Uranium Round-Up – Like Herding Sheep

I almost regret the idea of doing a round-up of the uranium names out there. It is a sure sign that a mining sub-space has been through the wringer when the online "lists" of uranium companies include companies that have long since either gone bust, been taken over or gone into the recycling hopper and emerged reborn as Rare Earth or some other specialty metal seeker. One very slick interactive site (updated prices/moves and hi-los) with a listing of the "space" did not have Fission Uranium (TSX: FCU) amongst its players in the space despite its near $400mn market cap. It would seem that the online sources make the sector look more moribund than it really is. They also had Ucore listed in their seventeen "surviving" uranium stocks.

Therefore it does the space no good that the "shop-windows" for the Uranium department store look like the space has closed down (and not just for refurbishment).

Gathering information on which companies are still in the land of the living and which are actually focused on uranium is somewhat like herding sheep.

The space, of course, burgeoned at least twice in the last ten years and both of these blooms were followed by mass die-back. The Uranium sub-space became in many ways the densest populated sub-space, after gold/silver, in the Canadian exchanges in particular, with Australia a substantial distance behind (but with companies that were larger on average and more mid-tier) while the London market fielded a mere handful of juniors. The crash of 2008 proved to be severely weakening for most and then the Fukushima debacle was another deadly blow. The REE (rare earth elements) and Graphite booms provided an escape hatch that proved there was life after death for a uranium junior, though some might have wished they had never made the change to Rare Earths, in particular.

Those that have tended to survive have done so because they were more advanced when the hammer-blows fell. Those with moose (literally) pasture have not survived at all. Considering how stubbornly the uranium price has stayed at or near its lows there has been a flow of notable deals. Notable amongst these were the Dennison move on Fission Energy (from which the aforementioned Fission Uranium was the newco spin-out) and then just last week there was further consolidation with Energy Fuels move on Uranerz.

The uranium space has quite a few feisty players that show up the rather static non-movers and non-shakers in the rest of the mining space. The year 2013 was particularly lively with sharp elbows flailing away at each other. In the case of Fission Uranium it went on, rather smartly after its spinout, to absorb Alpha Minerals in a bulking up exercise that cost around $180mn.

Energy Fuels is also a serial deal doer having previously acquired Strathmore Minerals, one of our favoured stocks in the third quarter of 2013. The company also showed it was not afraid of market conditions when it had taken over Titan Uranium in a $25mn deal in late 2011, just a few months after the Fukushima event.

Dennison, around the same time as Fission moved on Alpha, had thwarted Mega Uranium’s move on Rockgate Capital, by over-bidding Mega’s offer.

The latest deal

The uranium year got off to an auspicious start with the aforementioned acquisition by Energy Fuels of Uranerz Energy Corp. in an all-stock deal valued at more than $150 million.

Under the proposal, each Uranerz share will be exchanged for 0.255 common share of Energy Fuels. Let’s hope this is a trend that will continue to bubble along.

The combined company will be the largest uranium miner in the U.S. and has long-term sales contracts with U.S. nuclear reactors.

Clearly the deal size is creeping up for Energy Fuels.

Off on a Tangent

Then there is the situation at Anfield Resources (TSXV: ARY) where the very interesting purchase of the Shootaring mill in Utah had the potential to lift them to another league but has been bogged down in prolonged and torturous financing issues. With the company having to agree a financing with a “debt” group we have never heard of, we suspect that either the mill deal will revert back to original owner Uranium One (something that happened before when ASX-listed Black Range Minerals could not close their acquisition of it) or Anfield ends up in a “pound of flesh” deal (hopefully not like that which was the downfall of Maudore Minerals).

Shootaring is an interesting chess piece in the uranium vertical integration game in the US, so watch for it becoming available again.

Conclusion

Consolidation is the name of the game. In other mining sub-spaces it is given lip-service… while in the uranium space actions speak louder than words. The fog of post-Fukushima confusion and despair is lifting and now targets are becoming clearer for majors and mid-tiers who view the surviving juniors as a wolf-pack views a sheep herd. We could conjure with a few names and definitely NexGen Energy (TSXV: NXE), that we wrote of a while back, with its proximity to some of Fission’s assets looks a tasty leg of lamb. Ucore is not a uranium target per se but has embedded within it some very sexy uranium assets that the market has long overlooked due to the company’s focus being different for so long now. These could yet be a money-spinner through disposal or demerger.

With the energy space coming under the microscope in the wake of the oil price collapse, uranium is starting to look like the better end of the space after years in the doghouse. With any luck it too can be a double beneficiary of rotation into mining AND rotation into alternative energy sources. On top of this we have the slow return to normality in Japan and the ever-present threat that Russia’s sales of its remaining ex-warhead material might be disrupted in some tit-for-tat action against the US.

All in all, these are the bluest skies uranium has seen for years now and consolidation looks set to continue while there are so many bargain companies lying around, with reported resources which could only be replaced with exploration work at a cost that is multiples of the levels the current juniors are valued at by the markets.

NexGen launches new drill campaign amid improving prospects for uranium prices

NexGen Energy (‘NexGen’, TSXV: NXE) has started a new drill campaign (deploying three diamond rigs) campaign at the Arrow zone in its Rook I property – located within the boundaries of Saskatchewan’s Athabasca Basin – as part of its winter 2015 program. NexGen intends to better gauge and identify the geometry of the high-grade uranium mineralization setting exploration targets in basement rocks, starting at about 100 meters below surface level. The Rook I property is open for potential expansion in all directions while the Rook I spans along the Athabasca Basin boundary, featuring several, and previously untested, mineralization targets. NexGen will use a third drill by mid-January to explore a 7km long strike area along the Patterson Conductor Corridor, located north-east and south-west from Arrow.

The British Columbia based NexGen has been most active developing uranium in the Athabasca Basin, where it has 100% holdings and controlling interests in various projects, one of which, the Radio Project, is immediately adjacent to Rio Tinto’s Roughrider Deposit. Last fall, NexGen raised about CAD$ 10 million in a private placement with Cormark Securities Inc. in order to fund additional exploration. NexGen is not just the latest uranium company scouring the Athabasca Basin, hoping to find an amazing deposit that ‘ticks all the boxes’. NexGen’s technical and management people are professionals, who have looked for the best possible uranium opportunities in most or all of the world’s most prolific areas, having determined that the Athabasca Basin holds the best grades. After all, many of the big names in uranium mining are well represented in the region from Cameco/Areva’s Macarthur River to Denison/KEPCO’s Waterberry Lake.

Now, NexGen has managed to accumulate the largest land holding in the Basin’s western side. In other words, NexGen’s property has tremendous ‘closeology’ potential given that Fission Uranium JV has purchased the Patterson Lake South property and Alpha Minerals and itself. Fission could find itself wanting to diversify its risk profile by acquiring additional assets, especially NexGen’s Arrow, which is located near PLS. Likewise, that same motivation could prompt the other big players in the Basin to start feeling an attraction for NexGen, including Cameco, Denison, KEPCO and Rio Tinto; NexGen simply has an exciting play and the new drill campaign will help generate additional interest. AS for the subject of interest, uranium prices have not yet recovered from the crash prompted by the Fukushima meltdown in 2011 following a devastating earthquake in Japan. However, in 2015, there are the conditions for uranium to reach or even exceed the USD$ 50/lb. mark as suggested by Chris Ecclestone. Chris was right in predicting that uranium would pass the USD$ 40/lb. ceiling in 2014 and the conditions that prompted the increased price and demand are still there.

The Japanese recovery, the Chinese nuclear program (and other ongoing programs, including India, South Africa, Slovakia and even the Republic of Ireland) could push up the price of uranium by 20% in 2015. Even if the Canadian mining industry in general could face more difficulties thanks to the slowdown in the Chinese economy, which will continue to weigh on the price of several metals from iron ore to copper and lead. Yet, the situation for uranium has a high probability of improving because of the firm mandate won by Prime Minister Shinzo Abe last December. Mr. Abe is keen to gradually restart almost all of Japan's nuclear reactors, which would support uranium prices in the medium or even the short term. Just before the Christmas break, Japan announced that two reactors would be approved for operation, adding to the two that were rekindled in 2012. The expectations are for several additional reactors to be gradually rekindled between 2015 and 2018. Moreover, uranium's November rally was interrupted more by 'circumstance' than by fundamentals.

The market was hit by the confusion generated by the sanctions against Russia. Meanwhile, apart from the political mandate to restore the prominent role of nuclear power generation in Japan, a possible labor dispute at Cameco, the world's largest uranium supplier, could result in a loss of volume of uranium in the international market, prompting a rise in U3O8 prices. In the mid-term, China plans to build from six to eight reactors a year between 2016 and 2020, which could already start to have an effect on uranium spot prices. Nuclear power produces about 15% of electricity in the world. The increase in energy demand expected in the coming years is a challenge for companies worldwide which need to produce the energy required for economic growth and social development without degrading the environment. Nuclear power is ready to resume its place on center stage as a number of countries are reassessing their energy policies. Many opponents of nuclear energy slowly beginning to admit that it is essential as a transition energy ahead of a wider shift to other renewable sources from wind to solar.

NexGen Energy proving to be an appetizing investment target

NexGen Energy Ltd. ('NexGen', TSXV: NXE) is a British Columbia based company involved in exploring and acquiring uranium projects in Canada and especially in Saskatchewan's Athabasca Basin, where it has 100% holdings and controlling interests in promising projects, one of which, the Radio Project, is immediately adjacent to Rio Tinto's Roughrider Deposit. Today, NexGen announced that it has signed an agreement with Cormark Securities Inc. (on behalf of a syndicate of underwriters) to purchase 21,750,000 flow through NexGen shares on a bought deal private placement basis at a price of $0.46 per share and a total of approximately CAD$ 10 million. The underwriters have an option to increase the Offering by an additional 3,250,000 Flow-Through Shares, raising the gross proceeds of the Offering to approximately $11.5 million. The Offering is expected to close on November

11, 2014 and NexGen will use the proceeds to address exploration costs. The timing of the Offering is ideal because a number of factors are coming together suggesting that better times for the uranium market.

Canada is perhaps the world’s leading producer of uranium because it has the largest known recoverable resources (over 450,000 tons) and, most importantly, because some 85% of these resources are exploitable low cost. Demand for uranium is expected to increase significantly in the next few years because of improving and new nuclear reactors being planned in Asia. Canada produces 30% of the world’s uranium and exports 80% of its production, which means that there is always the prospect of new deposits being exploited even as production at existing mines can be accelerated to keep up with the pace of demand. In October 2013, Canada, with the unanimous support of its provinces and territories, reached a historic agreement in principle on a free trade agreement (Comprehensive Economic and Trade Agreement – CETA) with the European Union (EU). This agreement received the full support of Canadian and EU officials last August and the final draft of the document is underway.

Prime Minister Harper led a related trade mission to the UK in early September to ensure Canadian companies take full advantage of the historic trade agreement between Canada and the EU. The uranium sector in Saskatchewan will be one of the main beneficiaries of the Agreement and Rio Tinto is especially pleased with CETA because it lifts restrictions on EU investment in the Canadian uranium mining, which can only benefit the sector as a whole. Moreover, while global uranium consumption is 67,000 tons per year, production is 42,000 tons and the difference has come from civilian and military stockpiles, which will be exhausted in 2015. Since 1989, consumption has been higher than production, but even though it started to increase around 2000, it has not been enough to reach the level of consumption, not to mention the fact that significant known deposits have faced delays such as at Cigar Lake, which could not launch production in 2007 because of flooding. Other producing mines have closed. Athabasca produces grades that are better than the average by a factor of 100 or above. In addition, many uranium plays are in less politically or regulatory stable jurisdictions, while Athabasca uranium is in Saskatchewan one of the most mining friendly provinces of one of the most mining friendly countries in the world and one with ready and efficient infrastructure. Finally there is a purely geological reason.

Uranium has been mined in the Athabasca Basin for more than 60 years, which has allowed geologists and engineers to gather plenty of data about the geological formation of uranium enrichment and the area’s unique formations, allowing for the use of much more sophisticated exploration methods than in lesser known areas. The Athabasca Basin in Saskatchewan, where NexGen’s interests are concentrated, is the key to Canada’s uranium market dominance. All uranium mines operating in Canada are located in Saskatchewan, which can be said to have the highest purity uranium available – 21% uranium, or 100 times the content of the global average and some samples have exceeded 60% purity. Last August, NexGen described very interesting results from two drill holes, rendering it into an appetizing acquisition prospect for any number of candidates from Fission Uranium, Denison, KEPCO and Cameco to Rio Tinto and Areva (the latter taking advantage of the new EU-Canada trade deal). NexGen’s proximity to Rio Tinto’s Roughrider mine is just one of its advantages; indeed, before settling on the Athabasca basin, NexGen’s management spent a great deal of time investigating uranium assets around the world and they settled in Saskatchewan simply because it offered the best resource and infrastructure. NexGen has also focused on the least explored region of the Athabasca, which can only increase the majors’ acquisition appetite, diversifying their existing assets. No doubt Cormark Securities has taken all this into consideration before signing the Offering.