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Uranium Companies in Play as Net Assets Exceed Shares: Real M&A
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By Tara Lachapelle, Rita Nazareth and Christopher Donville

April 14 (Bloomberg) -- Uranium companies from Toro Energy Ltd. to Mega Uranium Ltd. are so depreciated they're trading at less than their assets would be worth in a fire sale.

That's one reason takeover speculation is increasing after Japan's nuclear crisis made uranium miners 31 percent cheaper relative to book value, according to data compiled by Bloomberg.

Toro, which explores for uranium in Australia, tumbled below the value of its net assets, and Mega Uranium trades at a 59 percent discount. The price-to-book ratio for Australia's Paladin Energy Ltd., the most likely takeover candidate among producers according to BMO Capital Markets, slid 21 percent.

While last month's disaster at the Fukushima Dai-Ichi plant triggered fears of radiation, firms from Commerzbank AG to Deutsche Bank AG are still projecting higher uranium prices as developing nations from India to China seek to meet power demand in the world's fastest-growing economies. Nuclear Power Corp. of India said yesterday it's considering a venture with state-owned Uranium Corp. of India to acquire mines overseas, and Newmont Mining Corp. disclosed a 6.7 percent stake in Paladin.

"With the financial market's view on the uranium industry and nuclear being extremely negative, there's some opportunity because this is just a knee-jerk reaction," said Ben-Ari Elias, a New York-based analyst at Sterne Agee & Leach Inc. "The whole space is cheap and it shouldn't be. I do think some properties will come up for sale."

Discount to Assets

The Global X Uranium ETF has declined 24 percent since a magnitude-9 earthquake struck Japan on March 11. Companies in the ETF are now trading at a median book value of 1.89 times, down from 2.75 times on March 11, the data show. Cameco Corp., Uranium One Inc. and Paladin are among the ETF's largest positions, data compiled by Bloomberg show.

Toro, which is seeking to develop the Wiluna deposit in Western Australia, fell to 0.88 times the value of its assets minus liabilities from 1.09 times during the same span, the data show. The Australian company, with a market value of A\$101.3 million (\$106.3 million), also explores in Namibia.

"Being in Australia, plus they've got stuff in Africa, and that makes it an interesting play as well given the proximity to China, India," said Robert Lauzon, a portfolio manager at Middlefield Group, which manages about C\$3 billion (\$3.1 billion). "Over time, you're not going to see the slowdown in India, China and Russia."

Toro is awaiting regulatory approval for its \$278 million Wiluna uranium mine.

'Big Drop'

"We've had a big drop because we're in the development doldrums and people know we'll need to raise money for Wiluna's development in 2012," Chief Executive Officer Greg Hall said in an interview.

Mega Uranium, which is developing mines in Australia and exploring for the metal in Canada and Cameroon, now trades at 0.41 times book value, down from 0.61 times. The company's market value is \$136.2 million.

Richard Patricio, a spokesman for Toronto-based Mega Uranium, didn't respond to a phone call requesting comment.

It may be too soon for uranium companies to draw acquisition interest because the stocks may get cheaper, said Edward Sterck, a London-based mining analyst at BMO Capital.

"If the stocks sell off to a certain extent we could see an increase in M&A," Sterck said. "I don't feel that we're quite at that level yet."

Most uranium producers can't do a deal right now because companies like Cameco and Uranium One have shareholders who may block a transaction, he said. Vancouver-based Uranium One is controlled by Russia's state-owned nuclear company Rosatom Corp.

Foreign Ownership

Cameco, the world's third-largest uranium producer, is protected by Canadian incorporation rules that cap individual foreign ownership at 15 percent, said Murray Lyons, a spokesman for the Saskatoon, Saskatchewan-based company.

Newmont, the largest U.S. gold producer, took a stake in Paladin after completing the takeover of Vancouver-based Fronteer Gold Inc., a shareholder in the uranium company. Newmont of Greenwood Village, Colorado, holds 6.699 percent in Paladin, according to a notice filed with the Australian stock exchange yesterday.

Newmont probably doesn't want to own the stake in Paladin indefinitely, Middlefield's Lauzon said. Paladin may look attractive to a buyer after its share price dropped because it's one of the only independent uranium producers that doesn't count a company in South Korea, Japan or China as a major shareholder, he said.

Paladin in Play

Shares of Perth-based Paladin have dropped 24 percent since March 11, cutting its price-to-book ratio to 2.63 from 3.35. Paladin, with projects in Africa and Australia, doesn't have major shareholders that would try to block a deal and being a uranium producer makes it more attractive than an exploration or development company, according to BMO Capital's Sterck. The company has a market value of \$2.9 billion.

Paladin has no interest in being acquired and isn't looking for a large investor, said spokesman Greg Taylor.

India's Nuclear Power, the nation's Mumbai-based monopoly builder of atomic plants, is considering forming a venture with state-owned Uranium Corp. of India to acquire mines overseas and secure supplies of the reactor fuel to meet demand, the company's Finance Director Jagdeep Ghai said yesterday.

Companies with advanced uranium projects such as Perth-based Bannerman Resources Ltd. and Corpus Christi, Texas-based Uranium Energy

Corp. may also lure acquirers, said John Stephenson, a senior portfolio manager at First Asset Investment Management Inc. in Toronto.

Uranium Fundamentals

"Uranium fundamentals still look strong," he said. "But the headlines out of Japan look awful -- the space will trade on news flow, not fundamentals, for at least six months."

Bannerman, whose shares have dropped 42 percent in Sydney since the earthquake in Japan, is developing its 80 percent owned Etango uranium project in Namibia, one of the world's largest deposits. Uranium Energy is expanding output of the commodity in Texas and other western states, according to its website. The shares have fallen 20 percent since March 11.

Uranium Energy Chief Financial Officer Mark Katsumata wasn't available for comment, and representatives for Bannerman didn't respond to phone calls seeking comment.

The earthquake and tsunami that hit Japan shut power plants, including the Dai-Ichi station, which is undergoing the worst nuclear crisis since Chernobyl in 1986. That led to explosions and radiation leaks as cooling water boiled away. Japan has experienced rolling blackouts and faces more power shortages as temperatures increase.

While uranium has retreated 15 percent since March 11 to \$58.25 per pound of U308, the tradable form of the metal, investment banks are still projecting gains.

Uranium Prices

Commerzbank of Frankfurt estimated this month that uranium would climb to \$69 a pound this year and \$80 in 2012, data compiled by Bloomberg show. Frankfurt-based Deutsche Bank's forecast on March 30 predicted prices of \$65 this year and next and an increase by \$5 a pound in both 2013 and 2014.

"The damage from the Japanese disaster hasn't been fully assessed. The initial reaction was to stop everything," said John Kinsey, a Toronto-based portfolio manager at Caldwell Securities Ltd., which invests in uranium producers as part of overseeing about C\$1 billion. "It's a temporary hiatus, things will go back to normal and merger activity will start up again."

China has 13 nuclear reactors and 27 under construction, according to the World Nuclear Association's website. India plans to supply a quarter of electricity from nuclear reactors by 2050, up from 2.5 percent in 2007, the association said.

"The Chinese may tweak their nuclear plans, but they're not going to walk away from them," Kinsey said.

State-Owned Acquirers

State-owned companies are the most likely acquirers, including China Guangdong Nuclear Power Group and ARMZ Uranium Holding Co., a unit of Russia's Rosatom, said John Wong, a London-based fund manager at New City Investment Managers Ltd. who helps oversee about \$1 billion, including shares of Cameco.

"Anything that has anything to do with nuclear energy or uranium just got dumped," said Ben Mackovak, senior analyst at Charlottesville,

Virginia-based hedge fund Rivanna Capital LLC, which owns about 2 million shares of uranium company USEC Inc.

"Longer term the simple fact is that nuclear energy is part of the energy equation -- it has to be."

Overall, there have been 6,961 deals announced globally this year, totaling \$701.5 billion, a 32 percent increase from the \$532.3 billion in the same period in 2010, according to data compiled by Bloomberg.

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