VIII EIGHT CAPITAL

Uranium Sector

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David A. Talbot / (416) 350-3082
dtalbot@viiicapital.com
Joseph Fars, MBA, P. Geo / (416) 350-5090
jfars@viiicapital.com

Cameco and Areva have decided to suspend McArthur River Mine and Key Lake Mill Operations

Cameco (BUY, $14 target, covered by R. Profiti) and AREVA (Not Rated) ceasing production at the largest uranium mine in the world for ten months will attract attention. This should be seen as a positive move for the uranium sector and potential largest catalyst for the sector since Fukushima occurred in 2011. Several of the supply shocks in the past decade were accidents that took material off-line unexpectedly. This included a fire at McArthur and two floods at Cigar Lake and the uranium market took off, followed by the uranium equities.

While this closure has a similar effect by ceasing production it shouldn't come as much of a shock to some – almost every uranium mining company has pulled back production over the past two years, including Cameco. Its sales will go on and there shouldn't be any impact in the physical market, particularly the spot market. Plus there will likely be comfort that the decision to halt production can be reversed if needed. If Cameco finds itself short of product down the road it also has the option to buy in the spot market as some of the junior producers have done - see more on Cameco's suspension from Ralph Profiti's note - Nov 09, 2017.

The McArthur River closure could change the mentality of intermediaries and end users and how they approach buying material. Right now utilities are not committing for the long haul. Over the past three years, only ~1/3 of uranium being used in reactors is being replaced (similar to this year with 69.3 MM lbs U3O8 contracted YTD versus reactor requirements of 169 MM U3O8). We've talked for a while about the need to return to contracting. But as the LT price fell another dollar to US$30/lb two weeks ago, this makes Cameco even less incentivized to fill gaps in its sales book for beyond 2019. The shutdown implies Cameco inventories could fall to 10-12 MM lbs by YE18 from 27.6 MM lbs currently. Many end users likely thought they would simply extend or sign new term contracts with Cameco and AREVA as they rolled off. However, by removing roughly 17 MM lbs of production from the production profiles of Cameco and AREVA, there might not actually be a need to cover production with sales for the following year as well. This could leave power companies scrambling for product…and when one nuclear utility blinks, many tend to react. Mining companies can go without production, but nuclear reactors cannot operate without uranium.

Spot prices did rise $0.30 this week to $20.25/lb. Demand is a little over 6 MM lbs while supply is around 4.5 MM lbs. But the spot market isn't the one we should be watching. Producers don't really use it. Utilities don't really use it. We suggest investors look to commodity exposure, companies with leverage and long term, high grade explorers in the meantime. See follow up figures from our Technical Analyst, Tina Normann, and her take on uranium price and players in the space.

For exposure to uranium:

Uranium Participation (BUY, C$4.80 target). Trading at a 5% premium to NAV, this suggests that investors already believe prices will rise. Today's news should strengthen that opinion.

For leverage to rising prices in the event that the uranium market takes off:

Uranium Energy (UEC-US, BUY, US$2.30 Target)

Energy Fuels (EFR-T, BUY, C$3.75 Target)

Long term investments. The trio of high grade Athabasca Basin explorers are always a good bet. A rising tide should lift all boats, and these popular names should respond. While these are longer term development projects and less reliant on short term uranium fluctuations, they all are sufficiently advanced and demonstrate liquidity that might be suitable for generalist investors.

NexGen Energy (NXE-T, BUY, C$6.10 Target)

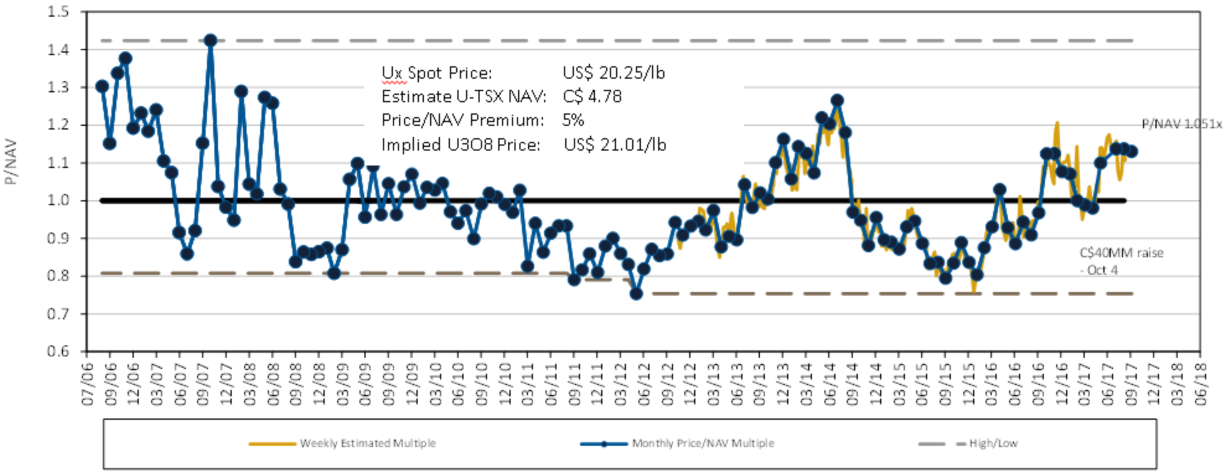
Denison Mines (DML-T, BUY, C$1.60 Target)

Fission Uranium (FCU-T, BUY, C$1.90 Target)

Safety in low price environment.

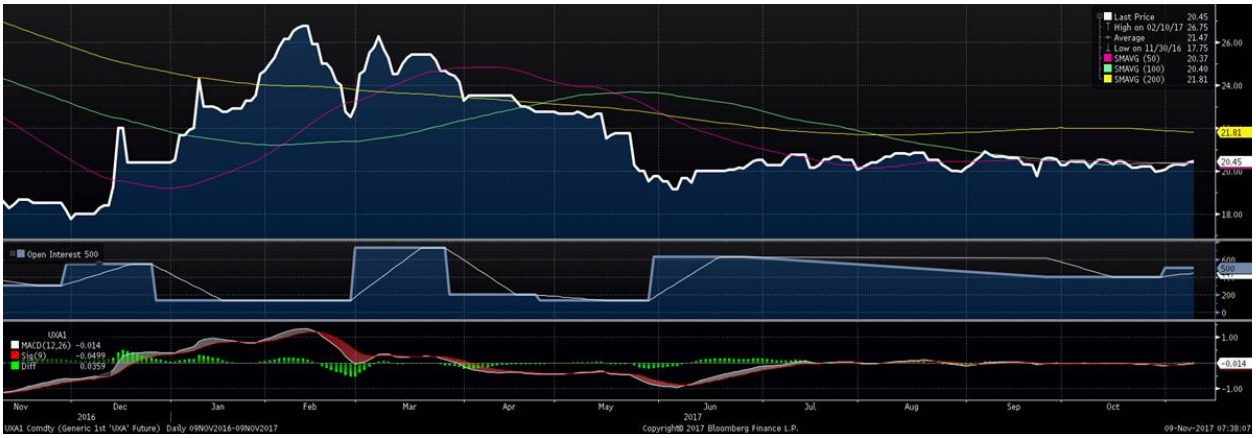
Ur Energy (URE-T, BUY, C$1.55 Target)

Figure 1: Uranium Participation. Our current NAV estimate is C$4.78 per share based on a 2017E price of US$27/lb. Price to estimated NAV suggests that Uranium Participation is trading at a 5.0% premium to its NAV. The recent weekly MACD Buy signal reinforces the yearlong recovery in momentum strength and bottoming pattern between $3.50 and $4.70



Source: Bloomberg, StockCharts, Eight Capital, Company Reports

Figure 2: Uranium price has been in a narrow range since June with momentum picking up on both the weekly and daily MACD. Breakout levels above$20.90. Resistance levels: $23.00/$26.00



Source: Bloomberg, Eight Capital

Figure 3: Denison Mines has triggered a weekly MACD confirming the bullish divergence building since June.

Source: StockCharts, Eight Capital

Figure 4: FCU & NXE are both carving out double bottom from their June lows and both are exhibiting a pick up in volume and daily momentum strength

Source: StockCharts, Eight Capital

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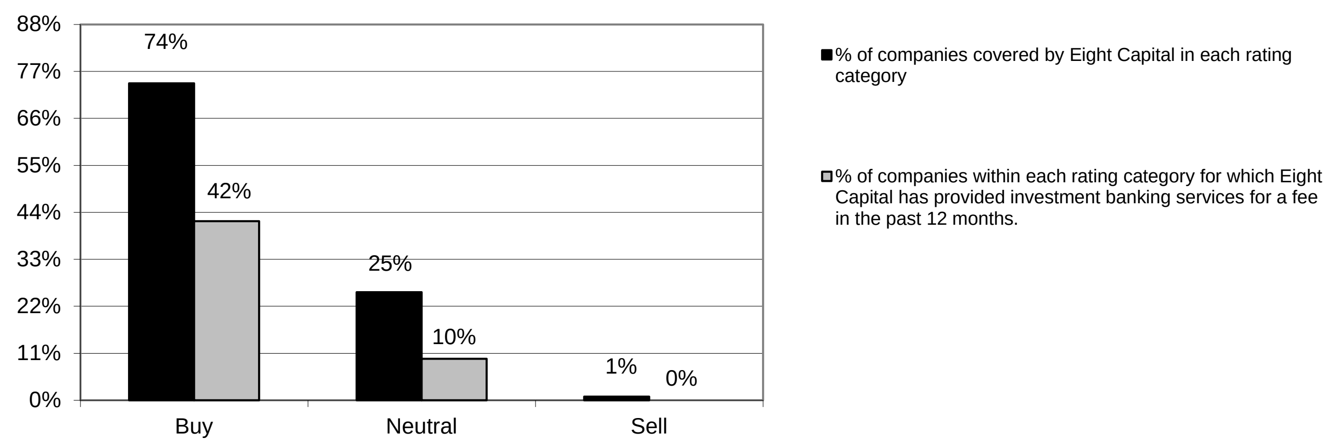

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