URANIUM IS BACK:

ONE TOP STOCK TO WATCH

THE MOTLEY FOOL AUSTRALIA TEAM

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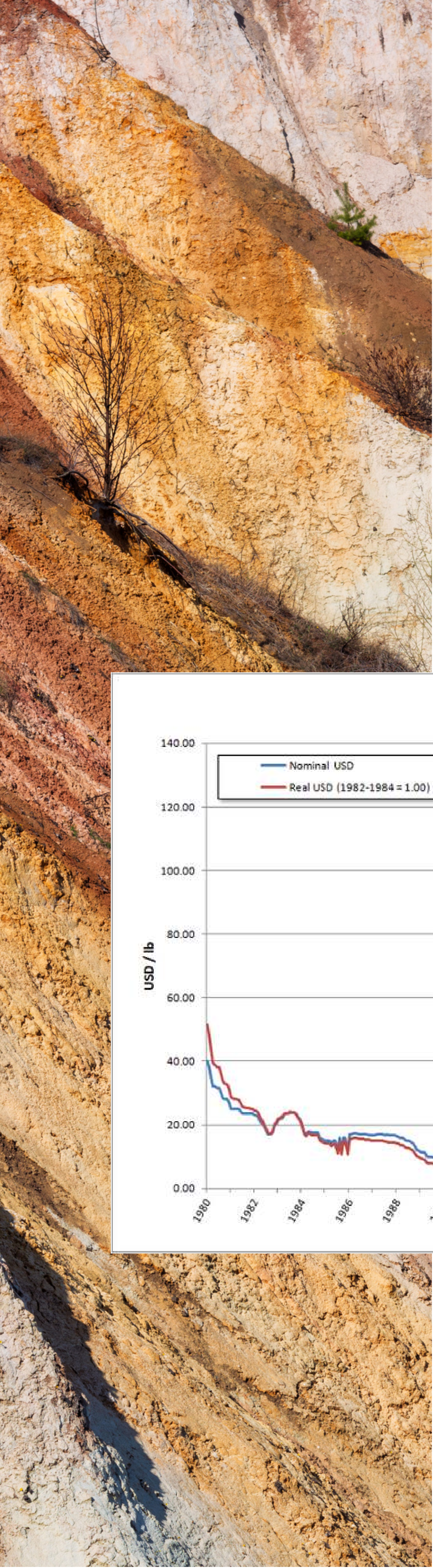
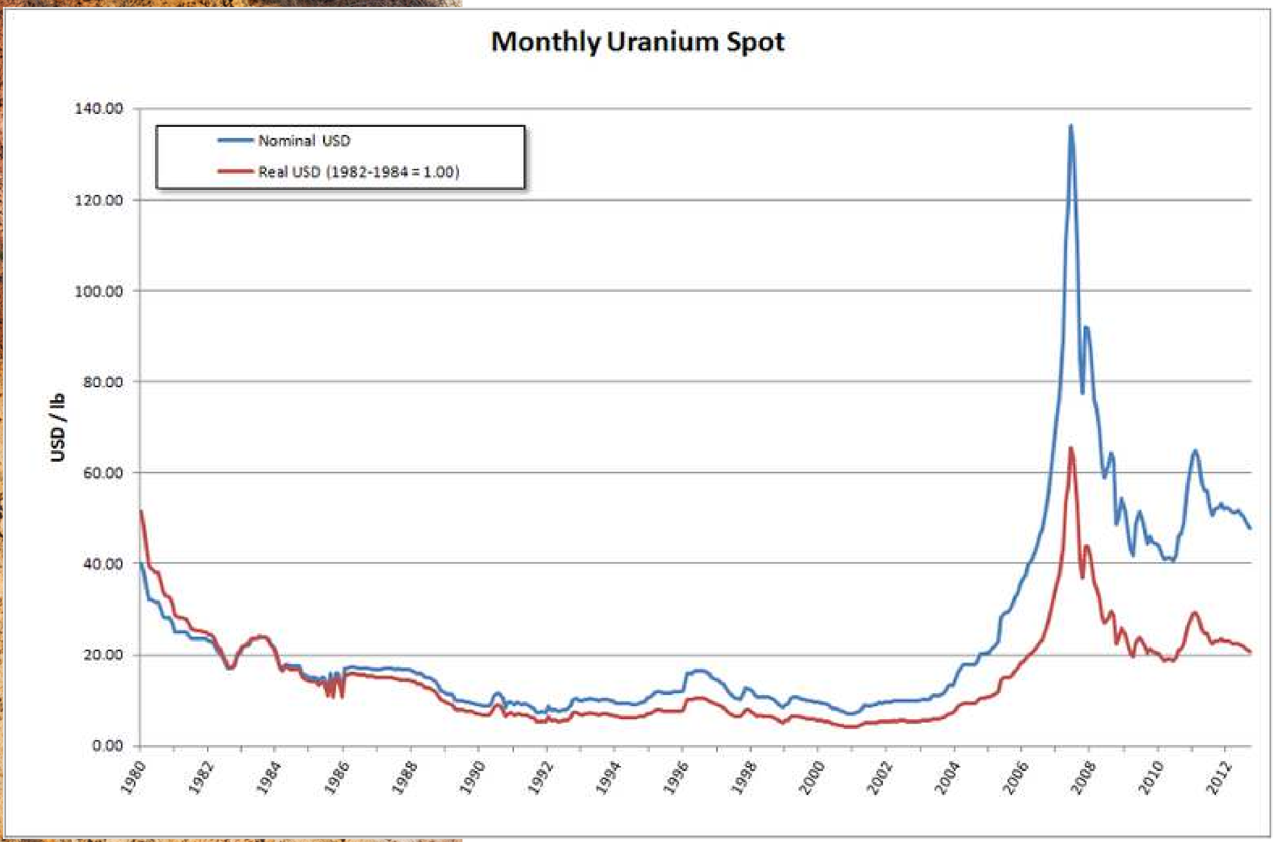


Commodity markets are well known for their boom and bust nature, and if there's one resource that epitomises this, it's uranium.

During the last bullish uranium cycle in the 2000s, the spot price of the metal jumped 1,800%, including a spike in 2006 and 2007.

In turn, the share prices of companies in this sector went into orbit.



Source: NUEXCO Exchange Value (Monthly Uranium Spot Price).

However, when the global financial crisis came along in 2008 it put a halt to sentiment for investing in uranium. A subsequent rally kept some interest in the sector, but that interest waned following the 2011 tsunami-driven Fukushima nuclear accident in Japan.

For more than a decade since then, the uranium sector has experienced a severe bear market characterised by a depressed spot price of the metal, mine closures around the world, and an overall negative sentiment.

There has been no incentive or political appetite to build new uranium mines, scarce funding available to develop projects, and limited exploration activity in search of new deposits.

Based on our research, we believe that this adverse setting may have laid the foundations for a new bull market to emerge in the uranium sector. There are multiple developments within the industry that suggest that uranium could be waking from its slumber.

Here is why we're excited about the prospects for uranium mining companies:

LIMITED SUPPLY:

The negative sentiment towards uranium has resulted in limited exploration and production in the sector. This has prevented new uranium supply from coming to market. Turning the tap back on is no easy task because permitting for new mines and bringing them to production is a multi-year endeavour.

CLIMATE CHANGE AND INCREASING DEMAND FOR CLEAN NUCLEAR ENERGY:

According to the International Energy Agency, global demand for electricity is expected to climb by nearly 50% from 2019 through to 2040. In turn, this rising demand for energy and the world's need to reduce carbon emissions is driving the uptake of nuclear energy and hence uranium.

COUNTRIES ARE NOW TAKING A SHINE TOWARDS NUCLEAR ENERGY:

China alone has scheduled US$440 billion for the construction of nuclear reactors during the next 15 years after announcing its ambitious plans in late 2021. India, France, the U.S., Japan, South Korea and many other countries are also planning for a greater reliance on nuclear energy in the future.

ENERGY SECURITY:

The war in Ukraine has showcased the need for Western nations to ensure that their energy sources are reliable, putting further supply pressure on uranium. According to the World Nuclear Association, Russia and its neighbour Kazakhstan accounted for 50% of the world's uranium production in 2021, with a substantial portion of this amount shipped through Russian ports. Russia is also one of the world's most important providers of mission-critical processing services of the metal. Whilst there are currently no government-imposed sanctions on Russian nuclear material, some Western companies are limiting purchases from the nation.

TECHNOLOGICAL INNOVATION:

Progress in nuclear power technology has seen the emergence of small modular reactors (SMRs) as an alternative to the capital intensive traditional nuclear reactors. SMRs can be prefabricated in a factory to make manufacturing, shipping, and installation easier, quicker, and considerably cheaper. SMRs are widely considered to represent the future of nuclear energy generation, and could drive demand for uranium.

We believe we could be on the cusp of a significant market imbalance with demand for uranium far outstripping supply, causing the price of the metal to head north once again. Since 2020, the price of uranium has already doubled as appetite for the metal grows.

We believe the current setting resembles the early days of the previous uranium bullish cycle in the 2000s. As the world continues its path to carbon-free electricity, we think that nuclear energy could play a vital part in the shift away from traditional fossil fuel sources such as coal.

So, whilst lithium and other battery metals hog the spotlight in the global push to reduce carbon emissions, the less heralded uranium is starting to make some noise of its own due to its crucial role in ‘clean’ energy generation.

We think now could be the right time to consider investing in businesses with exposure to uranium. Here’s one company that has piqued our interest.

CAMECO CORPORATION

(TSX:CCO) (NYSE:CCJ)

Based in Canada and listed on the Toronto Stock Exchange (TSX) and the New York Stock Exchange (NYSE), Cameco is one of the largest uranium producers in the world. It is also one of the most important providers of other critical services for the global nuclear power industry.

Today it owns one of the largest uranium mines in the world, McArthur River in Canada’s prolific Athabasca Basin, whilst also boasting a controlling 55% stake in what is regarded as the richest uranium mines globally, Cigar Lake (also in Canada). In fact, this mine is so prolific that it is believed to be about 100 times richer than the global average!

Cameco also holds a 40% stake in the Inkai project in Kazakhstan, which is operated in partnership with majority owner and the world’s largest uranium miner, Kazatomprom.

Cameco has much more to offer than just mining. For instance, Cameco’s Port Hope uranium conversion plant in Canada is one of only four such facilities anywhere in the Western world. And uranium conversion is a mission-critical step in transforming uranium into the nuclear fuel needed for electricity generation in power plants.

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In addition, late last year Cameco took another shrewd step in growing its exposure to the broader nuclear power industry by entering a partnership to purchase a 49% stake in American nuclear energy business Westinghouse Electric Company.

Westinghouse is the original equipment manufacturer to more than half the global nuclear reactor fleet, and its services cater for about half the world's nuclear power generation sector. With demand for nuclear power projected to grow, Westinghouse's core focus on nuclear fuel and service could see the company benefit from such anticipated industry trends.

Furthermore, geopolitical uncertainties in Eastern Europe could also help generate more demand for Cameco's and Westinghouse's offerings.

For example, in November last year Poland engaged Westinghouse to build its first three nuclear reactors, and just this month Cameco entered an agreement to provide Ukraine with uranium and its conversion services through to 2035. In the past, many European countries would seek Russian providers for such needs.

In essence, Cameco is fast transforming into a 'one-stop-shop' of the nuclear power industry by offering services across the entire nuclear fuel cycle. This is a powerful competitive advantage, creating efficiency, convenience, and value for its customers.
And as Cameco's CEO, Tim Gitzel, recently put it: "nuclear is back with a vengeance".

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