

Uranium Weekly Tracker

Fund Activity May Suggest a Bottom for Spot Prices

Event

Monday's UxC spot price is unchanged at US\$44.50/lb U3O8; LT price remains at US\$62.00/lb. Last Friday's TradeTech spot and term prices were also unchanged at US\$44.50/lb and US\$60.00/lb, respectively.

Action

We are near-term neutral on uranium and selective on uranium equities.

Analysis

The uranium markets remain sleepy again this week with no movement in UxC or TradeTech spot or term prices. There is activity, however, on the news front suggesting an improving sentiment amongst market insiders and a near-term bottom for uranium prices. Uranium Participation Corp. (UPC) announced earlier this week it would acquire Uranium Limited (UML) and its 2.80 mln U3O8e inventory in an equity deal valued at C\$139.4 mln, representing a 4% premium to current spot prices. Additionally, the IPO for prospective uranium fund Uranium Investment Corp. (UIC; looking to raise C\$75 mln-C\$150 mln to purchase U3O8, UF6 and enriched UF6), also seems to be gaining momentum with its on-going marketing push. At current spot prices, C\$150 mln could represent up to 3 mln lbs U3O8 of demand (or ~2.4% of our 2009E global mine supply). The IPO appears to hinge on the notion that demand is poised to trend up while supply growth is likely to be constrained going forward, for example, in Kazakhstan. Our recent channel checks with industry specialists suggest some Kazakh mines are operating at cash costs of US\$70-US\$80/lb – unsustainably high given current metal prices; this corroborates our view that KazAtomProm's 2010E guidance of 47 mln lbs may be overly aggressive in light of continued turmoil since the sacking of Dzhakishev and potentially challenging geology at new mines in Syrdara province. Recent operational results from ERA indicate a 30% drop in 4Q09 production due to poor grades at Ranger mine (9% of global supply in 2009E). ERA states mined ore will continue to be low grade until 2H10. China and India may lead the way for a bullish demand outlook, but South Korea is proving that its initial US\$20.4 bln deal with U.A.E. late last year is just the tip of the iceberg. Korea is now aiming to secure 20% of global market share with US\$400 bln in international reactor construction contracts, representing some 80 reactors, by 2030. KEPCO states it may have the edge on pricing given its APR1400 reactor costs US\$2,300/KW to build, vs. US\$2,900/KW for Areva's (CEI-PA) EPR and Japan's ABWR.

Valuation

Our top picks remain DML, HAT, PDN and URE.

SECTOR SUMMARY

COMPANY			RATING
TICKER	CUR PRICE	RETURN	TARGET
Anoroaq			UNDERPERFORM 4 =
ARQ-TSXV	C \$1.46	-52%	\$0.70 =
Canadian Royalties			MARKET PERFORM 3 =
CZZ-TSX	C \$0.79	1%	\$0.80 =
Cameco			MARKET PERFORM 3 =
CCO-TSX	C \$31.93	6%	\$34.00 =
Denison Mines			STRONG BUY 1 =
DML-TSX	C \$1.54	114%	\$3.30 =
Eastern Platinum			OUTPERFORM 2 =
ELR-TSX	C \$1.26	19%	\$1.50 =
First Uranium			OUTPERFORM 2 =
FIU-TSX	C \$2.36	53%	\$3.60 =
Hathor			STRONG BUY 1 =
HAT-TSXV	C \$1.90	111%	\$4.00 =
Lake Shore Gold			MARKET PERFORM 3 =
LSG-TSX	C \$3.94	14%	\$4.50 =
MAG Silver			OUTPERFORM 2 =
MAG-TSX	C \$7.00	36%	\$9.50 =
Paladin Energy			OUTPERFORM 2 =
PDN-TSX	C \$4.00	23%	\$4.90 =
Platinum Group			OUTPERFORM 2 =
PTM-TSX	C \$2.45	2%	\$2.50 =
Strathmore			MARKET PERFORM 3 =
STM-TSXV	C \$0.72	-3%	\$0.70 =
Stormway			MARKET PERFORM 3 =
SWY-TSX	C \$0.57	5%	\$0.60 =
Uranium Limited			MARKET PERFORM 3 =
UML-TSX	C \$3.12	9%	\$3.40 =
Uranium One			MARKET PERFORM 3 =
UUU-TSX	C \$3.32	11%	\$3.70 =
Uranium Participation			OUTPERFORM 2 =
U-TSX	C \$6.55	36%	\$8.90 =
Ur-Energy			STRONG BUY 1 =
URE-TSX	C \$0.94	70%	\$1.60 =
Victoria			OUTPERFORM 2 =
VIT-TSXV	C \$0.84	19%	\$1.00 =

All figures in C\$, unless otherwise noted.

Sources: Raymond James Ltd., ThomsonOne, CapIQ

