Opinion

FROM THE CAPITAL

Uranium: who is the next producer?

Juniors jostle to get the jump when markets improve supply outlook, funding opportunities

John Robertson*

Bannerman Resources is the second-best positioned uranium development opportunity in Africa. Yes, only second best. The provocative downgrade in status has come from one of Bannerman's rivals for uranium investment dollars. There are others, too, laying claim to sector leadership.

Bannerman Resources has long characterised itself as the best prepared of the potential uranium miners. Completed feasibility studies come with an already granted environmental approval. Directors of Bannerman have described their Etango project in Namibia as "a development-ready uranium project with world-class scale". Even with a modest market turn it would be ready to go. Bannerman had been in the pole position for development dollars.

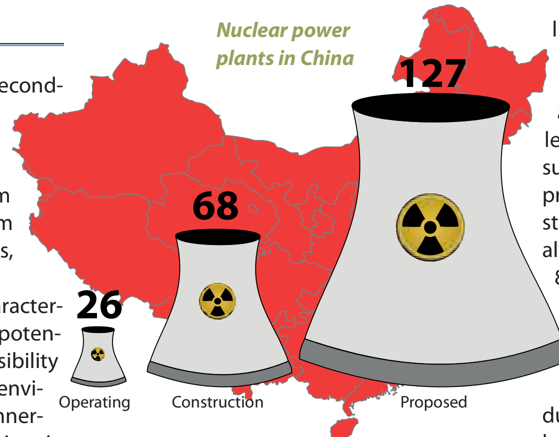
Bannerman remains primed as utilities look again to lock in supply contracts for the anticipated growth in nuclear power generation in the 2020s. Unfortunately, as abysmally poor market conditions have slowed development generally, early mover advantages are being lost.

A growing number of choices for investors are bunching up near the slowed leader, including companies describing themselves as "Africa's most compelling uranium project"; "the next uranium producer"; "rapidly becoming one of the world's best …"; and another "remaining in a state of operational readiness".

The company with an envious eye on the trophy for Africa's most compelling project is Bannerman's Namibian rival and TSX-listed Forsys Metals. "Bannerman is definitely the second best," its chief executive Marcel Hilmer proclaimed recently in London in response to a question about how he reconciled the competing corporate claims, signalling competition for investment dollars is heating up.

The other three companies described above are Peninsula Energy, Berkeley Energia and Uranium Energy Corporation (UEC). Peninsula and UEC are in the uranium-importing USA. Berkeley aims to have the only uranium mine in western Europe. Each of these locations – Europe, the USA and Namibia – is strategically advantageous in different ways.

For all the pessimism about the financial state of the industry, each company anticipates being able to produce below current market prices. Analysts point to a US$75/lb price being necessary to validate capital funding decisions. The more intimidating reality confronting all commodity producers is the tendency for prices to push costs down and for costs to chase prices up.



Despite all the neat analytics behind calculation of incentive prices, even a price blip for just long enough to raise expectations could precipitate development. Past that point, marginal industry costs will reassert themselves as the arbiter of market prices.

Bannerman and Forsys both expect their costs to be as low as $33/lb depending on their precise development stage. Peninsula expects a move down from $41 to $29. Berkeley is the standout candidate for low position on the cost curve with a $17-18 target.

In the background, the world's largest producer – accounting for 41% of global uranium output in 2014 – has devalued its currency by 50% since the beginning of 2014. The lower currency has solidified Kazakhstan's competitive position and helped underwrite a possible 10-15% output increase over the next several years. Competitiveness rankings and the forces shaping sustainable prices are being altered by unusually dramatic exchange rate movements. Unfortunately, in this context, Kazakhstan is not open for investment.

The five companies described here as jostling for leading development position are all nearing production. Bannerman is actually the furthest away now with a foreshadowed 2020 start. Forsys and Berkeley are both due in 2017, while Peninsula is set to get going in 2016 with a phase up to more elevated production rates over the following four years.

The two Namibians need the biggest capital spend. Bannerman must have $793 million in pre-production capital. Forsys' needs are a more modest but still challenging $433 million. On this measure, Peninsula and Berkeley sit more comfortably. Berkeley can go ahead with just $81 million. Peninsula is moving through the slowest production build-up of the five. The first stage of production requires only $33 million, although this will get it no more than 800,000lb of annual output. In two subsequent stages, Peninsula will have to spend $35 million and $78 million to reach its 2.5 million pounds annual target.

Bannerman's anticipated 7.2Mlb production rate outstrips everyone else's by a long way. It will still have to spend $110/lb of production. In contrast, Peninsular will have to commit only $58/lb over several years. Berkeley's commitment will be lower still.

UEC's position on these measures is less certain. Although it has an operating in-situ recovery plant with a two million pound annually rated capacity in Texas, production over the 12 months to July 2015 was just 16,000lb, leaving it little further advanced than those yet to start.

The company's plans to employ a hub and spoke approach by linking several Texas-based properties to a central processing unit sounds feasible enough, but lacks the project definition of the others – particularly with respect to its resource base.

There is no shortage of choice for an investor thinking about entering this market segment. The companies mentioned here are on their way. Investors may also pause to consider that the best quality does not always offer the best leverage to an improved market. Others may show better returns.

As well as companies nearing production, there are also earlier-stage companies in Namibia alone, such as highly regarded uranium mineral explorer Deep Yellow and well established producers such as Paladin Energy. Peers are also positioning themselves in prospective regions in Canada and Australia.

All will benefit from higher uranium prices. Tactically, despite favourable longer-term demand forecasts, a wise working assumption for an investor against which to size up the alternatives may remain 'no improvement'.

Sourcing the best investment alternatives by focusing on location, size, capital expense and other relevant factors impacting underlying value may still prove a more appropriately risk-averse course of action than betting on a strong uranium price revival. ▼

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