Uranium Deals Set to Rebound on Japan Nuclear Restart: Real M&A
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By Tara Lachapelle

Feb. 21 (Bloomberg) -- Uranium takeovers are on the verge of a comeback that would put companies from Denison Mines Corp. to Fission Uranium Corp. in play.

Prices of the radioactive metal are forecast to climb more than 40 percent by the end of the year as Japanese power plants restart nuclear reactors that have been shut down since the March 2011 earthquake and tsunami in Fukushima. The rebound in uranium demand may fuel takeovers as buyers try to get ahead of rising prices, Bank of Nova Scotia said. The median price-book ratio for uranium stocks is almost half the level it was before the disaster, according to data compiled by Bloomberg.

“Now is a great time for cherry-picking good assets,” Rob Chang, a Toronto-based analyst at Cantor Fitzgerald LP, said in a phone interview. “We think 2014 is going to be really the kick-off year for the uranium space. The timeframe for cheap acquisitions may be running out.”

As the owner of undeveloped deposits and a processing mill in Canada’s uranium-rich Athabasca Basin, Denison is a prime takeover candidate, according to Dundee Securities Ltd. Fission, which has signed non-disclosure agreements with potential buyers, has a promising discovery in that area and will probably be acquired within two years, Raymond James Financial Inc. said.

Bids for the two would mark a turning point after last year’s $2.3 billion of uranium deals was the lowest since 2008, data compiled by Bloomberg show.

Powering Up

The earthquake and tsunami three years ago knocked out cooling systems at a power plant, causing explosions and radiation leaks. It was the worst nuclear crisis since Chernobyl in 1986 and led Japan to suspend its fleet of reactors, which are fueled by uranium. With the market roiled by too much supply, prices have tumbled since then.

Tokyo Electric Power Co., operator of the plant, said this week that it found a new leak near tanks holding contaminated water at the disaster site. About 100 metric tons (26,400 gallons) of water may have escaped a concrete barrier, the company said.

Futures on uranium’s tradable form, U308, traded this week at $35.70 per pound on the New York Mercantile Exchange, down from $67.50 before the 2011 disaster, data compiled by Bloomberg show. Uranium stocks were valued at a median of 1.4 times net assets yesterday, down from a ratio of 2.5 before the earthquake.

Japan Restart

Japan, once Asia's largest nuclear power producer, may restart one in every five reactors this year after safety reviews, driving uranium back into a bull market, according to analyst estimates compiled in a Bloomberg survey last month.
Prices will climb to $50 per pound in the fourth quarter, according to the median of forecasts compiled by Bloomberg.

Uranium has bottomed and is poised to rebound, Ben Isaacson and Shawn Siddiqui, analysts at Bank of Nova Scotia, wrote in a Jan. 8 report. "When the uranium market starts to pick up steam, we expect to see increased M&A activity," the report said.

Denison, with one of the largest high-grade uranium development portfolios in the world, is "built to be bought," the analysts wrote. In addition to Canada's Athabasca Basin, home to the world's richest high-grade uranium, the C$671 million ($605 million) company has deposits in Zambia and Mongolia. It also has a stake in the McClean Lake ore processing facility.

"Denison would make an attractive target for someone looking to gain access to the basin, or someone already there," David Talbot, a Toronto-based analyst at Dundee, wrote in a Feb. 3 note to clients. It's a "prime takeover candidate."

'Huge Package'

Rio Tinto Group may be particularly interested in Denison, which bought a 60 percent stake in the Waterbury Lake uranium project last year, David Sadowski, a Vancouver-based analyst at Raymond James, said in a phone interview. The purchase is the western extension of the Roughrider project that Rio Tinto gained from its takeover of Hathor Exploration Ltd. two years ago, he said.

"If you're Rio Tinto, you just bought a bunch of pounds in the Athabasca Basin and you've got nowhere to process those pounds. Why not buy Denison right now?" Sadowski said. "Not only would you be getting a huge package of really strategic ground, but you're also getting a stake in the mill to process all those resources."

Sophia Shane, a spokeswoman for Toronto-based Denison, didn't immediately return a request for comment. Illtud Harri, a spokesman for London-based Rio Tinto, said the company doesn't comment on speculation. The mining conglomerate had a market value of 67 billion pounds ($112 billion) yesterday.

Cameco's Cash

Denison and Fission are likely targets for Cameco Corp., Canada's largest uranium producer, according to Chang of Cantor Fitzgerald. Referring to Fission's discovery on the outer edge of the Athabasca Basin, Chang said that "from every indication, it looks like an emerging world-class project with shallow, high-grade, very large-scale potential of resources."

While Cameco CEO Tim Gitzel said in January that acquisitions of exploration companies whose supplies won't be available for years "wouldn't be a priority," he's been bolstering the company's cash. Saskatoon, Saskatchewan-based Cameco said last month it agreed to sell a stake in a power plant for C$450 million as it focuses on the uranium-mining business.

'War Chest'

Fission CEO Devinder Randhawa, who told Bloomberg News last month that the C$414 million company is for sale, said he was "very happy to hear" about Cameco's stake sale, which gives Cameco "a war chest to go after some names."

Cameco doesn't comment on speculation about merger activity, Gord Struthers, a spokesman for Cameco, said in an e- mail Feb. 19 when asked if the C$9.2 billion company is considering buying Denison or Fission.

Randhawa said Fission has signed non-disclosure agreements with three potential buyers, including one in China. Even so, the CEO said he is reluctant to sell until further exploration drilling and analysis shows a more complete picture of the size of the Kelowna, British Columbia-based company's discovery.

"We've only been about one year into this project and we'd hate to have a situation where we sell and the best drill hole comes afterwards," Randhawa said in a phone interview. "Our investors don't want us selling with uranium at $35 a pound, but at the same time we don't control the people who are buyers."

Wyoming Project

Ur-Energy Inc., valued at $180 million, is among the smaller exploration companies that could be acquired, Sadowski of Raymond James said. The Littleton, Colorado-based company began production activities in August at its Lost Creek project in Wyoming.

"The numbers suggest that ramp-up is going extremely well," he said. "For someone to come in and buy Ur-Energy at this level would be certainly accretive based on how much that facility is going to be cranking out over the next several years."

Ur-Energy is focused on "building the company, not selling it," Chief Executive Officer Wayne Heili said in a phone interview Feb. 19.

The pickup in uranium deals is still another year away, according to Raymond Goldie, a Toronto-based analyst at Salman Partners Inc. Utilities first need to sign new purchase contracts, which may send uranium to $70 a pound, he said.

"Until we see that and an increase in prices, I don't think we'll see much M&A activity," Goldie said in a phone interview.

Utilities stopped purchasing long-term contracts because the market was over-saturated and prices kept sliding. That should change in 2016, when the amount of uranium the utilities need exceeds their inventories and current contracts, Sadowski said. As demand rebounds, so should takeover activity, he said.

"Buyers may want to see some stability in the uranium price before they go out and start shopping in a big way,"
Sadowski said. "So look out for M&A because the space is ripe for consolidation and targets are trading at near-bottom valuations."

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