

11:38 22 Nov 2016

Uranium price tipped to soar after Kazakh strategy shift

Numis is getting bullish on uranium again following a new marketing initiative from the Kazakh government.

Kazatomprom, the Kazakh-state uranium producer, is the largest producer in the world accounting for 39% of global mine production in 2015.

A strategy of rapid production increases and spot sales enabled the company to make tremendous market share gains, but at the expense of prices globally that have suffered due to oversupply.

But things might be changing suggests Justin Chan, an analyst at the broker.

WATCH: Chan speaks to Proactive's Andrew Scott

He expects the next phase of Kazatomprom's growth will see it focus more on margin, while maintaining its market share.

In recent interviews, Kazatomprom has publicly suggested that it will halt production growth and is happy with current production and market share levels

Kazatomprom's establishment of Swiss marketing arm also suggests that inventory management may become a policy tool, Chan suggests.

An inventory policy rather than direct supply would see it act as more of a swing producer or swing seller, using inventory and production levels to influence the uranium price.

What does this mean?

In short, the uranium price can recover and rapidly.

Spot uranium prices are currently languishing at US\$18.50 from a price of over US\$50 four years ago. The Fukushima nuclear disaster in Japan is one reason but there are others.

"In our view, the current spot price reflects short term oversupply with the largest factor being the growth in Kazakh spot production," said Chan.

"As this ends it may create a short squeeze situation as nuclear power generating utilities have increasingly relied on spot purchases to supplant contracts signed in the rush of the 2006-2009 uranium bull market.

US utilities have less than 50% of their uranium supply under contract from 2020 onward, he adds, while EU utilities will have less than 50% coverage from 2022.

Chan's favoured uranium miners are Berkeley Energia (LON:BKY) with a 100p target price. First production at its Salamanca open pit project in Spain is scheduled for 2018.

Canadian group NexGen Energy (TSX:NXE) with a C\$4.00/share target has, in Numis's view, the most strategically

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important undeveloped deposit in the uranium sector.

Peninsula Energy (ASX:PEN) with a target of A\$1.05/share, meanwhile, is ramping up phase I production at the Lance ISR facility in Wyoming, US.

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