

## Uranium Sector

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## Trump Issues "Effect of U3O8 Imports on National Security" Memo; Establishes Nuclear Fuel Working Group

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<https://www.whitehouse.gov/presidential-actions/memorandum-effect-uranium-imports-national-security-establishment-united-states-nuclear-fuel-working-group/>

The White House released its long awaited Uranium Section 232 decision within a Memorandum on the Effect of Uranium Imports on National Security, overnight on Friday. We see multiple take-homes:

- "The United States uranium industry faces significant challenges in producing uranium domestically and that this is an issue of national security."
- President Trump did not agree with the US DOC investigation that uranium imports threaten US national security. Thus, the DOC recommendation to implement a uranium purchase quota by US nuclear utilities was rejected.
- The US requires domestically produced uranium to satisfy Department of Defense (DOD) requirements for maintaining effective military capabilities. This includes the Navy's fleet of nuclear-powered aircraft carriers and submarines, source material for nuclear weapons. It is estimated that annual US military requirements are around 4-5 MM lbs U3O8.
- Further examination of the entire nuclear fuel supply chain is required. Trump has ordered a new 90-day review by a group of Federal agencies - The Nuclear Fuel Working Group. This group will be chaired by US National Security Advisor John Bolton and US National Economic Council Director Larry Kudlow. It will "develop recommendations for reviving and expanding domestic nuclear fuel production."
- Some uncertainty will continue to persist for the next 90 days while the new Group carries out its review. That said, future recommendations will not likely be trade related, and this should help clear the air somewhat when it comes to nuclear utilities resuming long term contracting of uranium supplies. We would not expect the global uranium sector to be split in their opinions as the Section 232 had done.
- We believe the US uranium stocks will rebound relatively quickly. These stocks (Energy Fuels, Ur Energy, Uranium Energy, Peninsula Energy, Laramide Resources, and Azarga Uranium) shed an average of 25% of their value WoW, largely on leaked reports on Friday that only focused on mine quotas. Our valuations for those stocks are unchanged, and fundamentals to long term uranium requirements are unaltered. Plus, the Nuclear Fuel Working Group will likely lean towards non-trade related solutions for what is already being called national security concerns. Should the US military require 4-5 MM lbs annually to carry out standard operations, then perhaps solutions that include promoting the long term health of uranium mining and the rest of the front end of the nuclear fuel cycle will be considered. Between the opportunity of buying beaten up US uranium stocks at a bargain, and having abundant media exposure, could help bring new investors into the sector. We expect non-US uranium stocks to maintain their momentum.

While investors have incorrectly focused on the lack of uranium production quotas which led to massive declines in several US uranium companies on Friday (on partial disclosure in the media on Friday), we believe that the plight of the uranium miner has caught the attention of the President. While Trump wasn't concerned about uranium imports - because it is a necessity of the US - he has come to realize that uranium mining companies are under pressure, as is the entire front end of the nuclear fuel cycle. And he concurs that these issues are of national security importance.

Did Trump lay over for the nuclear industry? Some may speculate yes. The uranium industry is small and focused in primarily Republican States. Nuclear employs much greater numbers countrywide, with a particular focus in populated areas in the NE. The nuclear industry is trying to keep its head above water, while competing with low cost liquid natural gas generated electricity. And any increase in nuclear fuel price might be passed on to consumers via higher electricity costs. Such a result would likely start to hurt voters the year before an election. We don't subscribe to these points of view. Perhaps he didn't want to bite the hands that fed him, as 93% of US uranium requirements are imported. Trump likely was lobbied hard by Canadian and Australian Governments and senior uranium producers such as Cameco, Orano, Rio Tinto (RIO-LON, Not Rated) and BHP (BHP-LON, Not Rated)...source of about 60% of the uranium currently imported into the US.

Trump is essentially kicking the can down the road. But that is a good thing if they didn't have answers right away. National security issues are coming to the forefront. We now get to enjoy another 90 day waiting period while the Nuclear Fuel Working Group attempts to come up with solutions to the lagging nuclear fuel cycle in the US. This high level group is comprised of the heads of over a dozen Federal agencies, and including many Department Secretaries, and the most influential of politicians. They will likely take a look at many of the same issues that the DOC had reviewed. But we believe this initiative may broaden the range of options that were included than the trade-related remedies recommended under Section 232. It is also our belief that any future recommendations will likely be positive for the nuclear fuels cycle in the US, and in turn the global uranium industry. We wouldn't rule out a Kazakhstan-like uranium depository that would hold uranium for commercial purposes. A \$50 MM initial investment by Warren Buffet helped seed that uranium bank in 2017.

Dept. of Defense concerns. We presume what there will be a greater emphasis on the availability of uranium and services for the US military. International law makes it impossible for the US military to use imported uranium - it must be domestically mined. While the US Dept. of Energy has ceased selling excess uranium inventory into the market, it is much more difficult to determine military requirements by the US Dept. of Defense. UxC estimates appear to be in the 4-5 MM lb pa range, in addition to the roughly 40 MM lbs pa required by nuclear utilities. WNA assumes the widely used 49.3 MM lbs pa of US reactor requirements, but does not have a military requirement estimation.

US secondary supplies could still be significant. Again, this amount of uranium is elusive. But these sources would include commercial inventories of U3O8, UF6 and Low Enriched Uranium, US DOE UF6, US Highly Enriched Uranium (HEU), Russian HEU, Mixed Oxides, reprocessed uranium recycling, tails enrichment, and underfeeding. Should much of this material re-enter the commercial nuclear power industry, it may continue to put pressure on spot prices and therefore mined uranium supply. Total US commercial inventory (including brokers, converters, enrichers, fabricators, producers, and traders) were 131.5 MM lbs U3O8 at YE2018, according to the EIA. This includes 111.6 MM lbs at nuclear reactors (down 10% YOY and 19.9 MM lbs at other suppliers).

Long term uranium trading must resume. Uranium trades are sort of the 170 MM lbs pa of U3O8 required by nuclear power plants worldwide. YTD only 29.2 MM lbs have been traded in the spot market, and more alarmingly, just 39.8 MM lbs of term trades have been completed. With removal of the quota recommendation, we believe that some uncertainty would be lifted from the market. Sure, the next 90 days might also present questions, but we don't believe any solution will dictate what jurisdictions can source nuclear utilities. It is our expectation that uranium prices won't move much in the short term. Producers will continue to buy in the market and deliver into contracts. However, we do believe that the closure of many global uranium production centres will result in tighter supply, just as nuclear reactors begin to cover their requirements.

We anticipate share price recovery by the US uranium companies. They were impacted on partial information and only quotas were considered. We typically do not have uranium quotas built into our uranium company DCF models, didn't change our uranium price assumptions, nor do we see any need to change our valuation now. The stocks were oversold on Friday...the six main US uranium companies lost 25% of their value WoW (Energy Fuels, Ur Energy, Uranium Energy, Peninsula Energy, Laramide Resources, and Azarga Uranium). Meanwhile, the leading non-US uranium companies gained 4% WoW (Cameco, KazAtomProm, NexGen Energy, Denison Mines, Fission Uranium). We see no need for the non-US companies to give back any gains, but do believe that the market will gain its senses and take advantage of the low share price opportunities offered by US uranium equities.

Two physical uranium holding companies, whose performance is usually tied to equity market sentiment, gained 4% WoW (U, YCA-LON). Uranium Participation's 5% trading premium to its NAV makes it clear that equity investors believe uranium prices are going to rise in the future. While the UxC spot price remains flat at US\$24.80/lb...U's P/NAV of 1.05 infers an underlying uranium price of US\$26.43/lb.

Cameco is "pleased with this decision". It has numerous assets in the US and was its largest producer over most of the past 20 years. Those assets are currently on care and maintenance, but with a sufficient increase in uranium price, Cameco would be well positioned to ramp up production quickly. With world class assets outside the US, Cameco also is the largest uranium importer, whereas the US accounted for 25% of uranium sales in 2018. In a weekend press release, Cameco highlighted potential for increased cooperation between the US and Canada to address critical mineral issues and strengthen security of supply. "The recent commitment by President Trump and Prime Minister Trudeau to develop a joint action plan on critical minerals collaboration is an excellent initiative, and we see uranium being a key component of that strategy", according to Cameco CEO Tim Gitzel. Cameco's relief over the Section 232 outcome is shared by numerous Canadian and Australian uranium companies. We doubt it will be as concerned regarding the outcome of the Nuclear Fuel Working Group, and management plans to help any way it can.



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PEER TABLE - URANIUM

July 14, 2019		Ticker	Currency	Last Price \$/sh	Analyst	Rating	Target Price	Return to TP	Shares O/S MM	Mkt Cap (\$MM)	Cash (\$MM)	Debt (\$MM)	EV (\$MM)	Avg Grade %U3O8	Inventory MMlbs U3O8	EV/lb US\$/lb	Performance					Net Asset Value																	
																	1 wk	1 mo	3 mo	6 mo	1 yr	NAVPS	P/NAV																
<b>Inventory Holders</b>																																							
Uranium Participation	U-TSX	CAD	C\$ 4.48	D. Talbot	BUY	C\$ 6.60	47%	138	C\$ 619	C\$ 6	C\$ 0	C\$ 613	n/a	16.2	29.0	2.0	5%	4%	3%	(4%)	5%	C\$ 6.63	0.68x																
Yellow Cake	YCA-LON	GBP	GBPS 2.16	n/a	n/a	n/a	n/a	88	GBPS 191	GBPS 7	GBPS 0	GBPS 183	n/a	9.6	24.0	1.0	3%	7%	(2%)	(2%)	n/a	n/a	n/a																
<b>Inventory Holder Average</b>																	<b>26.5</b>	<b>4%</b>	<b>5%</b>	<b>1%</b>	<b>(3%)</b>	<b>5%</b>															<b>0.68x</b>		
<b>Producers</b>																																							
Cameco Corp	CCO-TSX	CAD	C\$ 14.46	R. Profit	BUY	C\$ 18.00	24%	396	C\$ 5,723	C\$ 1,104	C\$ 1,496	C\$ 6,115	6.4%	1065	4.4	2.0	2%	5%	(8%)	(10%)	0%	C\$ 14.24	1.02x																
Energy Fuels	EFR-TSX	CAD	C\$ 2.51	D. Talbot	BUY	C\$ 6.15	145%	93	C\$ 234	C\$ 57	C\$ 22	C\$ 199	0.14%	152	1.0	1.0	(37%)	(41%)	(43%)	(35%)	(18%)	C\$ 6.10	0.41x																
UR Energy	URE-TSX	CAD	C\$ 0.79	D. Talbot	BUY	C\$ 2.55	223%	160	C\$ 126	C\$ 9	C\$ 20	C\$ 138	0.061%	43	2.5	2.5	(35%)	(35%)	(32%)	(9%)	(11%)	C\$ 0.63	1.26x																
Peninsula Energy	PEN-ASX	AUD	A\$ 0.31	D. Talbot	BUY	A\$ 0.60	97%	250	A\$ 76	A\$ 20	A\$ 22	A\$ 78	0.067%	96	0.6	0.6	(28%)	(8%)	(20%)	26%	(19%)	A\$ 0.67	0.46x																
Kazatomprom	KAP-LON	GBP	GBPS 14.75	n/a	n/a	n/a	n/a	259	GBPS 3,826	GBPS 340	GBPS 526	GBPS 4,012	0.054%	1391	3.6	3.6	1%	6%	0%	8%	n/a	n/a	n/a																
<b>Producer Average</b>																	<b>2.4</b>	<b>(19%)</b>	<b>(15%)</b>	<b>(20%)</b>	<b>(4%)</b>	<b>(12%)</b>															<b>0.79x</b>		
<b>Developers</b>																																							
Uranium Energy	UEC-NYSE	USD	US\$ 1.07	D. Talbot	BUY	US\$ 3.40	218%	181	US\$ 193	US\$ 7	US\$ 20	US\$ 206	0.048%	105	2.0	2.0	(20%)	(20%)	(24%)	(18%)	(33%)	US\$ 3.73	0.29x																
NexGen Energy	NXE-TSX	CAD	C\$ 2.31	D. Talbot	BUY	C\$ 6.95	201%	352	C\$ 813	C\$ 125	C\$ 138	C\$ 826	2.0%	348	1.8	1.8	12%	16%	0%	(4%)	(8%)	C\$ 8.71	0.27x																
Denison Mines	DML-TSX	CAD	C\$ 0.71	D. Talbot	BUY	C\$ 1.70	139%	589	C\$ 418	C\$ 23	C\$ 0	C\$ 395	2.9%	153	2.0	2.0	4%	3%	(1%)	11%	8%	C\$ 2.32	0.31x																
Fission Uranium	FCU-TSX	CAD	C\$ 0.49	D. Talbot	BUY	C\$ 2.00	312%	486	C\$ 236	C\$ 21	C\$ 0	C\$ 215	1.8%	141	1.2	1.2	2%	3%	(13%)	(13%)	(29%)	C\$ 2.35	0.21x																
Berkeley Energia	BKY-ASX	AUD	A\$ 0.30	D. Talbot	BUY	A\$ 1.20	300%	258	A\$ 78	A\$ 101	A\$ 70	A\$ 46	0.049%	89	0.4	0.4	(14%)	(22%)	(3%)	(31%)	(62%)	A\$ 1.44	0.21x																
Laramide Resources	LAM-TSX	CAD	C\$ 0.30	D. Talbot	BUY	C\$ 0.70	137%	136	C\$ 40	C\$ 1	C\$ 11	C\$ 50	0.11%	118	0.3	0.3	(12%)	(13%)	(27%)	(21%)	18%	C\$ 0.86	0.34x																
Azarga Uranium	AZZ-TSX	CAD	C\$ 0.22	D. Talbot	BUY	C\$ 0.50	127%	184	C\$ 40	C\$ 0	C\$ 0	C\$ 40	0.060%	31	1.0	1.0	(15%)	(2%)	(8%)	(4%)	0%	C\$ 0.59	0.38x																
Plateau Energy Metals	PLU-TSX	CAD	C\$ 0.68	D. Talbot	BUY	C\$ 2.70	297%	80	C\$ 54	C\$ 1	C\$ 0	C\$ 53	0.021%	124	0.3	0.3	(7%)	21%	15%	(6%)	(51%)	C\$ 3.80	0.18x																
<b>Developers Average</b>																	<b>1.1</b>	<b>(6%)</b>	<b>(2%)</b>	<b>(8%)</b>	<b>(11%)</b>	<b>(20%)</b>															<b>0.27x</b>		
<b>Explorers</b>																																							
Toro Energy	TOE-ASX	AUD	A\$ 0.02	D. Talbot	NEUTRAL	A\$ 0.04	101%	2,172	A\$ 46	A\$ 4	A\$ 16	A\$ 57	0.48%	91	0.4	0.4	5%	5%	(12%)	(15%)	(14%)	A\$ 0.07	0.32x																
UEX Corp	UEX-TSX	CAD	C\$ 0.17	D. Talbot	BUY	C\$ 0.45	165%	381	C\$ 65	C\$ 10	C\$ 0	C\$ 55	0.43%	99	0.4	0.4	(3%)	(6%)	(3%)	(3%)	(29%)	C\$ 0.54	0.31x																
VaiOre Metals	VO-TSX	CAD	C\$ 0.23	D. Talbot	BUY	No Target	n/a	49	C\$ 11	C\$ 0	C\$ 0	C\$ 11	n/a	n/a	n/a	n/a	(2%)	(10%)	(6%)	22%	(39%)	n/a	n/a																
U3O8 Corp	UWE-TSX	CAD	C\$ 0.12	D. Talbot	BUY	No Target	n/a	23	C\$ 3	C\$ 0	C\$ 0	C\$ 3	n/a	n/a	n/a	n/a	(11%)	9%	(23%)	(50%)	(59%)	n/a	n/a																
Skyharbour Resources	SVH-TSX	CAD	C\$ 0.33	n/a	n/a	n/a	n/a	64	C\$ 21	C\$ 2	C\$ 0	C\$ 20	n/a	n/a	n/a	n/a	2%	(0%)	(13%)	(19%)	(26%)	n/a	n/a																
IsoEnergy Ltd	ISO-TSX	CAD	C\$ 0.60	n/a	n/a	n/a	n/a	64	C\$ 38	C\$ 6	C\$ 0	C\$ 32	n/a	n/a	n/a	n/a	9%	25%	(2%)	20%	118%	n/a	n/a																
<b>Explorer Average</b>																	<b>0.4</b>	<b>(0%)</b>	<b>4%</b>	<b>(10%)</b>	<b>(8%)</b>	<b>(8%)</b>																<b>0.32x</b>	

Source: FactSet, Eight Capital Estimates

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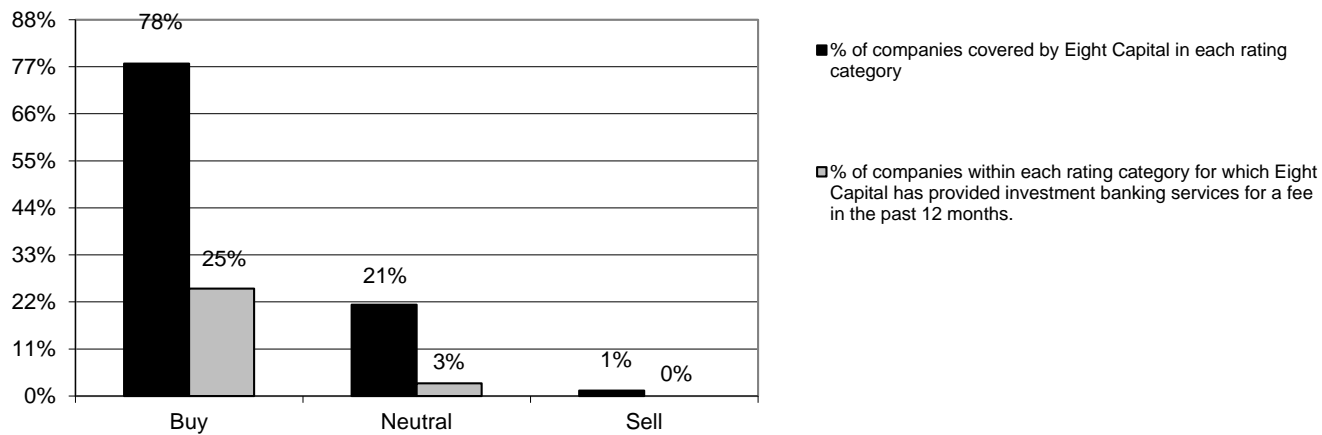
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