Bet Big on Nuclear Power With Uranium Participation Corp (TSX:U) Stock

Description

Uranium Participation Corp (TSX:U) is an incredibly straightforward company. It's also one of the only ways you can gain direct exposure to the price of uranium.

The company's mission is simple: invest nearly all of its assets in uranium. The firm's primary investment objective is to achieve "appreciation in the value of its uranium holdings through increases in the uranium price."

While other companies are fighting to build new brands, scale costs, and expand overseas, Uranium Participation Corp is a breath of fresh air when it comes to simplicity. If uranium prices rise, so will this stock. If prices fall, then it's vice versa.

Will uranium prices rise over the next few years? How much will Uranium Participation Corp investors profit?

Uranium is a tough business…for now

Only one other company, **Yellow Cake PLC**, seems to directly compete with Uranium Participation Corp's business model of purchasing and storing uranium. That's not surprising given that this business model has been disastrous in recent years.

In 2005, when the company first went public, Uranium Participation Corp's share price was around $4.85. Nearly 15 years later, its stock price remains around the same level. Notably, however, big money could have been made along the way.

For example, from 2005 to 2007, shares were up nearly 300%. From 2010 to 2011 the stock doubled. While prolonged periods of weakness erased all of those gains, it's important to note that uranium prices do go through strong bull markets— and it's just important for investors to have good timing.

The biggest net negative to uranium prices over recent years has been the devastating Fukushima accident.

Following the incident, major countries around the world vowed to use less nuclear energy. For example, Germany's coalition government announced that all the country's nuclear power plants would be phased out by 2022, which was a huge negative signal considering that around 20% of its energy needs were being met through nuclear.

While the last decade has been difficult for uranium investors, there's evidence that conditions are ready to improve.

Get ready for a rebalancing

While demand has been hampered in recent years, it's still expected to grow over the next decade.

China and India will need massive amounts of nuclear power to meet future needs. Developed countries like Japan are also starting to reactivate their nuclear reactors, proving that adapting to new, more stringent regulatory requirements is possible.

On the supply side, a meaningful amount of high-cost mines could soon exit the market, providing the perfect conditions for a price surge.

In a recent investor letter, Horos Asset Management noted that the uranium market is currently in an "anomalous situation, in which mining companies did not reduce their production, despite the fact that the price of uranium did not cease to fall due to the slowdown in demand after Fukushima and the entry of new supply."

Why hasn't supply shrunk in recent years? In the past, uranium was often sold on long-term contracts. Those contracts haven't been renewed due to regulatory uncertainty, so a lot of money (i.e., potential demand) remains on the sidelines.

Uranium Participation Corp management believes that this "long-term contract coverage from the previous uranium bull cycle is coming to an end, and has been acting as a lifeline to high-cost mines."

When these contracts expire, these mines will likely shutter production. With demand now on the rise, the next few years look very bright for uranium prices. Uranium Participation Corp would directly benefit from this shift.

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