



Value Investors: 1 Precious Metals Stock Set to Outperform

Description

Uranium Participation (TSX:U) is a company whose primary purpose is to invest in uranium such that the common shares of the company represents an [indirect interest in physical uranium](#). An investment in the common shares of the company provides investors with exposure to increases or decreases in the value of the company's underlying assets.

Exposure to precious uranium

In the case of Uranium Participation Corp. (UPC), the value of the company's underlying assets is largely derived from UPC's holdings of physical uranium. As a result, investors in UPC indirectly invest in physical uranium, without being exposed to the risks associated with investments in companies that engage in the exploration, mining, and processing of uranium.

The strategy of UPC is to invest in holdings of uranium and not to actively speculate on changes in uranium prices by entering exchange or investment contracts or derivative arrangements. The intent is for UPC to provide investors with a vehicle that is levered directly to the uranium price.

Maximizing intrinsic value

The company's primary objective is to provide investors with the maximum exposure to UPC's underlying uranium investments at any given time, as is reasonable given the company's current and expected future financial position. The company uses the measure of net asset value (NAV) per share to assess all material business decisions.

The NAV is calculated as the value of total assets less the value of total liabilities. To arrive at NAV per share, the NAV is then divided by the total number of common shares outstanding as at a specific date. NAV will typically equate to the value of the company's physical uranium, plus the net working capital.

Accordingly, NAV per share can notionally be divided into the portion of the company's working capital

and holdings of uranium attributable to each share. As of February 29, 2020, the company held investments in uranium with an estimated fair value of \$589 million and net working capital and other assets of \$7.5 million for a combined NAV of \$596.5 million.

Taking advantage of market inefficiencies

Each company share represents an indirect ownership in approximately 0.13 pounds of uranium, providing leverage to the commodity price. In line with the company's primary objective, the board of directors attempts to manage the company's business activities to maximize the NAV per share and, more specifically, the attributable equivalent pounds of uranium per share. Accordingly, UPC considers a transaction to be accretive when it increases the NAV per share.

While the underlying value of the company's common shares, or NAV per share, is directly linked to the estimated fair market value of the UPC's holdings of uranium and net working capital, the common shares of UPC often trades at a value that is either at a premium or discount to the estimated NAV per share.

Trading at a premium or discount to NAV per share provides the company with the opportunity to manage UPC's business activities, on an accretive basis, via numerous tools available through the capital markets. Overall, an investment in uranium should provide good value over the long term.

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