

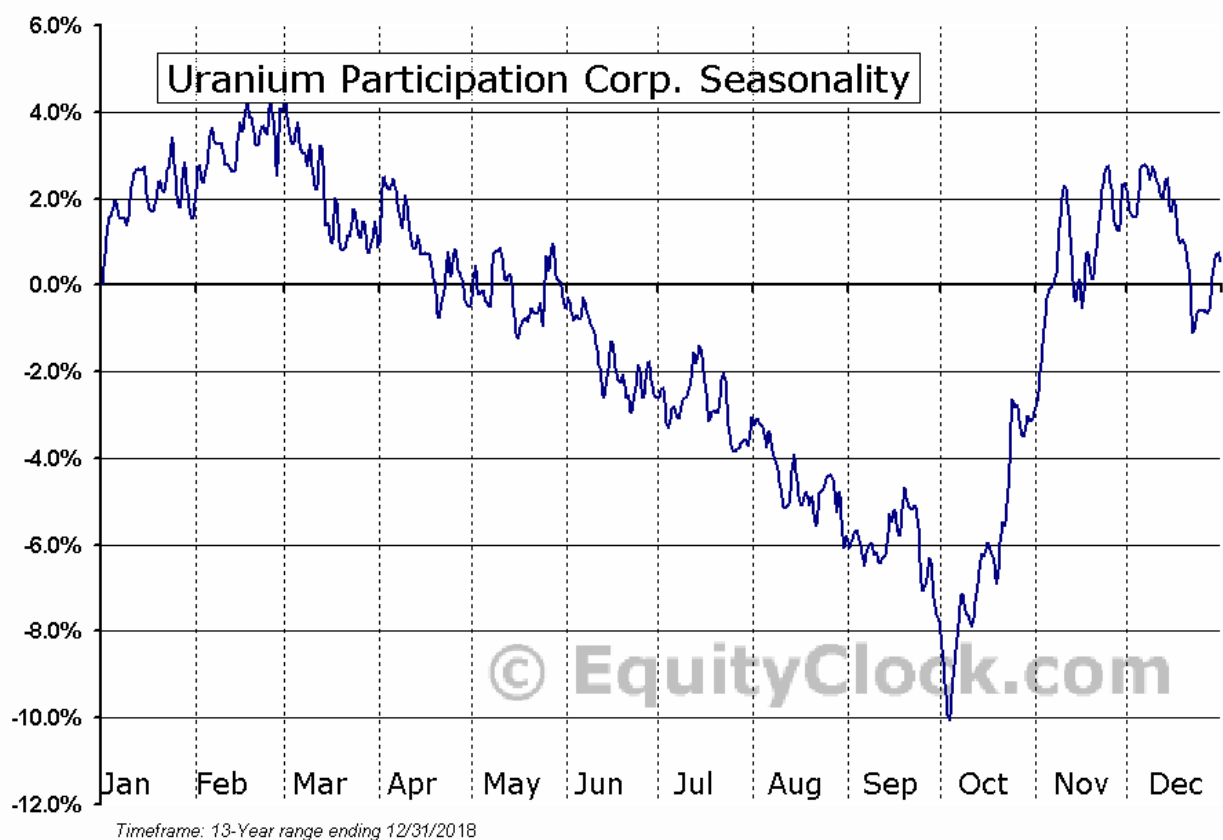
Uranium- Bulls get Ready

19th September 2019 | Scott Williams, Fiftyone Capital

As uranium bulls, we are getting excited for the last few months of 2019 - **which could see the uranium price appreciate materially**. We are expecting the spot price of uranium to close the year somewhere between \$30 and \$35 (current spot price is \$25.65). This potential 20% rise in the spot uranium price should be driven by a couple of fairly obvious factors which also align with the seasonal price increases that are normally seen within the uranium market at this time of year.



Seasonal Graph of Cameco - Large TSX Listed Uranium Miner



Seasonal Graph of TSX Listed Uranium Participation Corporation

The key reason we believe this year may see a large increase in the spot uranium price is primarily due to the contracts Cameco needs to deliver into by the end of this year. As many pundits who follow the uranium market are aware, Cameco's prize asset; McArthur River. Is currently on care and maintenance, removing over 18m pounds of uranium supply from the market. Cameco however still must deliver uranium as part of their contractual obligations to their utility (power station) buyers of the uranium fuel. This means Cameco will be actively purchasing from the spot market to deliver into these contracts.

While it's difficult to obtain contract-specific information about pricing, our discussions with industry experts lead us to believe somewhere between 40-60% of the contract pricing could be tied to the spot market price over a period that could range somewhere around 10-90 days. What this means, is that the average price of the spot market (similar to a VWAP) over say a 60-day period leading into the delivery date will impact say 50% of the price received by Cameco. For example, if they needed to deliver 1 million pounds of uranium by the 10th of December, then the price they receive could be an average of the spot price from the period 10th October - 10th December for say 50% of the contract value. The remaining 50% could be at a higher/lower price depending on when the long-term pricing contract was written and structured. So, the

higher the price is over that period the more money the company receives when they deliver the uranium fuel.

So, while Cameco still probably need to purchase around 10m pounds in the spot market, it's potentially the contract structure/pricing that could drive the spot price in the short term. Given the opaque nature of the uranium market and incredibly thin spot market trading, it could be a good bet to assume Cameco will try to achieve the best prices possible into these contract deliveries. Why should they waste their bullets buying uranium months ahead of delivery if it won't impact the profit they receive? This theory seems to tie in well with the seasonality typically seen within the uranium market around this time of year.

Irrespective of these short term moves in the spot market, the fact that Tier 1 lowest cost quartile mines like McArthur River are closed for business, it shows there is a clear disconnect between uranium market fundamentals and market pricing. Could you imagine if Saudi Arabia stopped producing oil? Just this week the oil price jumped over 20% as half of their production potentially went offline for just a short period of time.

In the end, the price of uranium will be driven by the cost of production needed to fill the demand. So as more and more secondary supply is removed from the market, the only place new supply can come from is the ground (uranium miners).

So, while the uranium miners/developers/explorers have drastically underperformed the spot price of uranium. This should change once the price of uranium increases towards the incremental cost of production (around \$50/lb). While commodity prices are very difficult to predict - it seems inevitable the price of uranium should eventually recover to the price it costs to get it out of the ground. No doubt causing a resurgence amongst the uranium mining industry. As the below chart shows the basket of uranium mining holdings in our fund has drastically underperformed the spot price in the past year. However, in a bull market expect this to change dramatically to the upside!



Uranium Spot Price vs Basket of Uranium Miners held by our fund.

Let's see if our theory proves correct before the end of the year!

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