to acquire more uranium. First, Denison charges a 1% fee on physical uranium purchases and a management fee of about 30 basis points. Frugal Canadian investors typically buy secondary offers from UPC only at a discount of, say, 6%, and Canadian brokers charge another 6% or so to arrange

Only the beginning?

source: The Bloomberg

the transactions. In other words, unless UPC is trading at a 13% premium to net asset value, it is dilutive to issue shares to buy more metal.

Sprott says it intends to secure a dual listing on the NYSE Arca for the soon-to-be-renamed Sprott Physical Uranium Trust. This will allow the asset manager to tap the more liquid U.S. market and issue shares through at-the-market offerings, which carry negligible costs. Sprott is expected to earn a fee based on asset size and, as long as the fund trades at a premium to net asset value, as it does today, the manager has every incentive to issue shares. "For the first time in 10 years," Lopez tells Lorenz, "we are going to find out where spot uranium prices really are."

Uranium bulls are waiting for utilities to begin contracting for long-term needs, but low spot prices have sapped the urgency to sign supply deals. Nevertheless, those customers need to secure 1.4 billion pounds of uranium through 2035. "If we back that up to when it's needed to be contracted, produced and delivered . . . that would require 140 million pounds of long-term contracting per year, starting in 2020," Gitzel said on the May 7 call. "Last year, we saw 50 million pounds placed under long-term contract, so that demand is piling up in a future window."

Since a March 6, 2020 *Grant's* update on this metal's sector, shares in Uranium Participation Corp. have appreciated by 79% and those in Cameco Corp. by 155.5% while the S&P 500 has eked out a 45.2% gain. (All figures are in U.S. dollars and include reinvested dividends.)

To be clear, Cameco is a speculation on higher uranium prices. On its current $8.6 billion market cap, the shares scarcely look cheap on historic results. The company generated a net loss of $44.1 million in 2020 and a net profit of $61.3 million in 2019. (Both figures use the spot Canadian dollar exchange rate.) Then, again, the market valued Cameco at $19.7 billion in 2007 during the last uranium bull market.

As we go to press, UPC trades at C$5.95 per share, a 22% premium to the May 31 net asset value of C$4.87. A market price closer to NAV would suit us better.

"There is going to be a squeeze in uranium at some point this decade that will be epic," says Lopez. "All of the stars are aligned for that. Investors just need to remain patient and know what they are doing by selecting good companies to invest in."

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