

The role of the financial buyer in the uranium market

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The uranium market has recently attracted the attention of newcomers. Funds like the L2 Capital Opportunities and Yellow Cake are two examples of the new entrants.

Some financial funds focus on companies that are exploring, developing or producing uranium and some other funds focus on buying and storing physical uranium. The thesis behind them both is the same: uranium prices are extremely undervalued and are due to a rebound.

Uranium production has been consistently cut through mine closures - the biggest one in the world, MacArthur River, tipping the scale. Besides, Kazatomprom has decided to cut its growth production rate and it is now a listed company – meaning more investor's oversight and focus on profits. Therefore, inventories – the gray area - have been drawing down.

Section 232 has played an important part on the dynamics of the sector, leading utilities to diminish contracting until a decision is made – that might be 1.5 years overall. As widely known, the uranium cycle is way longer than most other commodities and, once out of the mine, it is necessary to be converted, enriched, assembled and delivered.

Moreover, uranium prices are almost irrelevant to utility companies. They require certainty that the uranium contracted will be delivered on time and with the specifications needed.

We look at this situation as being unsustainable and believe that prices need to increase to bring new mines online and stabilize the situation. It is important to notice that there are fewer listed miners today than 10 years ago.

The challenge presents an opportunity for specialist investment funds that have a long-term view and knowledge to select quality assets to invest in. The target is strong results over the next few years, whilst trying to mitigate unique risks present in the uranium industry.

At present, financial buyers are enabling companies with quality assets to progress their mines closer to operation. Going forward, there is an opportunity for such funds to obtain lower risk funding that can be deployed to the construction of uranium mines, filling a gap for the sector.