A Fool at PDAC – Two Names That Warrant a Look

Description

The Superbowl of mining events took place in Toronto this week. Explorers, drillers, miners, bankers, lawyers, investors and one Fool gathered to make this year's Prospectors and Developers Association of Canada event one of the biggest ever.

The mass of humanity (+30,000 strong) flies somewhat in the face of the well documented issues that the resource industry currently has. Chiefly, exploration and drilling finance has dried up, leaving many a junior mining company grasping for whatever dollars might come its way.

First the bad

To get a handle on the financial plight that these junior miners face, I went straight to the hive. The TSX Venture Exchange, home to 2,348 firms according to Capital IQ, a whopping 1,313 of which reside in the Materials sector. This comes close to the 1,500 or so listings that comprise the entire TSX Exchange.

From this pool of companies, I set up a "life expectancy" screen. This involved examining cash burn – or how fast these firms are chewing through their cash on hand.

Assuming the financial spigots don't suddenly open, and operating cash flows are similar in the coming 12 months to what they were over the previous 12 months, 116 of the 1,300 resource firms on the TSX-V could run out of cash in two months. 258 may run out in 6 months, and a total of 433 after a year. Putting this another way, if conditions remain, it's conceivable that approximately one-third of the resource companies on the TSX-V could be out of cash and potentially vanish within a year!

Now the good

No matter how tough the times, there are always interesting investment opportunities out there for us Fools. In fact, these items tend to exhibit negative correlation. The tougher the times, the better the opportunities.

Listed below is a brief description of two companies that presented at PDAC and captured my interest.

It's important to emphasize that these companies are highly speculative and my interest could have more to do with a solid delivery by the respective presenters than actual company fundamentals warrant.

Uranerz Energy (TSX:URZ,NYSEMKT:URZ) – More and more I'm becoming a believer in the long-term prospects for uranium and this company's Executive Chairman had a good story to tell and told it well. Uranerz has a fully permitted property in Wyoming and expects production to begin later this year.

The project will use an "in situ" mining method which is different from the "hard rock" mining that occurs in Canada's Athabasca region. In situ is a low-cost method of mining that uses a leaching solution to extract the uranium from sandstone uranium deposits. This method of extraction leaves no gaping wounds in the Earth's crust. In 2011, in situ mining was responsible for 45% of all uranium produced in the World. It's legit.

Uranerz has deals in place to sell its uranium once production begins, one of which is with Exelon, the biggest nuclear energy provider in the U.S. In addition, the company has cash in the bank. The price of uranium will dictate URZ's future, but having a low-cost operation and product buyers lined up seems like a good starting point.

Uranium Energy Corp. (NYSEMKT:UEC)

A similar story to Uranerz, UEC has operations in south Texas and is the newest uranium producer in North America. The company's operating mine sold 270,000 lbs of uranium in fiscal 2012 and generated revenues of $13.8 million at a cost per pound of $18. This compares nicely to the current spot of $42/lb, a figure many believe can't go lower. Like Uranerz, UEC uses the "in situ" method to extract uranium. It's mine only required $10 million to construct and operating costs are obviously low.

More UEC mines in south Texas are coming. In addition, the company controls about 1,000,000 acres in Paraguay for exploration. This compares nicely to the 48,000 acres in Texas that the company has to work with. There is no debt on the balance sheet and insiders own 20%. Lot's to like, on the surface, about this name.

The Foolish Bottom Line

You will not find either of these names, or any of the companies that presented at PDAC, mentioned in the recently released Berkshire Hathaway annual report. These two companies, and their PDAC peers, are firmly planted at the speculative end of the risk spectrum and investors should treat them as such.

That being said, even though times are tough in the resource industry, opportunities to make money exist. Sticking to a story like uranium, with a solid supply/demand dynamic working in its favour, will help better your odds of success if you are looking at ways to play the current industry wide downturn.

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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