

# Uranium Comment

Colin Healey, MBA | 604-697-6089 | [chealey@haywood.com](mailto:chealey@haywood.com)Aazan Habib | 604-697-6030 | [ahabib@haywood.com](mailto:ahabib@haywood.com)

## Cameco Plans to Suspend Operations at Major Mine Amid Uranium Price Weakness

**Event:** Cameco (CCO-T, CCJ-NY, not rated) has announced plans to temporarily suspend operations at its flagship McArthur River mine / Key Lake mill by the end of January 2018. The operation was the world's largest uranium mine last year and Cameco says it expects the suspension to last "10 months", but we believe it could be longer and will ultimately be dependant on price.

**Impact: Positive for Sector Fundamentals, Uranium Price & Equities** – We believe the planned suspension of production at the McArthur River uranium mine and Key Lake mill for an expected 10 months, could last longer if uranium prices do not improve, as Cameco says, the decision is to be **"reviewed on an ongoing basis until inventory is sufficiently drawn down, or market conditions improve"**, due to continued oversupply in the uranium market. (Cameco also announced it will reduce its annual dividend to \$0.08 per share for 2018 from \$0.40 per share, now to be paid annually). The uranium market has been perennially over-supplied since the Fukushima disaster in 2011. As reactor demand instantaneously dropped following the shut-down of reactors in Japan, global uranium production has actually increased over the 6-years following (with large mines like Cigar Lake being added to global supply), placing strong negative pressure on uranium prices. Prior to today's announcement, we had been expecting a balanced market for supply/demand in the uranium market in/around 2019-2020, underpinned by stable supply and recovering demand largely by new reactor builds in Asia, and a gradual return to nuclear power by Japan.

- **Today's announcement from Cameco could rapidly accelerate this balancing if the temporary suspension persists for more than the initial 10-month period, which could induce a significant and sustainable increase in uranium prices.** We expect equities to respond well to this significant production curtailment and to any related uranium price strength.
- **The production cuts announced in 2017 alone from the world's number 1 & 2 producers (Kazatomprom & Cameco), if sustained, could rectify the global primary uranium oversupply situation and should at least temporarily balance the market on a fundamental basis.** Although McArthur River / Key Lake would be standing production ready, which could temper uranium price response at some level materially higher than current price (we suggest \$40-\$45 range), we believe prices could easily push through those levels longer-term as more reactors are added to the global fleet. Attrition in secondary sources of uranium (underfeeding) as uranium prices grow would also catalyze further price strength.

**How to Play it – Our Top Picks:** (see Pages 2 & 3 for complete 'Torque Tables', sector comps and latest uranium prices)

- 1) **Best in Class Asset: NexGen Energy (NXE-T, NXE-US; Target: C\$6.00, Rating: Buy, Risk: Very High)**
- 2) **'Most Torque' near-term producer: Uranium Energy Corp. (UEC-US; Target: US\$2.90, Rating: Buy, Risk: Very High)**
- 3) **Well-Funded & Diverse Asset Base: Denison Mines (DML-T, DNN-US; Target: C\$1.80, Rating: Buy, Risk: Very High)**
- 4) **Torquey Small Cap: Plateau Uranium (PLU-V, not rated)**

### Background:

- **RECALL that in January Kazakhstan / Kazatomprom announced a much smaller production cut and uranium prices rallied 21% (from \$22 to >\$26/lb) while most uranium stocks rallied significantly.** January 2017: world's largest producer announces production cut of ~10%, equivalent to ~5 Mlb U<sub>3</sub>O<sub>8</sub>, or ~3% of annual reactor uranium consumption.
- **Ten (10) months of suspended production could take ~12-15 Mlb U<sub>3</sub>O<sub>8</sub> out of global production and inventory,** and we believe Cameco would not restart production without a material increase in uranium price. Cameco has estimated its share or the the cost of maintaining the mine during suspension at \$6.5 - \$7.5 million per month. Cameco owns 70% of the McArthur River Mine and 83% of the Key Lake Mill (which processes all McArthur River Mine ore).
- **McArthur River / Key Lake accounted for 11% of global production and was the world's largest uranium mine in 2016 (18.1 Mlb U<sub>3</sub>O<sub>8</sub>), just ahead of Cameco's Cigar Lake Mine (2016: 17.3 Mlb U<sub>3</sub>O<sub>8</sub>).**
  - **McArthur River / Key Lake operations produced 11.1 Mlb U<sub>3</sub>O<sub>8</sub> for the first 9 months of 2017 (annualizes to ~15 Mlb).**

Please see page 4 for Analyst Certification, pages 4 - 6 for Important Information, Disclaimers and Notes.



**Background (continued):**

- Average unit cost of production at Cameco asset-wide for 2017 is stated as \$35-\$36/lb U<sub>3</sub>O<sub>8</sub> in Q3`17 reporting and outlook, and we expect a reasonable production restart hurdle to be in excess of \$40/lb U<sub>3</sub>O<sub>8</sub>, although there is significant cost to maintain suspension, so this is hard to predict, and the move is being framed partly as a mode to decrease inventory.

**Exhibit 1: Select Uranium Sector Equities' Response to January 2017 Kazatomprom Production Cut & Subsequent Retracement**

Uranium Sector Torque Table		2-Jan-17	10-Feb-17	%	13-Feb-17	9-Nov-17	%
Uranium	UxC Spot Price	\$20.44	\$26.68	30.5%	\$26.56	\$20.48	(22.9)%
Company Name	Ticker	Price at 2-Jan-17	High Jan 2 to Feb. 10	Max. % Change	Price at 13-Feb-17	Price at 9-Nov-17	Period % Change
Cameco Corporation	TSX:CCO	\$14.04	\$17.43	24.1%	\$15.34	\$11.50	(25.0)%
Uranium Energy Corp.	US:UEC	\$1.12	\$1.80	60.7%	\$1.76	\$1.10	(37.5)%
Energy Fuels Inc.	US:UUUU	\$1.64	\$2.51	53.0%	\$2.51	\$1.43	(43.0)%
UR-Energy Inc.	TSX:URE	\$0.71	\$1.14	60.6%	\$1.14	\$0.68	(40.4)%
Peninsula Energy Limited	ASX:PEN	\$0.56	\$0.85	51.8%	\$0.79	\$0.37	(52.9)%
NexGen Energy Ltd.	TSX:NXE	\$2.33	\$3.91	67.8%	\$4.21	\$2.45	(41.8)%
Denison Mines Corp.	TSX:DML	\$0.70	\$1.05	50.0%	\$1.05	\$0.57	(45.7)%
Fission Uranium Corp.	TSX:FCU	\$0.64	\$0.87	35.9%	\$0.88	\$0.58	(34.1)%
Berkeley Energia Limited	ASX:BKY	\$0.90	\$1.20	33.5%	\$1.05	\$0.90	(14.3)%
Toro Energy Limited	ASX:TOE	\$0.04	\$0.06	48.8%	\$0.06	\$0.04	(37.5)%
GoviEx Uranium Inc.	TSXV:GXU	\$0.15	\$0.39	156.7%	\$0.43	\$0.20	(52.9)%
UEX Corporation	TSX:UEX	\$0.25	\$0.32	30.6%	\$0.39	\$0.22	(42.9)%
Vimy Resources Limited	ASX:VMY	\$0.25	\$0.26	4.0%	\$0.25	\$0.16	(38.0)%
A-Cap Resources Limited	ASX:ACB	\$0.08	\$0.09	20.8%	\$0.09	\$0.06	(40.9)%
Deep Yellow Limited	ASX:DYL	\$0.36	\$0.60	66.7%	\$0.54	\$0.26	(51.9)%
Summit Resources Limited	ASX:SMM	\$0.09	\$0.91	911.1%	\$0.94	\$0.15	(84.0)%
Western Uranium Corporat	CNSX:WUC	\$1.70	\$2.50	47.1%	\$2.62	\$0.99	(62.2)%
Energy Metals Limited	ASX:EME	\$0.08	\$0.14	68.8%	\$0.24	\$0.10	(60.4)%
Aurania Resources Ltd.	TSXV:ARU	\$0.61	\$0.60	(1.6)%	\$0.72	\$1.90	163.9%
Mega Uranium Ltd.	TSX:MGA	\$0.14	\$0.28	100.0%	\$0.29	\$0.16	(46.6)%
Laramide Resources Ltd.	TSX:LAM	\$0.29	\$0.69	137.9%	\$0.72	\$0.25	(65.3)%
Bannerman Resources Limi	ASX:BMN	\$0.03	\$0.10	216.7%	\$0.09	\$0.05	(42.0)%
Globex Mining Enterprises	TSX:GMX	\$0.42	\$0.59	40.5%	\$0.59	\$0.45	(23.7)%
IsoEnergy Ltd.	TSXV:ISO	\$0.90	\$1.64	82.2%	\$1.47	\$0.28	(81.0)%
Kivalliq Energy Corporatio	TSXV:KIV	\$0.09	\$0.18	105.9%	\$0.17	\$0.08	(52.9)%
Skyharbour Resources Ltd.	TSXV:SYH	\$0.33	\$0.58	75.8%	\$0.63	\$0.34	(46.8)%
Forsys Metals Corp.	TSX:FSY	\$0.11	\$0.24	113.6%	\$0.21	\$0.13	(40.5)%
Plateau Uranium Inc.	TSXV:PLU	\$0.25	\$0.64	156.0%	\$0.62	\$0.37	(40.3)%
Azimet Exploration Inc.	TSXV:AZM	\$0.33	\$0.42	27.3%	\$0.30	\$0.32	6.7%
Fission 3.0 Corp.	TSXV:FUU	\$0.07	\$0.10	46.2%	\$0.09	\$0.05	(50.0)%
Purepoint Uranium Group I	TSXV:PTU	\$0.13	\$0.18	38.5%	\$0.16	\$0.07	(58.1)%
Blue Sky Uranium Corp.	TSXV:BSK	\$0.40	\$0.37	(7.5)%	\$0.30	\$0.22	(26.7)%
CanAlaska Uranium Ltd.	TSXV:CVV	\$0.49	\$0.67	38.1%	\$0.55	\$0.27	(50.9)%
Zadar Ventures Ltd.	TSXV:ZAD	\$0.08	\$0.12	43.8%	\$0.12	\$0.09	(26.1)%
Anfield Resources Inc.	TSXV:ARY	\$0.11	\$0.15	38.1%	\$0.10	\$0.04	(60.0)%
X-Terra Resources Inc.	TSXV:XTT	\$0.17	\$0.39	136.4%	\$0.38	\$0.25	(34.7)%
U3O8 Corp.	TSX:UWE	\$0.50	\$0.90	80.0%	\$0.90	\$0.26	(71.7)%
Pele Mountain Resources I	TSXV:GEM	\$0.20	\$0.40	100.0%	\$0.30	\$0.02	(93.3)%
Forum Uranium Corp.	TSXV:FDC	\$0.10	\$0.16	60.0%	\$0.12	\$0.04	(66.7)%

Source: Haywood Securities, Capital IQ, Thomson One





## Important Information and Legal Disclaimers

This report is neither a solicitation for the purchase of securities nor an offer of securities. Our ratings are intended only for clients of Haywood Securities Inc., and those of its wholly owned subsidiary, Haywood Securities (USA) Inc., and such clients are cautioned to consult the respective firm prior to purchasing or selling any security recommended or views contained in this report.

Estimates and projections contained herein, whether or not our own, are based on assumptions that we believe to be reasonable. The information presented, while obtained from sources we believe reliable, is checked but not guaranteed against errors or omissions. Changes in the rates of exchange between currencies may cause the value of your investment to fluctuate. Past performance should not be seen as an indication of future performance. The investments to which this report relates can fluctuate in value and accordingly you are not certain to make a profit on any investment: you could make a loss.

Haywood Securities, or certain of its affiliated companies, may from time to time receive a portion of commissions or other fees derived from the trading or financings conducted by other affiliated companies in the covered security. Haywood analysts are salaried employees who may receive a performance bonus that may be derived, in part, from corporate finance income.

Haywood Securities, Inc., and Haywood Securities (USA) Inc. do have officers in common however, none of those common officers affect or control the ratings given a specific issuer or which issuer will be the subject of Research coverage. In addition, the firm does maintain and enforce written policies and procedures reasonably designed to prevent influence on the activities of affiliated analysts.

## Dissemination of Research

Research reports are disseminated either through electronic medium or in printed copy. Clients may access reports on our website, or receive publications directly via email. Haywood strives to ensure all clients receive research in a timely manner and at the same time. It is against our policy for analysts to discuss or circulate their recommendations internally prior to public distribution. This policy applies equally to recommendation changes, target changes and/or forecast revisions.

**For Canadian residents:** Haywood Securities Inc. is a Canadian registered broker-dealer and a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the Toronto Venture Exchange and the Canadian Investor Protection Fund and accepts responsibility for the dissemination of this report. Any Canadian client that wishes further information on any securities discussed in this report should contact a qualified salesperson of Haywood Securities Inc.

**For U.S. residents:** This investment research is distributed in the United States, as third party research by Haywood Securities (USA) Inc. Haywood Securities (USA) Inc. is a wholly owned subsidiary of Haywood Securities Inc., registered with the U.S. Securities and Exchange Commission, and is a member of FINRA and the Securities Investor Protection Corporation (SIPC). Haywood Securities (USA) Inc. as a U.S. registered broker-dealer accepts responsibility for this Research Report and its dissemination in the United States. Any U.S. client that wishes further information on any securities discussed in this report or wish to effect a transaction in these securities should contact a qualified salesperson of Haywood Securities (USA) Inc. Haywood Securities Inc. Research Analysts are considered Foreign Research Analysts to the USA and are not registered/qualified as Research Analysts with FINRA. As these analysts are considered Foreign Research Analysts *they may not be specifically subject to FINRA (formerly NASD) Rule 2711 and FINRA (formerly NYSE) Rule 472* restrictions on communications with a Subject Company, Public Appearances and trading securities held by a Research Analyst Account.

This report is intended for institutional investors and may only be distributed to non-institutional US clients in the following states: Delaware, Louisiana, Maryland, Missouri, New York, Pennsylvania, and Wisconsin. Otherwise, this report may only be distributed into those states with an institutional buyer state securities registration exemption.

## Analyst Certification

I, Colin Healey, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

## Important Disclosures

Of the companies included in the report the following Important Disclosures apply:

- The Analyst(s) preparing this report (or a member of the Analysts' households) have a financial interest in NexGen Energy Ltd. (NXE-T).



- As of the end of the month immediately preceding this publication either Haywood Securities, Inc., one of its subsidiaries, its officers or directors beneficially owned 1% or more of NexGen Energy Ltd. (NXE-T).
- Haywood Securities, Inc. has reviewed lead projects of Denison Mines Corp. (DML-T), NexGen Energy Ltd. (NXE-T), AND Uranium Energy Corp. (UEC-AMEX) and a portion of the expenses for this travel may have been reimbursed by the issuer.
  - Haywood Securities Inc. or one of its subsidiaries has managed or co-managed or participated as selling group in a public offering of securities for Uranium Energy Corp. (UEC-AMEX) in the last 12 months.
  - Haywood Securities, Inc. or one of its subsidiaries has received compensation for investment banking services from Uranium Energy Corp. (UEC-AMEX) in the past 24 months.

Other material conflict of interest of the research analyst of which the research analyst or Haywood Securities Inc. knows or has reason to know at the time of publication or at the time of public appearance:

- n/a

### Rating Structure

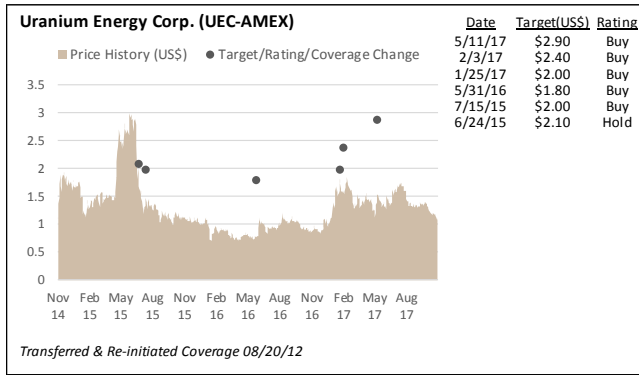
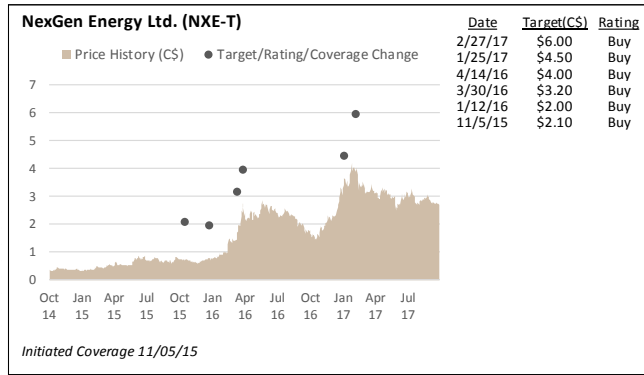
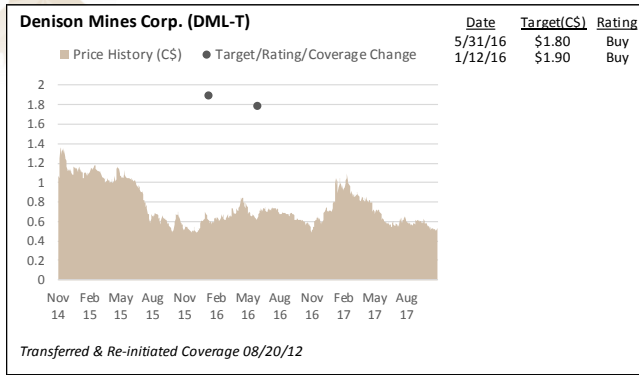
Each company within an analyst’s universe, or group of companies covered, is assigned: (i) a recommendation or rating, usually BUY, HOLD, or SELL; (ii) a 12 month target price, which represents an analyst’s current assessment of a company’s potential stock price over the next year; (iii) an overall risk rating which represents an analyst’s assessment of the company’s overall investment risk; and (iv) specific risk ratings or risk profile parameters which in their aggregate support an analyst’s overall risk rating. These ratings are more fully explained below. Before acting on our recommendation we caution you to confer with your Haywood investment advisor to determine the suitability of our recommendation for your specific investment objectives, risk tolerance and investment time horizon.

### Distribution of Ratings (as of November 9, 2017)

	%	#	IB Clients (TTM)
<b>Buy</b>	74.5%	73	97.1%
<b>Hold</b>	10.2%	10	2.9%
<b>Sell</b>	0.0%	0	0.0%
<b>Tender</b>	1.0%	1	0.0%
<b>UR (Buy)</b>	0.0%	0	0.0%
<b>UR (Hold)</b>	0.0%	0	0.0%
<b>UR (Sell)</b>	0.0%	0	0.0%
<b>Dropped (TTM)</b>	14.3%	14	0.0%



## Price Chart, Rating and Target Price History (as of November 9, 2017)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review  
 Source: Capital IQ and Haywood Securities