

## Uranium: so bad, it's good

Aura Energy is one of the most undervalued listed uranium mine developers amongst a bloodied but unbowed group.



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Since the beginning of 2011, the median return on all surviving ASX-listed resources stocks has been a depressingly weak -88%. ASX uranium-exposed stocks Aura Energy, Bannerman Resources, Deep Yellow, Paladin Energy, Toro Energy and Vimy Resources have all done worse with average losses exceeding 95%.

Those that have done better, such as Berkeley Energia and Boss Resources sporting losses of 85% and 51%, respectively, have done little to rehabilitate the image of a chronically uneconomic industry segment.

With such overwhelmingly negative sentiment enveloping the industry, markets may not always bother to discriminate between different development attributes, opening the way for valuation disparities within the sector.

In a recent presentation to investors, Peter Reeve, the chief executive of Aura Energy, inadvertently encouraged me to revisit the extent to which the market had been consistent in setting the prices of uranium exposed-equities listed in Canada and Australia.

Aura Energy has a uranium development in Mauritania for which it released the details of a definitive feasibility study on 29 July 2019.

Reeve described Aura's Tiris uranium project as fully permitted for development with an exploitation licence and relevant environmental approvals, although the feasibility study identifies some issues around the disposal of tailings requiring clarification.

The company faces some risks peculiar to its location. Military protection from terrorist groups operating in the region is not something with which its peers in Western Australia or Saskatchewan must contend. The challenge of finding adequate supplies of water in the Sahara Desert has been overcome, according to Reeve. The project will have to generate its own electricity supplies from solar and diesel sources as there is no access to a power grid.

More favourably, the deposit is within 5m of the surface. And an up-front capital spend of only US\$63 million makes it relatively cheap to get started. The feasibility study concluded that production of 14.4 million pounds of U<sub>3</sub>O<sub>8</sub> over 15 years could be achieved at an average cost of US\$29.81/lb, including sustaining capital.

Like so many others, Aura's production costs are tantalisingly close to, but still above, the current spot market price.

Ironically, the outlook for uranium is more certain than for any other metal. Future needs of emerging new users are widely documented leaving little doubt about how, where and how much of the metal will be used. Macroeconomic cycles, so influential in other metal markets, pose little threat to forecasts.

Adding to its investment appeal, uranium has attracted support as an energy source capable of helping to decarbonise the world economy.

However confident others might be about the outlook, power utilities have balked at long-term contracts. Sensing they can take advantage of a lengthy imbalance aggravated by disproportionately large secondary supplies and state sponsored production, they have preferred shopping in the spot market.

Timing aside, an investment decision to take advantage of eventually improved market conditions should be relatively straightforward. Having been so comprehensively beaten down, the share prices of any of the uranium exposed stocks are likely to display strong leverage to a sustained rise in the price of the metal.

Several years ago, Bannerman Resources was widely considered the most advanced of the next generation of uranium miners. As the years have passed, the pack jostling for position behind the starting line has grown with at least 15 companies having completed studies over the past four years, readying themselves for a market uplift.

A uranium start-up has two arguments with which to attract an investor: the promise of better times ahead and being able to demonstrate potentially superior financial outcomes to those of its peers also trying to solicit investors and off-take partners.

Reeve used a comparison of project capital costs to highlight how, among six ASX-listed uranium development offerings, Tiris needs the least capital to proceed and was, consequently, more "do-able" than the others.

There are no generally agreed metrics to conclusively make the case for investment superiority. Some will use resource size. But that might not properly reflect future cash flows. Present values are easily manipulated by the uncorroborated choice of discount rates. Technical issues might limit recoveries. Geology might make exploitation more or less challenging.

Regulators also limit how companies can portray themselves to investors. For example, Reeve complained that he was not able to show all the companies with which he wanted to compare Aura on

the same chart because ASX bans companies mixing projects with definitive feasibility studies and those with pre-feasibility studies.

In similar circumstances, Vimy Resources has used a summary table comparing nine studies by Australian and Canadian companies, including its Mulga Rock project, in its presentational material. Investors would have to apply their own method, if they had one, to the array of data to discern which is best.

Using 20 economic studies from 17 Australia and Canada-listed companies, I have statistically modelled the weightings applied by the market to capital contribution, cash flow (adjusted for differing uranium prices) and life of mine variables. The selected financial variables explain a large majority of the variation in market values.

The model produces a measure of the extent to which the market value of a company deviates from the current pricing norm for the sector across several relevant indicators of financial performance.

Of course, additional research might be needed to identify the causes of any deviations discerned in this way. Variations in market value unexplained by the chosen variables could reflect the track records of those in charge, unusual regulatory risks or differences in geological conditions, among other factors.

At the end of September, as it happens, Aura Energy was the most undervalued of the companies covered in the analysis. Canada-listed Anfield Energy and Azarga Uranium were also relatively cheap. At the top of the other side of the ledger, with two deposits in Africa, was GoviEx Uranium, also Canada-listed.

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