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Uranium Update



By Doug Casey

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As many readers know, I've been a uranium bull for some time, recommending uranium companies as far back as a 16-page report in my October 1998 *International Speculator*, when the metal sold for just \$9.50 per pound.

Being early in a rising price trend has worked out well, giving subscribers the opportunity for some pretty spectacular gains in our recommended stocks. To name just a few: Cameco (T.CCO) up 542% since our October '98 recommendation; International Uranium Corp. (T.IUC), up 1,497% since our initial 1998 recommendation; Paladin (ASX.PDN), up 1,412% since our February 19, 2004 recommendation... and Strathmore Minerals (V.STM), up as much as 340% since our August 2004 recommendation.

However, times have changed, with the uranium story now being covered by the mainstream press and the herd of wire-house brokerage firms attempting to lay claim to special expertise by pumping out fat uranium research reports. Being a contrarian by nature, I view these developments as indicators that the easy money has been made.

Even so, there is still a lot of upside for uranium: the metal is not only going higher, it is going to the moon (I'll touch on the reasons in a moment). In fact, as a fundamental proposition, I like uranium even more than the precious metals, which is saying a lot. In the interim, however, I believe that any slumps in uranium stocks are likely to trigger a rush to the exits for shareholders, largely because the investment masses are prone to skittishness and impatience. They really only understand uranium as a "flavor of the day" commodity. We've seen just such a panic over the past few weeks.

Not being a trader, my tendency is to dismiss short-term trading volatility as irrelevant. However, the extraordinary gains in uranium stocks over the last year argue for caution: a year ago, largely because there were so few companies around, you could have built a portfolio of U3O8 stocks by throwing darts at a list and you'd likely be up by triple digits.

That is no longer the case. Going forward, you'll have to be a lot more selective in where you place your bets. Over the past six months, even the quality uranium plays have gotten ahead of themselves, and that goes ten-fold for some of the modestly radioactive garbage that has come onto the market of late. I'm nearly as likely to find uranium in my back yard as they are on their much-promoted moose pasture.

Chasing the hot stock of the day just because it has "uranium" in the name will, in most cases, only buy you a quick trip to a large loss.

PICKING WINNERS

That being said, let me go on record--again--to say that, for many reasons discussed in the *International Speculator* in the past, the developing bull market in resource stocks is likely to be even wilder than what we saw in the late '90s with the Internets. It's likely to be one for the record books. The key is to get long the right stocks, and stay long until you see Newsweek doing a cover article on them. And I fully expect uranium issues to be among the leaders of the market.

However, as investors get increasingly more conversant on U3O8, success will depend on selecting the right stocks at the right prices, and not being afraid to lock in gains by rotating out of the big winners and into earlier-stage companies.

With this in mind, we recently put together a comprehensive report, [31 Uranium Companies Reviewed](#), based on the notion that stock valuations should in some way be reflective of the uranium resources controlled by a company, with credits for exploration budgets, cash in the bank, and size and location of its projects. The ultimate question is: what are a company's odds of actually developing an economic uranium resource?

This just-published report covers a total of 31 companies for which uranium is the primary mineral target. Companies are grouped and evaluated based on their respective stages of development, from large producers down to grass-roots explorers. That's really the only way to compare apples to apples.

For those companies that have a resource, we determined a rough "cost per pound in the

ground" estimate by dividing the uranium resources by the firm's market capitalization. The numbers strongly suggest that certain segments of the uranium market are ahead of themselves in terms of price, and that several much-touted companies are grossly overvalued.

Adding extra filters—tonnage, grade and location, for example—it becomes clear that many companies' resources would not be economic even at \$100 per pound of uranium (which, for the record, I expect to see). Others' deposits are located in politically sensitive areas where the chances of receiving a mining permit are vanishingly small. A case in point is Australia. While it's true that the country is a major uranium producer and is geologically prospective for more yellowcake discoveries, it would be a big mistake to overlook the fact that green politicians and activists are intertwined with all levels of government: local, state and federal. Back in the 1970s, these groups successfully argued that uranium should be avoided because of potential use in bombs and supposed problems with radioactive waste disposal. As a consequence, Australia adopted a Three Mines policy on the Federal level, stating that the country will only allow three producing uranium mines at any time. The chosen three were Ranger, Olympic Dam and Nabarlek. All other uranium development came to an abrupt halt.

Fast-forward 30 years. While the Three Mines policy has been rescinded at the national level, out of the eight states and territories, only two—South Australia and the Northern Territory—actually permit the mining of uranium, and the regulatory hurdles there are very high. There are still only three uranium mines in production in that country, and one, Honeymoon, permitted to go into production soon. While necessity and the opportunity for considerable job and tax revenue creation will, in time, likely force more liberalization of uranium mining in Australia, the long list of potential political roadblocks leads me to suspect that the current de facto policy of most states—and the outright legislative ban on uranium mining, processing, export, and sale in Queensland (Western Australia and new South Wales are said to be almost as bad)—will stand for several years, and maybe longer. And Australia is not alone in its uraniaphobia: certain U.S. states and Canadian provinces face similar issues. Companies with projects in such politically sensitive areas need to be price-adjusted for this added risk. Yet, as our analysis shows, many companies with primary assets in Australia are selling at valuations that all but ignore the political facts. Yet another sign of a market that is ahead of itself.

WHERE'S THE VALUE?

So, which companies currently provide the best value? As a reference point consider that Cameco (T.CCO), the world's largest producer, is currently valued in the area of US\$8.00 per pound in the ground (measured, indicated and inferred). Dennison Mines (T.DEN), by comparison, is selling for about US\$23.00 per pound. The analysis gets far more interesting, however, when you move into the area of junior Canadian uranium companies, where we find Strathmore (V.STM) selling at US\$.51 per pound, and Energy Metals (V.EMC) at US\$.65.

Although these look to be a screaming "buy", don't jump in just yet; there are other critical factors to consider, including the reality that the worst time to jump into a stock is after it has had an extreme upward move—certainly the case with most of the widely followed uranium stocks today. While there are many companies we like that have participated in the move, and that we continue to recommend—albeit primarily on weakness—the biggest upside will come from companies that have, so far, not participated significantly in the price gains. Some of these companies may not even have any proven pounds in the ground, but the best ones have rational market capitalizations, great management teams, cash in the bank, and a portfolio of properties with the potential for large tonnage operations to be started once the uranium price rises enough to make such deposits economic.

And rise the price will. That's because the value of uranium is inextricably tied to the price of energy in general, and electric power in particular, a market where uranium's only serious competition comes from coal and oil, both of which are far more expensive and polluting. (So much so that a growing cadre of leading environmentalists are now advocating a switch to nuclear.) I've always held that nuclear power is not only the cheapest and safest source of electricity but is also, by far, the cleanest mass power source available. And it's likely to stay that way until breakthroughs are made in fusion or, more likely, nanotechnology.

A chronic supply/demand imbalance has developed in yellowcake (U3O8)—the clearest indication of which is that the industry has been living on inventory since 1985. My instinct tells me that uranium, after decades of being the unwanted stepchild of energy sources, will now offer better percentage returns to speculators than oil, gas or any other energy alternative.

While uranium has already moved up significantly from its lows, I don't think we'll have to wait long to see it going much higher. Commodities associated with energy, like commodities in general, are in a secular bull market and typically, once in motion, commodity trends tend to stay in motion for a decade or more. The looming energy shortage has even become clear—belatedly, of course—to the U.S. Department of Energy, which last year announced incentives encouraging U.S. power companies to apply for licenses to build new nuclear plants (the first such move in 25 years).

Many of the 103 operational U.S. nuclear power plants, which provide 20% of the country's energy, are so old that they are now applying for 20-year extensions on their 40-year

operating licenses. This is a big change from just a few years ago, when talk was that the nuclear industry would be shut down entirely, not only here, but worldwide. I always felt such talk was nonsense, and that the world would be building many more plants, not mothballing those it has. Case in point: the Chinese alone now have plans on the board for over 35 new reactors.

CONCLUSION

With a little forethought and the good sense to see through the hype, you can position yourself in a portfolio of carefully selected, quality uranium plays and settle in for a long and very profitable ride. If you are already invested in uranium stocks, do yourself a favor and complete the research required to be sure that you are hooked up with a solid company at a price that gives you a realistic chance of participating in the long uptrend.

If you've got a big profit, consider rotating out of your position—at least enough to get your original investment off the table—and look to redeploy the gains into another company with better prospects. Alternatively, given the market froth we identified in our new report, it may not be a bad idea to sit on the sidelines and let things cool down a bit.

If you are not already invested in uranium, take your time... and whatever you do, don't blindly pile into a stock that has already appreciated 300% over the past year.

But whatever you do, don't miss out on the opportunity to (intelligently) build a portfolio of uranium stocks... the big returns are still ahead.

[Ed. Note: It is a matter of public record that Doug Casey was recommending uranium stocks as far back as October 1998, with spectacular results. (Cameco, up 542%; International Uranium, up 1,497%; Paladin Resources, up 1,412%; Strathmore, up 340%...).

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[Uranium stocks – the sure winners...and the sure losers!](#)