Contract to supply the U.S. Uranium Reserve puts Energy Fuels in the pilot's seat for 2023

written by Tracy Hughes | January 3, 2023
The uranium market had a reasonable 2022 with uranium prices up by 12%. The question on everyone's mind is what will uranium prices do in 2023?

Given that the world needs to move away from fossil fuels and that nuclear offers reliable baseload power, smart nuclear looks to be a solid bet for the world's energy future, especially with nuclear energy fueled by uranium now providing the U.S. with 50% of its zero carbon power.

Uranium prices trending higher in recent years

Source: Trading Economics

Uranium demand vs supply

In the last few years experts have been predicting that we will soon see uranium deficits accompanied by the higher prices needed to encourage new production. The late 2021 uranium price spike and continued rise in prices in 2022 suggests that uranium's time has finally arrived.

Energy Fuels CEO and President, Mark Chalmers, agrees: "Uranium is benefiting from a wave of investment into nuclear energy to address energy security and climate issues. At the same time, there are major questions on uranium supply."

Number one U.S. uranium producer Energy Fuels awarded a contract to sell $18.5 million of uranium to the U.S. Uranium Reserve

Energy Fuels Inc. (NYSE American: UUUU | TSX: EFR) boasts that they are the "largest U.S uranium producer, with more production facilities, capacity & experience than other U.S. companies". Its size and low-cost production has led to numerous contracts, including one to sell a base quantity of 3 million pounds of total U3O8 deliveries over the next 8 years scheduled to start this year. This already significant amount could increase up to 4.2 million pounds of deliveries, if all options are exercised. The uranium is to be sold using a pricing formula which maintains exposure to market upside, while limiting downside & adjusting for inflation.

In addition Energy Fuels announced on December 16, 2022, that it had been awarded a contract to sell $18.5 million of uranium to the U.S. Uranium Reserve. Energy Fuels expects to complete the sale of uranium for the Uranium Reserve to NNSA during Q1-2023.

Mark S. Chalmers, CEO and President of Energy Fuels, talks about the announced contract:

"Energy Fuels is pleased to contribute to U.S. energy security by supplying U.S.-origin uranium to the U.S. uranium reserve. Russia's invasion of Ukraine has highlighted America's troubling dependence on Russia and its allies for our nuclear fuel and uranium supply, and the need for the U.S. to rebuild its uranium and nuclear fuel capabilities. Today, nuclear energy provides the U.S. with roughly 20% of all electricity, and 50% of our clean, carbon-free electricity… For the past several years, U.S. uranium production has been near-zero and our only uranium conversion facility has been shut-down. The Uranium Reserve is a small, but important, step toward resolving this untenable situation."

Energy Fuels is much more than just a uranium producer, also producing rare earths, vanadium, medical isotopes, and recycling operations (of materials that contain uranium)

The core of Energy Fuels is their U.S. uranium assets and production, but they offer much more.

Energy Fuels' White Mesa Mill in Utah is the only existing facility in North America currently processing monazite ore to recover uranium, but also removing other radioactive elements and producing advanced rare earths products. In March 2022 the company began commercial scale rare earths separation & production of mixed rare earths carbonate, containing 32%-34% NdPr. Energy Fuels has a pilot-scale solvent extraction (SX) rare earths separation operation capable of producing 1-2 kg of NdPr oxide per day. Their plan is to expand this to 500-1,000MT of NdPr oxide per year by 2023-24. There is also a plan to produce heavy rare earths by 2026-27 at their White Mesa Mill.

Energy Fuels' White Mesa Mill is also a significant U.S. producer of vanadium. In 2022 the Company sold ~575,000 lbs. of vanadium at an average price of $13.44/lb. Energy Fuels is selectively selling existing inventory (currently ~1 million lbs.) into market strength.

Medical isotopes are in critical demand. Energy Fuels state that there are "several isotopes required for emerging cancer therapies ("targeted alpha therapy") that naturally occur in the White Mesa Mill's existing uranium & REE process streams" and that they are "evaluating the potential to recover radium to create a U.S. supply chain for this critical element."

Energy Fuels comparison to other North American uranium companies

Source: Company presentation

Closing comments

Energy Fuels looks ready to benefit in 2023 as market dynamics are in place to boost demand and prices for uranium. The company has a large existing inventory of both uranium and vanadium and the ability to quickly ramp up supply as shown by its recent contract to sell $18.5 million of uranium to the U.S. Uranium Reserve. Energy Fuels has an added bonus in that they also give investors exposure to a growing portfolio of green energy related metals and technology – including rare earths NdPr, vanadium, and recycling materials that contain natural uranium.

Energy Fuels trades on a current market cap of US$978 million, a 2023 PE of 11.8x.