July 11, 2024
Macro Update

Equity Research

URANIUM MACRO UPDATE

Kazakhstan Increases Taxes on Uranium Production

EVENT

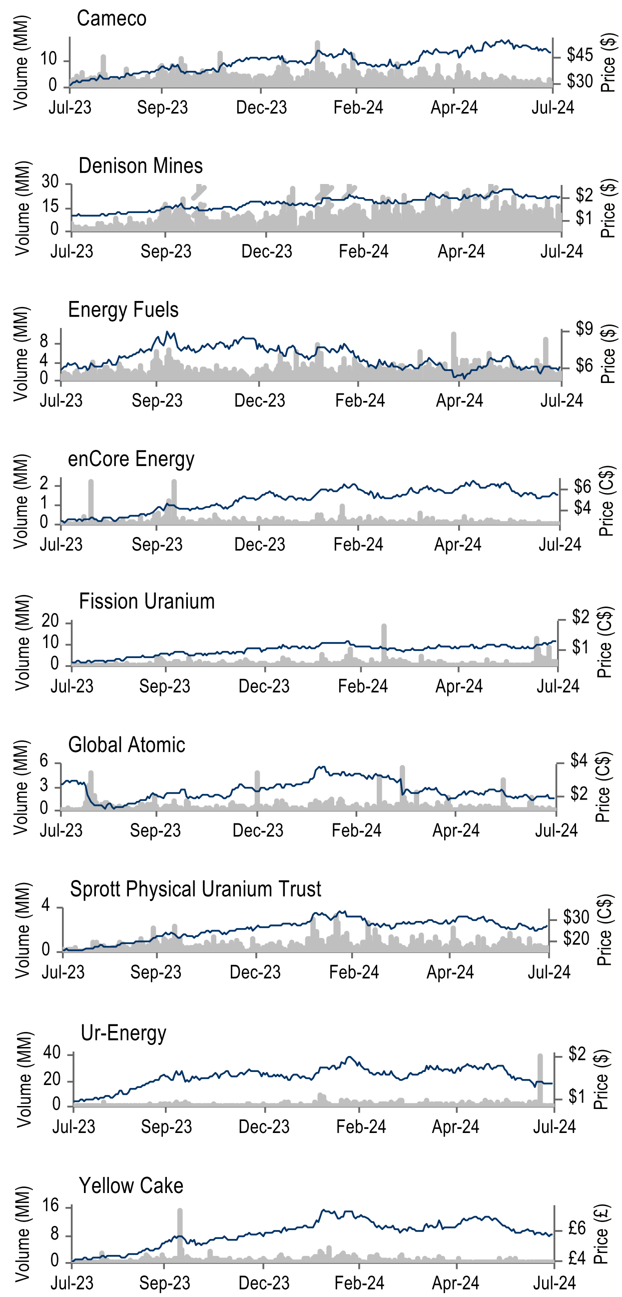
Yesterday the government of Kazakhstan introduced sweeping changes to its mineral extraction tax (MET) rate on uranium production.

BOTTOM LINE

Positive – In our view the new MET will a) increase Kazakhstan-origin uranium production costs thereby driving higher spot and term uranium prices, b) disincentivize Kazakhstan uranium production growth and c) cause further bi-furcation in the market whereby U.S., Canada, and Australia-origin uranium receives a greater premium.

FOCUS POINTS

- **Kazakh Uranium Taxes Going Higher** – The current MET is effectively a top-line revenue royalty and will increase from 6% to 9% in 2025. Beginning in 2026, the MET will then change to a tiered system ranging from 4% of revenue on production <500 tU/year (1.3 MMlb U_3O_8/year) up to 18% of revenue on production >4,000 tU/year (10.4 MMlb U_3O_8/year). Additional MET ranging from 0.5-2.5% will apply on spot uranium prices ranging from >\$70/lb U_3O_8 to >\$110/lb U_3O_8.
- **Implications** – The new MET increases the effective royalty rate on Kazakh uranium production from 6.0% to ~10.5% on average, or put more simply, adds ~\$4/lb U_3O_8 to operating costs. The new MET is tiered and therefore disincentivizes production growth as Kazatomprom (KAP-LSE, Not Covered) will presumably, to the extent it can, produce just below certain thresholds such as to not trigger additional tax.
- **Preferred Uranium Equities** – Denison Mines, Sprott Physical Uranium Trust, enCore Energy, and Ur-Energy.



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See disclosure and a description of our recommendation structure at the end of this report.

KAZAKHSTAN URANIUM TAX HIKE

Yesterday the government of Kazakhstan introduced sweeping changes to its mineral extraction tax (MET) rate on uranium production. The current MET is effectively a top-line revenue royalty and will increase from 6% to 9% in 2025. Beginning in 2026, the MET will then change to a tiered system ranging from 4% of revenue on production <500 tU/year (1.3 MMlb U_3O_8/year) up to 18% of revenue on production >4,000 tU/year (10.4 MMlb U_3O_8/year). Additional MET ranging from 0.5-2.5% will apply to revenues generated on production sold at spot uranium prices ranging from >$70/lb U_3O_8 to >$110/lb U_3O_8. The tiered MET scheme is outlined in Exhibit 1 below.

Exhibit 1. Updated Kazakhstan Uranium Mineral Extraction Tax (MET)

Annual production volume	Rate, %
Up to and including 500 tonnes	4%
Up to and including 1,000 tonnes	6%
Up to and including 2,000 tonnes	9%
Up to and including 3,000 tonnes	12%
Up to and including 4,000 tonnes	15%
Above 4,000 tonnes	18%

Weighted average U_3O_8 price	Additional rate, %
Above $70/lb	0.5%
Above $80/lb	1.0%
Above $90/lb	1.5%
Above $100/lb	2.0%
Above $110/lb	2.5%

Source: Kazatomprom

IMPLICATIONS OF KAZAKH URANIUM TAX HIKE

Kazakhstan is the world's largest uranium producer (by country), accounting for ~43% of global supply, followed by Canada (~15%), Namibia (~11%), and Australia (~9%). The pending changes/increases to the country's MET on uranium production therefore have significant implications to the industry more broadly, which in our view, all point towards higher uranium prices. Our key takeaways on the higher MET include:

- Increases the effective royalty rate on Kazakhstan uranium production from 6.0 to ~10.5% on average, or put more simply, adds ~$4/lb U_3O_8 to operating costs. Expect Kazatomprom, to the extent it can, to pass these higher costs on to its customers in the form of higher term market prices.
- The new MET framework is tiered and therefore disincentivizes production growth as Kazatomprom will presumably, to the extent it can, produce just below the specified thresholds (500 tU, 1,000 tU, 2,000 tU, 3,000 tU, and 4,000 tU) such as to not trigger additional tax.
- As we understand the language, the new tiered MET tax scheme applies to the size of subsoil use contracts, not the consolidated production level of the uranium wellfield. Therefore, the uranium wellfields in Kazakhstan that are covered by one subsoil use contract are impacted far more negatively (higher taxes) than the uranium wellfields that are covered by multiple smaller subsoil use contracts. This places a higher tax burden on the Russian (Rosatom) and French (Orano) joint-venture

Kazakhstan operations. Moreover, the new MET scheme now effectively prioritizes the future development of smaller uranium wellfields in the country as opposed to the largest ones that are covered by a single subsoil use contract (higher taxes).

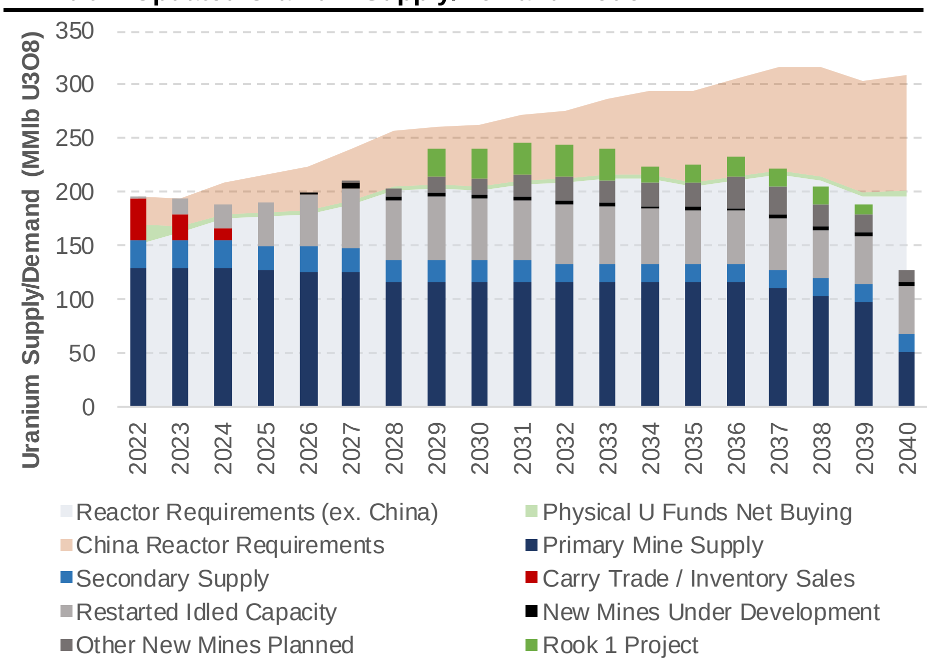
SUMMARY OF URANIUM TAX HIKE IMPLICATIONS

In our view the new MET announced yesterday will a) increase Kazakhstan-origin uranium production costs thereby driving higher spot and term uranium prices, b) disincentivize Kazakhstan uranium production growth and c) cause further bi-furcation in the market whereby U.S., Canada, and Australia-origin uranium receives a greater premium. On this final point, we note the trading action in the uranium equities yesterday whereby Kazatomprom sold-off considerably, counterbalanced by strong performance from the North American-domiciled uranium producers and developers (KAP -5.6% vs. CCJ +9.7%, DNN +8.7%, EU +8.4%, UUUU +6.6%, FCU +4.7%, GLO +10.0%, NXE +8.9%, URG +6.5%, U.UN +2.2%, YCA +3.6%).

NEXT MAJOR CATALYST FOR THE URANIUM SECTOR

Kazatomprom is scheduled to report its Q2/24 operations/trading update on or about August 1. In our view, 2024 production guidance of 21.0-22.5 KtU (54.6-58.5 MMlb U_3O_8) is likely to be maintained but 2025 guidance (to be updated on or about August 23) of 30.5-31.5 KtU (79.3-81.9 MMlb U_3O_8) is highly likely to be reduced (and has been telegraphed by the company). Based on our channel checks and surveys, utilities are expecting a 2025 guidance reduction in the order of 10% to 27.5-28.4 KtU (71.4-73.7 MMlb U_3O_8), and investors are expecting a 2025 guidance reduction in the order of 15% to 25.9-26.8 KtU (67.4-69.6 MMlb U_3O_8). Should Kazatomprom reduce 2025 production guidance to more in-line with 2024 levels, which is not our base case but is certainly a possibility, we would expect spot uranium prices to rally higher and the uranium equities to follow.

Exhibit 2. Updated Uranium Supply/Demand Model



Source: Cantor Fitzgerald

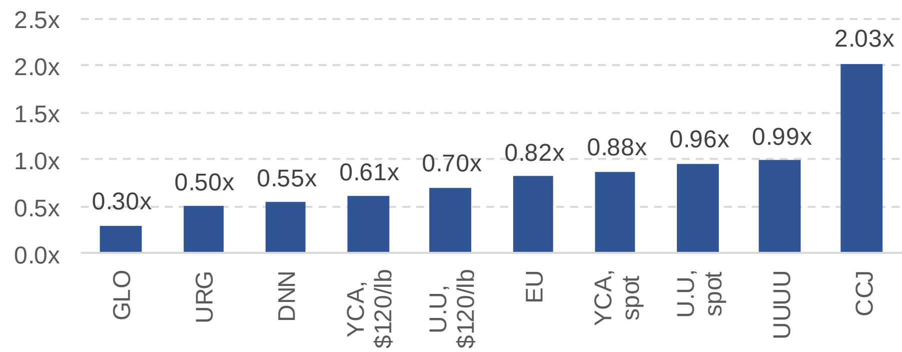
Exhibit 3. Uranium Equities Under Coverage

Company	Ticker	Target Multiple	Price Target	Rating
Cameco	CCJ-US/CCO-CN	50/50 blend, 2.50x NAVPS/25.0x 2025E CFPS	$48.00/C$64.00	Hold
Denison	DNN-US/DML-CN	1.50x NAVPS	$6.00/C$8.00	Buy
enCore Energy	EU-US/CN	1.50x NAVPS	$8.00/C$10.00	Buy
Energy Fuels	UUUU-US/EFR-CN	1.50x NAVPS	$9.25/C$12.25	Buy (S)
Fission Uranium	FCU-CN	Restricted		
Global Atomic	GLO-CN	0.75x NAVPS	C$6.00	Buy (S)
Sprott Physical U	U.UN/U.U-CN	1.05x NAVPU	$31.00/C$41.50	Buy
Ur-Energy	URG-US/URE-CN	1.50x NAVPS	$4.50/C$5.75	Buy
Yellow Cake	YCA-LSE	1.00x NAVPS	£9.75	Buy

Source: Cantor Fitzgerald

Exhibit 4. Relative P/NAV Valuation of Covered Uranium Equities

Company	Symbol	Share Price	NAVPS	P/NAVPS
Cameco	CCJ-US/CCO-CN	C$73.11	C$36.02	2.03x
Denison Mines	DNN-US/DML-CN	C$3.03	C$5.52	0.55x
enCore Energy	EU-US/CN	$4.40	$5.37	0.82x
Energy Fuels	UUUU-US/EFR-CN	$6.49	$6.56	0.99x
Fission Uranium	FCU-CN		Restricted	
Global Atomic	GLO-CN	C$2.09	C$6.91	0.30x
Sprott U @ spot	U.U/U.UN-CN	C$27.77	C$28.91	0.96x
Sprott U @ $120/lb	U.U/U.UN-CN	C$27.77	C$39.45	0.70x
Ur-Energy	URG-US/URE-CN	$1.47	$2.91	0.50x
Yellow Cake @ spot	YCA-LSE	£5.95	£6.79	0.88x
Yellow Cake @ $120/lb	YCA-LSE	£5.95	£9.71	0.61x



Source: Cantor Fitzgerald

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