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World of opportunity in uranium sector

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**CAMERON ENGLAND**

A FUNDAMENTAL restructuring of global uranium supply and pricing dynamics presents an "incredible" opportunity for producers and late stage explorers, analysts say.

The Russian invasion of Ukraine, which has thrown fossil fuel markets into chaos particularly across Europe, has also impacted the uranium sector, with nuclear energy producers historically sourcing a lot of material from Russia and Kazakhstan.

While sanctions on Russian supply have not been put in place to date, The US Department of Energy has indicated it is seeking $US4.3bn to buy domestically-produced uranium, which it would then contract and sell to US buyers.

An Act, the "National Opportunity to Restore Uranium Supply Services In America" (NO RUSSIA) Act, was introduced to US Congress in April in a bid to establish the strategic uranium reserve.

Cannaccord Gennuity says in a note to clients that this "is the clearest signal to date that the US is seeking to accelerate its migration away from reliance on Russian supply (23 per cent market share of enriched uranium)".

"This positioning will clearly not be missed by utilities and is highly supportive of our view that demand for Western-origin pounds is increasing, creating an even more pronounced supply deficit in the West than in the aggregated global market."

Bell Potter says the US move would assist in reviving the US enrichment industry, which would in turn be supportive of uranium producers.

"We view the potential US decision to rebuild domestic enrichment capacity as supportive for the overall uranium industry, as it continues to confirm our thesis for a revival in uranium and nuclear energy.

"We believe the uranium market could partially bifurcate into two streams, one sourcing and supplying nuclear facilities aligned with Russia (e.g. from Kazakhstan into Russia and eventually China) and one sourcing from Western-aligned nations and supplying countries like the US, France and the UK.

"We suspect that US utilities will seek to diversify their supply chain, which includes reducing the reliance on Russian enriched uranium and Kazakhstani U3O8 supply.

"Given that Kazakhstan supplied over 40 per cent of global U3O8 production in 2020, this presents a momentous task for US utilities in diversifying.

"On the other side, this presents an incredible opportunity for those producers/ restart operations/ advanced exploration plays, located in Western-aligned jurisdictions."

Bell Potter says for Australian companies Paladin Energy and Boss Resources, "the fundamentals couldn't be better".

Bell Potter has a price target of $3.32 per share for Boss – almost $1 higher than the current price – and $1.06 for Paladin, 31.5c higher than Friday's closing price of 75.5c.

"Boss Energy and Paladin Energy remain our top picks in the uranium sector," Bell Potter says.

"Boss announced in early June they had reached a final investment decision for their Honeymoon uranium asset, with a target date for first production around the end of 2023.

"Paladin, who signed a tender award with US utility Duke Energy in March, will look to reach a final investment decision for Langer Heinrich in July.

"Given that Boss and Paladin are fully-capitalised restart projects, they are both well-positioned to progress binding offtake discussions with utilities in our opinion."

Macquarie says in a note to clients that the uranium price fundamentals were positive with forecast demand exceeding mine supply over the longer term.

"We believe that a price rally would induce contracting for surety of supply which would result in a frenzy of contracting, driving up uranium prices in the near to medium term.

"We envision a price increase to about $US80/lb over calendar year 2022-24 driven by the above factors, prior to latent capacity and new supply coming online resulting in a 'normalisation' of uranium pri-

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ces."

Boss Resources managing director Duncan Craib, speaking from New York after attending the World Nuclear Fuel Market conference in Canada last week, said the mood was buoyant among emerging producers.

Mr Craib said the pendulum had swung in favour of producers in terms of pricing, which had traditionally been dictated by purchasers.

"Fuel buyers are particularly anxious and nervous with what's happened with Russia invading Ukraine so that's really shaken their confidence," he said.

Mr Craib said the bottleneck in the fuel sector had been around enrichment and conversion and with Russia accounting for about 40 per cent of enriched material, any reduction in this would create greater demand for mined uranium.

Mr Craib said the market was moving from fixed price contracts, to more "market-related contracts" which have a floor and a ceiling price correlated to the spot price.

"That's the way the industry's headed and that's the way we want to head," he said. "In the past the utilities or the fuel buyers controlled the market, they could define what they would enter into. Now it has reverted to the producers saying 'we're not going to enter into a fixed-base contract. We want a market-related contract'."

Boss's all-in sustaining costs for production from Honeymoon, which is expected to ramp up to 2.45 million pounds of uranium per year within three years and produce for at least 11, are forecast at $US25.60 per pound against the spot price of $US52.85 per pound currently.

Honeymoon's production is currently uncontracted, giving the company exposure to uranium price upside.

Mr Craib said western fuel buyers would naturally be looking to diversify away from Russian supply, which was a big opportunity for Australia.

The Honeymoon mine is in SA, just west of Broken Hill.

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