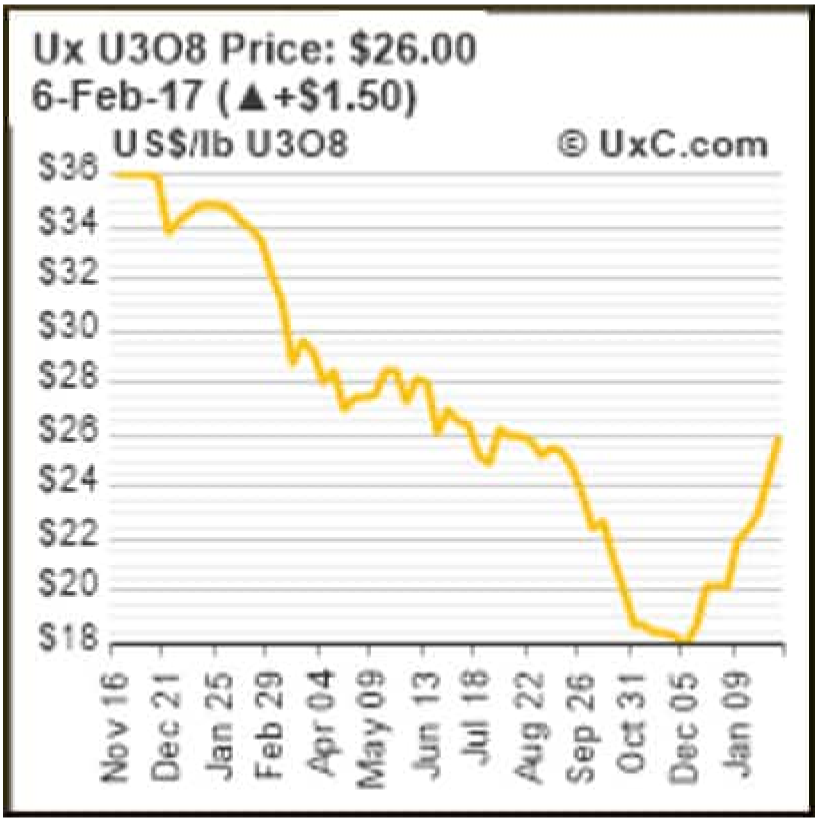
Hallelujah – Uranium is Risen

In what was a bad four years for the mining space, special punishment was reserved for the uranium sub-space where every time it tried to stagger to its feet it was dealt a new, low-blow that sent it reeling. Even as mining markets picked up in 2016, uranium was, relatively, left behind as the spot price wallowed, with that acting as an anchor holding the sub-space from moving forward. Only the Rare Earth space was doomed in 2016 to share in this "cruel and unusual" punishment.

However, the persistence of those that believe in the long term attractiveness of nuclear power has kept the space afloat and allowed even a few hardy near-producers or those holding past-producing properties, like Western Uranium, to soldier on through the tough times. Now it seems the reward is at hand, but Uranium has a long way to go before many projects will cross any sort of line between loss and profit.

Price – First Swallow of Summer

The spot price of Uranium has been on a steady rise in the last month.



The term price of uranium increased from $30/lb to $35/lb in the last week of January. The reason this is important is most utilities transact at the term price, not the spot price of uranium. In fact over 80% of the uranium sold is at the term price.

The driving forces behind the increase of the higher term price are:

- Traders and intermediaries are now buying in anticipation of higher prices
- Also, South Africa received very strong support from companies interested in building new nuclear power plants. In fact, 27 companies submitted information on helping roll out the South African nuclear power program. This is a positive sign to the market that Africa is open for nuclear reactor business
- Ten spot transactions have been reported for a total of 1.5m lbs of yellowcake in January 2017
- At the beginning of February, three addition transactions were reported. One was from a US utility

for 4.8m lbs to be delivered in 2023-2030 period. A non-US utility has just concluded a purchase for more than 6m lbs to be delivered in the 2018-2027 period. Then an undisclosed buyer concluded a purchase for U3O5 delivery for the 2020-2012 period

Supply Crunch

Hard core Uranium bulls have come to know how Moses felt when he was doomed to wander forty years in the desert and never get to see the Promised Land. The great hope had been that the Japanese reopening would help matters and yet it hasn’t (at least not yet). The second hope (quite a vain one) was that the Germans would see the light on their unilateral closure actions (and they have not). The one consolation being that everyone else in Europe regards the Germans as crazy for taking the action they did while still mouthing platitudes to low carbon emissions and ramping up coal-fired power at the same time!

To the dismay of many that see nuclear as a “green” solution to rising global energy demand, some have pitched nuclear as competing against wind and solar, with Germany being a particularly egregious example of “kooky” thinking on this front. Ironically though the German decision has prompted the country to buy nuclear-sourced electricity from France, the paragon of nuclear users with around 80% generated from this source.

This table shows the countries with the strongest potential capacity additions in nuclear generation.

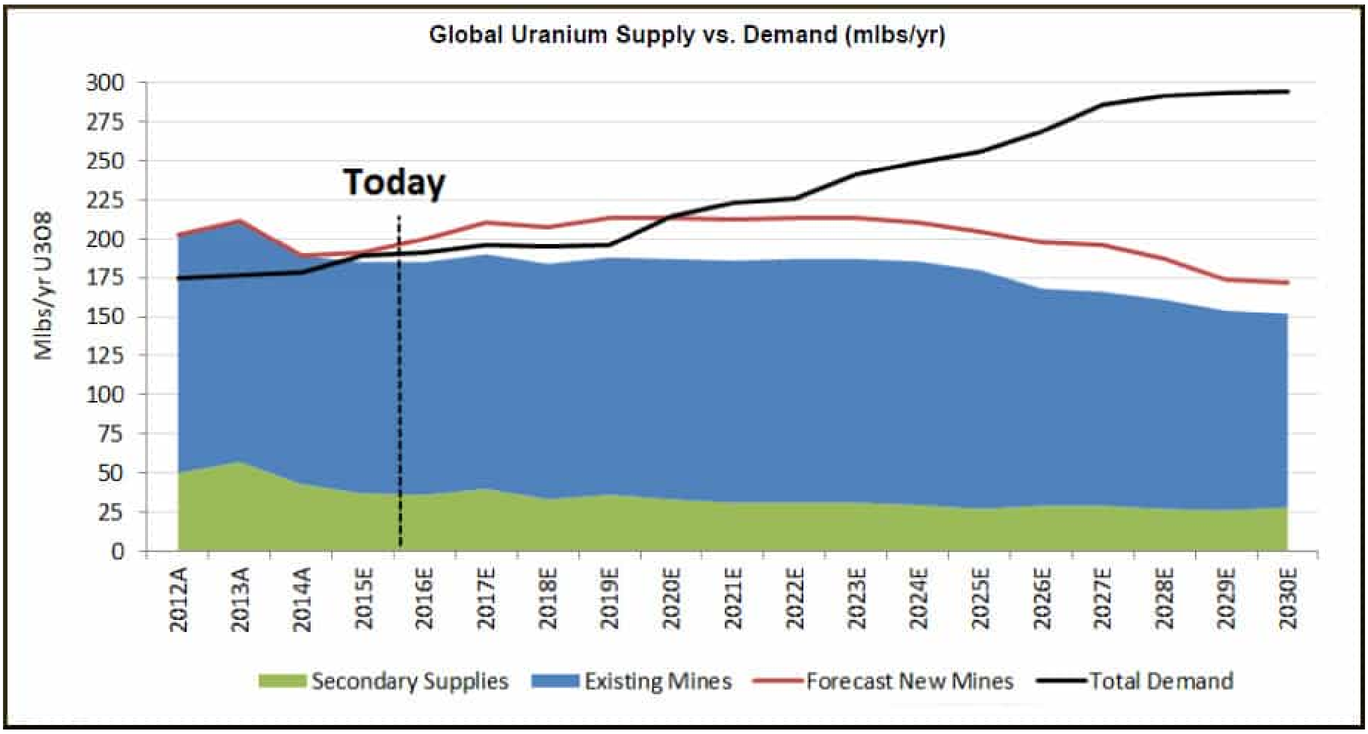
COUNTRY	NUCLEAR ELECTRICITY GENERATION 2014		REACTORS OPERABLE (1 Dec 2015)		REACTORS UNDER CONSTRUCTION (1 Dec 2015)		REACTORS PLANNED (1 Dec 2015)		REACTORS PROPOSED (1 Dec 2015)	
	Billion kWh	% e	No.	MWe net	No.	MWe gross	No.	MWe gross	No.	MWe gross
China	123.8	2.4	30	26,849	21	23,483	43	49,990	136	153,000
India	33.2	3.5	21	5,302	6	4,300	22	21,300	35	40,000
Japan	0	0	43	40,480	3	3,036	9	12,947	3	4,145
Russia	169.1	18.6	34	25,264	9	7,968	25	27,755	23	22,800
WORLD	**2411**	**c 11.5**	**439**	**382,248**	**64**	**67,797**	**159**	**180,015**	**329**	**374,020**

Source: Western Uranium

Probably all one needs to know is encompassed in the preceding table, which says more than any number of price charts. There is massive future demand baked into construction schedules that, with the amounts of money expended, will not be derailed.

The advocates of nuclear are looking past the mere showmanship of the German chancellor and the temporary shutdown of the Japanese generating capacity towards an uplands where this rising fleet of nuclear plants in emerging economies will be creating the added demand for yellowcake, rather than static or declining markets like those of Germany.

Current production (and even planned production) is not even vaguely able to meet this demand as the graph below demonstrates.



Parsing the Uranium Universe

We would divide the universe of Uranium stocks into three categories these days. There were hundreds of listed uranium plays in the heyday of the space last decade but this has now been whittled down by a brutal process of attrition driven by initially low prices, then a cycle of despair driven by seemingly secular revisionism triggered by Fukushima and then finally by the sheer lack of finance for virtually any mining space and particularly this one.

In the wake of this process we see the survivors divided into the following groups:

- Producers
- Near producers and former producers
- Advanced exploration and juniors

Normally we would put advanced exploration with near producers but the problem is that many of this category are merely wanting to be sold rather than getting into production. There will be a moment for them, a “day in the sun”, but it is not now. There are quite a number of those companies out there with sizeable reserves proved up but no real plan to move forward. When the turn in the U price comes they will be hoping to be bought by one of the producers, but there are more advanced explorers than producers so inevitably some attendees at the ball will be without partners for the dance.

Junior “juniors”, the moose pasture merchants, are basically not needed or wanted for probably the rest of this decade. If there is no resource, or a puny one, then it’s a case of “don’t call us, we’ll call you”.

The ideal place to be positioned now is in either producers or the near/former producers.

Producers will obviously be first movers, but near- and ex-producers should swiftly follow with the added advantage that they do not come freighted with long term contracts at low prices. That said, companies needing funds to go the final mile to production may be tempted to commit to contracts at revived, though still low, prices with offtakers/traders to grab that all-important final funding to make it across the production line.

Names to Conjure With

Our old favorite in the Uranium space is the physical ETF, Uranium Participation Corp., which is effectively managed by Denison. This is the quick way to get direct exposure to the metal.

In the most advanced developer category we tend to focus on Western Uranium Corporation (CSE:WUC | OTCQX:WSTRF) and then after that Peninsula Energy has appeal. Berkeley Energy has excited comment by forging out a mine in Spain of all places, not the typical territory for Uranium hunters.

In the up and coming explorers, there is the Friedman satellite, GoviEx, which is run by Govind Friedland and has an extensive position in Africa. With Argentina’s (re)opening to the world (and prominent position in nuclear technologies as well as adding more reactors) it is worth keeping an eye on U3O8.

Conclusion

In our outlook for 2017 for metals we posited that the year would be the Year of the Infrastructure Metal but also that the outperformers would be the two laggards of 2016, Tungsten and Uranium. Tungsten still remains in the doldrums but Uranium is making a break for the upside, probably faster than we would have imagined.

The real action will be in the term price, not the spot price, but unfortunately the spot price is what the wider world of Uranium investors look at for guidance. Now that too has started a march upwards. For better or worse Uranium has been a favorite of the speculative classes in the past (the distant past, we might add) but many people made a lot of money from it in its heyday(s). Therefore while many may have been sitting on their hands through the successive false dawns, we now may see investors who have not touched Yellowcake in a long time dusting off their chequebooks. Like other sectors long out of favour the number of available listed plays has shrunk over the years and thus the task of choosing what to invest in is made easier by having less choice. Companies that are either in production or with short lead times (such as Western Uranium) are obvious first movers. Greenfield stories will have less to offer because they are, well, greenfield.

Primacy these days will be best obtained by showing the market that one is dedicated to the old mantra of production, production, production.