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Nearly 2 billion people across the planet have no electricity. The World Nuclear Association (WNA) believes nuclear energy could reduce the fossil fuel burden of generating the new demand for electricity. The WNA forecasts a 40-percent jump in worldwide electricity demand over the next five years. The world’s most populated countries, China and India, are in the process of creating the largest energy-consuming class in the history of earth. Both plan aggressive nuclear energy expansion programs. Dozens of lesser developed countries, from Turkey and Indonesia to Vietnam and Venezuela, have announced their eagerness to pursue a civilian nuclear policy to benefit power needs for their burgeoning middle classes.

In a nutshell, global utilities are going to need uranium to help feed the increasing number of nuclear power plants proposed over the next twenty years. Uranium is now in shorter available supply for civilian energy use than ever before. Over the next decade, as demand continues to outstrip supply, analysts are predicting utilities will snap up known uranium inventories sending spot uranium prices to record highs. During this launch phase, investors have taken notice, chasing up the stock prices of many uranium producers and exploration companies.

Uranium Prices May Reach “Unbelievable Highs”

Toronto-based Sprott Asset Management research analyst, Kevin Bambrough, told STOCKINTERVIEW.COM, “There is a good possibility of a supply crunch that could drive uranium prices to unbelievable highs.” Various analysts predict price targets for spot uranium, in the near-term, above $40. Canadian Augen Capital Corp’s managing director David Mason speculated, “$100 (US) a pound is within reason within the next year or two.” Sydney-based Resource Capital Research is half as generous, forecasting $50/pound by 2007, explaining another 40 percent jump in spot uranium prices will be “driven by end users in the power generation market which is urgently trying to secure supply into the future.”

How high could spot uranium prices run? Kevin Bambrough made a hypothetical case for uranium trading north of $500. “It’s a ridiculous price,” Bambrough confided. “It’s hard to speculate if this is even going to happen.” While he admits that price would not be sustainable, Bambrough makes an interesting point about the concerns facing utility companies, charged with providing us with our electricity. In his futuristic scenario, Bambrough speculated, “There’s a chance that some facilities will have to choose shutting down their nuclear plants (if they can not obtain uranium to fuel the facility).” On that basis, Bambrough calculated the operating costs of a nuclear facility versus the operating cost of a competing fuel. In his conjectural model, Bambrough used natural gas priced at $5.

Bambrough explained, “Assuming that the coal-fired plant’s operating capacity, before you would basically shut down a nuclear facility, you would be comparing it to what you would have to bring on, which would be natural gas. If there is a shortage there (with natural gas), what price would it take before I am willing to shut down my nuclear facility? If you were to shut off the nuclear capacity, and fire up more gas to replace it, it would send gas prices through the stratosphere.” And that doesn’t factor in the cost of shutting down a nuclear facility, itself an exorbitant process. The analyst said he reached his calculation of “north of $500/pound” for spot uranium, under an extraordinary emergency supply crunch, by answering this question: “How much would people pay before they shut it (a nuclear plant) down if there is a shortage of uranium?”

Historical cycles support spot prices higher than $40/pound, a level above where uranium may hover for several years. The current cycle of rising uranium prices closely parallels the leap which occurred between February 1975 and April 1976. Spot uranium prices soared from $16 to $40/pound during that 15-month period. During the 1970s cycle, uranium steadily rose from $6.75/pound in November 1973, peaking in July 1978 at $43.40/pound. Since late last year, spot uranium prices soared with the same momentum seen thirty years ago. If history repeats itself, spot uranium prices should trade above $40/pound this year, and stay above that level until the end of this decade or perhaps for a longer stretch.

The key yardstick in determining how much higher uranium prices will climb is by keeping track of the number of new nuclear facilities being constructed or proposed. “A few years ago, when we first started investing in uranium,” Bambrough explained. “There were very few plants being proposed. The numbers have doubled for proposed facilities. And for every one you hear about, there’s a lot more being planned.” That puts uranium miners into an enviable position. Bambrough added that utilities have to secure their fuel supply for up to six years out, once they decide to build a nuclear facility. “The fact is the supply is just not there,” warned Bambrough.

In short, U.S. utilities may soon be scrambling for uranium inventory to fuel their nuclear reactors, or face the “ridiculous price(s)” research analyst Kevin Bambrough warned about. An excerpt from The International Atomic Energy Agency’s booklet, Analysis of Uranium Supply to 2050, bears out Bambrough’s thesis, “As we look to the future, presently known resources fall short of demand.” The deficit between newly mined uranium and reactor demand has averaged about 40 million pounds annually over the past decade, cannibalizing existing inventories. As we begin 2006, the supply/demand imbalance has reached a critical phase.

Where Will the Uranium Come From?

In his September 2004 presentation to the World Nuclear Association, Thomas L. Neff of MIT’s Center for International Studies, stated, “The net result of nearly twenty years of inventory liquidation is that existing higher-cost suppliers were driven out of business, new mines were discovered from starting, and exploration was neglected.” Neff warned in his conclusion, “The problem is the one to two decades that will be needed to expand (production) capacity and build the flow of nuclear fuel that meet the expanding requirements horizon.”

The 1970s price spike in uranium was limited because existing uranium mines were quickly ramped up to supply utilities with fuel. Neff noted, “This is not the case today and a longer period of high prices could prevail.” In Neff’s analysis, uranium prices would have risen well above $100/pound in the mid 1970s, using constant 2004 US$. On that basis, Bambrough’s hypothetical forecast above $500/pound may be not too far out of reach. Neff summarized why the problem has reached a critical stage, “We are currently facing the consequences of what may be the largest sustained divergence between expectations and reality in the 60 year history of uranium.”

“For people who want to bring on new (nuclear) facilities and contract for it, it’s very difficult to do that,” said Bambrough. “You have to go to mines that are not even there yet in order to try and contract supply.” In this light, it appears the greatest opportunity will appear with the junior uranium companies, which obtained known uranium resources during the last down cycle, and whose operators abandoned such properties because of low prices.

How Can Investors Profit?

Bambrough recalled compiling a worldwide list, in 2003, of a mere 25 companies involving in uranium mining and exploration. “I cut the list down to around ten that looked to be promising,” said Bambrough. “I’d say that today there are still less than 30 uranium companies that present a good reward-to-risk ratio considering the massive move the sector has made.” Depending upon whose list you believe, the number of companies now mining or exploring for uranium stretches to about 200. The majority trade on either the Canadian or Australian stock exchanges.

What sort of companies has Sprott Asset Management invested in? Bambrough responded, “We have preferred to invest in companies that have acquired properties that were once owned and were actively being worked by majors at the end of the 70’s bull market.” He added, “The cost of uranium exploration is so large there is great value built into many of these properties. Specifically, millions of dollars worth of drilling work and data have been collected on some properties. In some cases, mining shafts have been built that only require rehabilitation at a fraction of the cost of starting fresh with a green fields project.”

Bambrough shared a few of his favorite uranium stocks. “Of the companies that we own, we own a larger percentage of Strathmore Minerals (TSX: STM; Other OTC: STHJF) than almost any other company," said Bambrough. "We think they've got some great properties. They were guys who got into the game very early, and who have skills as they do with David Miller (president and chief operating officer of Strathmore Minerals) in understanding the uranium business. And they have a very large amount of databases, as does Energy Metals Corporation, which is extremely valuable in understanding the properties." Both Strathmore Minerals and Energy Metals have properties in New Mexico and Wyoming. "I think the future for New Mexico is quite good," Bambrough noted, "as well as ISLs in Texas and Wyoming." Another Sprott Asset Management favorite is Tournigan Gold Corp (TSX: TVC). "You look at a past producing region," Bambrough pointed out. "They went and got old mines." Tournigan recently drilled the historic Jahodna uranium resource in Slovakia, once drilled by the Russians.

Where the Action Is

The more adventurous price action may be found in the ongoing consolidation within the uranium sector. Bambrough observed, "There appear to be a few aggressive junior uranium companies that seem to be moving forward and working to build a 'major' company." In November, one uranium exploration company, Energy Metals Corporation (TSX: EMC) began takeover procedures to acquire two other uranium juniors, Quincy (TSX: QUI) and Standard Uranium (TSX: URN). Standard Uranium has since traded nearly 70 percent higher. "There are people who have neighboring properties, and it makes sense for them to come together," advised Bambrough.

In late December, another of Bambrough's favorite uranium companies, Strathmore Minerals (TSX: STM; Other OTC: STHJF), announced it had "engaged National Bank Financial as its exclusive financial adviser to review transaction alternatives to maximize shareholder value from its uranium assets." Questioned about this news release, CEO Dev Randhawa told StockInterview.com, "National Bank has the best technical team and will help us reach the right decision to maximize the benefit to our shareholders." In a 2005 research report, the Cohen Independent Research Group set a price target of C$4.29/share for Strathmore Minerals, based upon the current spot uranium price.

"I think the market could really use more large cap uranium companies, since large fund managers currently can really only look to Cameco (NYSE: CCJ) and Energy Resources of Australia (ASX: ERA) to get exposure to the uranium market," said Bambrough. "There are several junior companies that should come together to form large uranium companies to leverage their extremely valuable skilled personnel, lower the exorbitant costs of permitting and exploration, and achieving other economies of scale." How soon would it be before a larger company, combining some of these promising juniors, reaches listed status on the New York exchange? “I would guess that a NYSE listing may not come until 2007 or 2008,” responded Bambrough.

Bambrough remains enthusiastic about the uranium sector and closed his remarks, saying, “I expect that we will see a great out performance by quality uranium companies as they move their projects forward. We still see some incredible values and are still actively investing in the space. We are still in the early days of the uranium bull market.”