

YELLOW CAKE PLC

Takes 0.95 MMlb Uranium Delivery from Kazatomprom

EVENT

On June 30 Yellow Cake took delivery of 0.95 MMlb U₃O₈ from Kazatomprom (KAP-LSE, Not Covered) at Cameco's (CCJ-NYSE/CCO-TSX, Buy - \$36/C\$45/share target) Port Hope conversion facility in Ontario, Canada.

BOTTOM LINE

Modest Positive – This uranium shipment has been closely scrutinized by investors since the unrest in Kazakhstan in early January.

FOCUS POINTS

- All Kazakh Deliveries Now Warehoused in Canada** – The 0.95 MMlb U₃O₈ delivery was received on schedule and relates back to the purchase announcement and subsequent financing completed by YCA in October of last year (note [here](#)). YCA paid \$47.58/lb U₃O₈ for the material, relative to the current spot price of \$50.50/lb U₃O₈. The Company's inventory stands at 18.805 MMlb U₃O₈ and all outstanding deliveries have now been completed.
- Discount to NAVPS** – The spot uranium price is ~11% above the recent low of \$45.50/lb U₃O₈ reached on May 20, despite the fact that both Yellow Cake and the Sprott Physical Uranium Trust (U.U/U.UN-TSX, Buy - \$20/C\$25/share target) are trading at substantial discounts to net asset value. This suggests that volumes on the spot market likely remain extremely tight, and other participants (presumably traders/intermediaries) are the active players at present.
- Maintaining Buy Rating and Target** – We are maintaining our Buy rating and £5.75 target price on Yellow Cake based on a multiple of 1.0x NAVPS and a spot uranium price forecast of \$75/lb U₃O₈.

Recommendation:

BUY

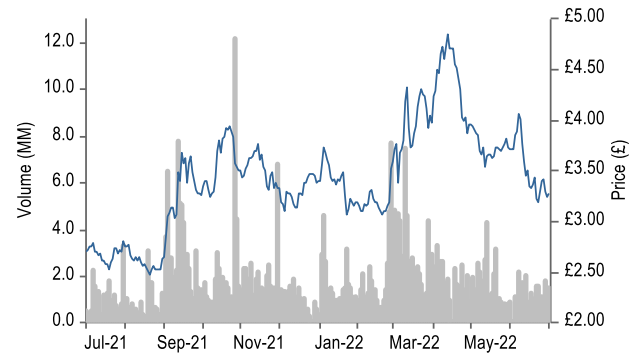
Symbol/Exchange: YCA-LSE
Sector: Metals & Mining
All dollar values in US\$ unless otherwise noted.
Current price: £3.31
One-year target: £5.75
Return to target: 73.7%
Working capital: \$16.6 MM

Financial Summary:

Shares O/S (MM)	183.1	52-week range	£2.43 - £4.87
Market cap (MM)	£605.3	Avg. vol. (MM)	2.5
Market float (MM)	£554.8	Fiscal year-end	31-Mar

Inventory	Quantity (MM lb)	Mkt Price (\$)	Mkt Value (MM\$)
U3O8	18.81	\$50.50	\$949.7
Net Working Capital			\$16.6
Net Asset Value			\$966.3
NAVPS			£4.33
Current Premium/Discount to Market NAV			-23.7%

Source: Company Reports and Cantor Fitzgerald Canada Estimates



Company profile: Yellow Cake Plc. is a specialist company operating in the uranium sector, created to purchase and hold U₃O₈ to offer shareholders exposure to the price appreciation of uranium.

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

TAKES 0.95 MMLB U3O8 DELIVERY FROM KAP

On June 30 Yellow Cake took delivery of 0.95 MMLb U₃O₈ from Kazatomprom at Cameco's Port Hope conversion facility in Ontario, Canada. A press release was issued by Yellow Cake on July 1 (Canada Day holiday) confirming the delivery. This shipment has been closely scrutinized by investors since the unrest in Kazakhstan in early January and the more recent logistical challenges due to the Russia-Ukraine conflict of transporting uranium through the Black Sea. The 0.95 MMLb U₃O₈ delivery was received on schedule and relates back to the purchase announcement and subsequent financing completed by Yellow Cake in October of last year (note [here](#)). YCA paid \$47.58/lb U₃O₈ for the material, in-line with the spot price at the time (average of October 22 and October 25 quotes) and a 5.8% discount relative to the current spot price of \$50.50/lb U₃O₈. The Company's inventory stands at 18.805 MMLb U₃O₈ and all outstanding/pending deliveries have now been completed. Accounting for the most recent delivery, we estimate Yellow Cake has net working capital of \$16.6 MM. The Company carries zero debt.

Exhibit 1. NAV Based on Current U₃O₈ Prices

YCA-LN	Unit	Inventory	Spot Price \$	Spot Price GBP	Market Value (\$'000)
U3O8	lb	18,805,601	\$50.50	£41.46	\$949,683
Inventory					\$949,683
Net Working Capital					\$16,600
Net Asset Value					\$966,283
Net Asset Value Per Share					£4.33
P/NAVPS					0.76x

Source: FactSet, Cantor Fitzgerald Estimates, Yellow Cake Plc.

LARGE DISCOUNT TO NAV PERSISTING

Based on the current U₃O₈ spot price of \$50.50/lb and GBP/USD FX rate of 1.218, the current intrinsic value (1.0x NAVPS) for YCA totals £4.33/share (Exhibit 1). The spot uranium price is ~11% above the recent low of \$45.50/lb U₃O₈ reached on May 20, despite the fact that both Yellow Cake and the Sprott Physical Uranium Trust are trading at near historical discounts (23.7% and 15.1%, respectively at present) to net asset value. This suggests that volumes on the spot market likely remain extremely tight, and other participants (presumably traders/intermediaries) are the active players at present.

OUR THOUGHTS ON URANIUM PRICES HERE

When YCA and/or U.U are trading within a narrow band of their intrinsic value (~1.0x NAV), and in particular when either investment vehicle can maintain a premium, we have a high degree of confidence in calling the uranium spot price trajectory higher over the *short-term*. While this is not the case today with YCA and U.U trading 23.7% and 15.1% below NAVPS and NAVPU respectively, we note that these discounts are effectively at historically wide levels. For value-oriented investors able to take a medium to longer-term view, the current price levels of YCA, and to a lesser extent U.U, represent highly attractive entry points. The supply-demand fundamentals of mined uranium oxide, along with the current tightness across the rest of the nuclear fuel cycle (conversion, enrichment, fuel fabrication) point to significantly higher U₃O₈ prices over the medium to

longer-term. Yellow Cake and the Sprott Physical Uranium Trust are the two lowest risk and best options for investors to gain direct unlevered exposure to higher U₃O₈ prices.

MAINTAINING BUY RATING AND PRICE TARGET

We are maintaining our Buy rating and £5.75/share price target on Yellow Cake. This target is based on an unchanged multiple of 1.0x P/NAVPS (rounded), on our 12-month spot U₃O₈ price forecast of \$75/lb, the Company's current financial position, and a GBP/USD FX rate of 1.35. A NAVPS sensitivity to uranium prices and GBP/USD FX rates is provided in Exhibit 2 below.

FURTHER UPSIDE LONGER-TERM

Our £5.75/share price target on Yellow Cake is based on a 12-month U₃O₈ price forecast of \$75/lb. We believe this price is certainly achievable over the next 12-months and note that the spot uranium price came within ~15% of our target level ~2.5 months ago (\$63.88/lb U₃O₈ on April 13). Over the longer-term (2+ years), our U₃O₈ price estimate forecast is modestly higher at \$85/lb, our best estimate as to the price required to sustain current mine production, incentivize the re-start of shuttered operations, and build new Tier 1 low-cost uranium projects to meet growing global utility demand. At current FX rates, an \$85/lb U₃O₈ price drives a NAVPS for Yellow Cake of £7.24/share. As such, over the longer-term, our target has a clear bias to the upside.

Exhibit 2. NAVPS Sensitivities

GBP/USD	Short-term U3O8 Price Forecast (\$/lb)				
	\$45.00	\$55.00	\$65.00	\$75.00	\$85.00
1.49	£3.15	£3.85	£4.55	£5.25	£5.95
1.42	£3.30	£4.05	£4.75	£5.50	£6.20
1.35	£3.50	£4.25	£5.00	£5.75	£6.55
1.28	£3.65	£4.50	£5.30	£6.10	£6.90
1.22	£3.90	£4.70	£5.55	£6.40	£7.25

Source: Cantor Fitzgerald

INVESTMENT THESIS

Yellow Cake is an excellent low-risk vehicle offering exposure to a commodity that investors cannot physically hold. The Company offers unlevered exposure to uranium price appreciation on its physical holdings and to its uranium-based financing initiatives via potential streaming, royalty, or logistics optimization associated with trading. In short, for institutional investors desiring exposure to the uranium price that are unwilling to take on the operating risk and financial gearing of a uranium producer, Yellow Cake is one of only two “pure play” vehicles, the other being the Sprott Physical Uranium Trust. YCA's competitive advantage relative to U.U/U.UN, is its supply agreement (at YCA's option) with Kazatomprom, the world's largest and lowest cost producer of uranium oxide.

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The analyst responsible for this report has not visited the material operations of Yellow Cake Plc.

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BUY (Speculative): The stock is attractively priced relative to the company’s fundamentals, however investment in the security carries a higher degree of risk.

HOLD: The stock is fairly valued, lacks a near term catalyst, or its execution risk is such that we expect it to trade within a narrow range of the current price in the next 6 to 12 months. The longer term fundamental value of the company may be materially higher, but certain milestones/catalysts have yet to be fully realized.

SELL: The stock is overpriced relative to the company’s fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

TENDER: We believe the offer price by the acquirer is fair and thus recommend investors tender their shares to the offer.

UNDER REVIEW: We are temporarily placing our recommendation under review until further information is disclosed.

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