

## FROM THE CAPITAL

# Bannerman and buyers want to wait

Stalemate on uranium supply seems to be benefiting no-one, to no end

John Robertson

**B**annerman Resources is caught in an investment no-man's land in which no-one wants to commit, no matter how compelling the reasons.

Bannerman is developing the Etango uranium project in Namibia. With a reserve of 119Mlb of  $U_3O_8$ , Etango sits between Paladin's Langer Heinrich mine, also in Namibia, and Cameco's Cigar Lake in Canada as a globally significant source of ore.

A definitive feasibility study completed in April 2012 foreshadowed annual production of 6Mlb-9Mlb over a 16-year life. Having already been given the relevant environmental permits, the company only needs a mining permit before full-scale development can get underway. Bannerman itself is delaying the mining-permit application because an approval will start the clock ticking on when production must start under local rules. No-one is expecting a delay once an application is made in such a uranium friendly jurisdiction.

Bannerman is also well positioned when it comes to financing the US\$870 million project. Its major shareholder, with a 21% stake, is a private equity fund with an appetite for an investment of several hundred million dollars in a single project. Ronnie Beevor, Bannerman's chairman and a highly experienced capital market practitioner, is confident that the current interest presages a far larger commitment once all parties are convinced the timing is right to begin construction.

As projects go, Etango seems about as ready as they come. Giving the go-ahead today could enable production during 2019. And, yet, there are few signs of movement.

Aside from the pre-production capital requirement and working capital, some A\$30 million-A\$50 million (US\$24 million-US\$40 million) will be needed to bring the project to full readiness. With a current market value of just US\$15 million and a share price collapse of more than 90%, the Bannerman team led by chief executive Len Jubber is reluctant to raise equity funds now. The directors hope an eventual recovery in price will give shareholders a better deal in the future.

Bannerman, like others eying the future of the uranium industry, is counting on 65 nuclear power reactors under construction, and nearly 500 planned or proposed, to change the investment landscape. There is little dissent among analysts that China, India and Saudi Arabia could push the uranium



*Drilling at Etango in Namibia... current reserves of 119Mlb of  $U_3O_8$*

market into deficit within five years. A restart of Japanese reactors after their post-Fukushima shutdown in March 2011 is expected to spur a near-term rebalancing of the market.

Bannerman Resources, like most of the other budding uranium miners, is gleefully brandishing charts showing a growing gap between the amount of uranium that will be needed and the amount of likely production by companies with existing capital and mining approvals. The gap goes on widening forever.

Of course, this cannot happen. Only in the spreadsheets of market analysts can the world go on using more uranium than is produced. In the real world, something will happen to prevent this eventuality.

Jubber himself spends a good deal of time in his corporate presentations highlighting the building pressures on uranium prices. He predicts prices will rise past the US\$75/lb used in the Etango project's feasibility study in response to these easily demonstrable sources of fresh demand.

With so much advance warning one would expect those looking to use uranium in the future to be covering their needs at the lowest possible price. And yet, there is ample evidence of raw material users playing a game of chicken with the supply side as they dare producers to develop plans but only reluctantly and slowly help bring them to fruition.

In other markets, too, in which shortages are forecast, including some of the rare earth elements, tin and zinc, a similar reaction is evident.

Strategically, it makes sense for potential buyers who are not in imminent need of new

supplies to attract as many potential suppliers into the starting line-up as possible. Ideally, more than enough production capacity would be installed as a result of their blandishments.

This ruse works best when capital from third-party sources is abundant. Otherwise, as in present conditions, it is a dangerous game to play. Prices may eventually rise by enough to attract independent financing but, by then, the users of the raw materials will have missed out. They will end up screaming about rapacious producers gouging their profits.

Technology also usually responds in these circumstances. Techniques will evolve to get more energy from the existing uranium supply if the physical availability is constrained or prices change the economics of alternative processes.

The uncoordinated rush by aspiring uranium producers to take advantage of higher prices will also eventually lead to excess capacity, possibly endangering the financial stability of newly debt-laden producers.

All of that is in the future. Presently, companies like Bannerman are still trying to avoid a disadvantageous deal. Buyers of uranium are being coy about commitment. Ordinary equity investors are reticent, too, until they see buyers and sellers agreeing to start building. The result is little movement.

As a way to keep itself in the ready position, Bannerman Resources is constructing a pilot plant in Namibia to demonstrate the technical and economic feasibility of what it intends to do. It plans to use the output from the new plant to ease the anxiety of financiers worried about process risk, although there is nothing especially innovative about the technology Bannerman is looking to use. The plant also helps keep the company's feasibility analyses up to date and improves its own readiness to produce as efficiently as possible.

No matter what the physical qualities of Etango, its future now hangs on better uranium prices acting as a catalyst for a production commitment and improved investor interest.

Paradoxically, the investment attractiveness of Bannerman Resources and of the industry as a whole will depend on users of uranium acting against their own best interests by playing chicken with the miners to needlessly create shortages. It sounds irrational, unlikely and even stupid, but won't be any less true for that. ▽