Vimy tips uranium bull run

THE would-be developer of the massive Mulga Rock mine believes the time right for contrarian investors to come back into uranium stocks because a turnaround in the market is "inevitable", immediate and rapid.

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Pulling no punches at the Low Emission and Technology Minerals Conference in Perth this week, Vimy Resources managing director Mike Young admitted the past six years the bear market had been "brutal" with the spot price being pounded down by 85% (from more than US$130 per pound to around $20/lb) and the number of listed players falling from 500 to less than 40.

Despite that setting, Young argues that it's a myth the uranium sector is an "awful" place to be.

Nuclear power is not in terminal decline, a pervasive oversupply of yellowcake is close to being mopped up, and Mulga Rock is viable at today's spot prices, he said.

He told the conference that a demand-supply inversion is coming, and will lead to a stampede in the market similar to the one seen in 2006.

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A shortage should emerge around 2022.

Around that time Vimy expects to be emerging as one of the world's largest uranium miners, producing more than the entire US domestic production per annum from its Mulga Rock operation in Western Australia's Great Victoria Desert.

Mulga Rock is one of Australia's largest and most advanced, undeveloped uranium resources and is targeting annual production of at 3.5Mlb of uranium oxide per year.

It has key Commonwealth and state approvals, and is effectively shovel-ready.

Vimy is about to release its definitive feasibility study within weeks for Mulga Rocks, and the mine should fall in the middle of the global cost curve, between the spot price of $20/lb and the marginal cost of production of $55/lb.

The 90Mlb deposit in the Great Victoria Desert has been undeveloped since its discovery in the 1960s, but should be a relatively simple operation when it finally gets underway, initially focusing on the high-grade heart: 25Mlb at 1500ppm U_3O_8.

"The DFS will highlight the world class potential of this project, and our plan is to get it up and running as soon as we can," Young promised.

The price of uranium is opaque, and relies heavily on the thinly-traded spot price to drive sentiment, but Young said the chatter around the spot price was unable to obscure the changing fundamentals at would support the development.

Canada's Cameco recently announced it was cutting production and refusing to sign contracts at a loss, the signal of uranium's rise back to the top.

Young said most long-term contracts appeared to be around $40-54/lb, below the marginal cost of production, so the next round of contracts will need to better reflect the costs of sustaining production at a level that works for producers.

"One of two things are going to happen: the price is going to go up or people are going to shut reactors. That's the reality, and it's pretty exciting," Young said.

But he said the utilities could not shut down their reactors because they "cannot run out of fuel… because they are big ticket items, big capital outlays, and they cannot stop" so producers would always win any game of chicken.

Around half of utilities will need to recontract within three years, and 80% of the market will be recontracted by 2025.

Those negotiations will be had in a market where Cameco and Kazakhstan have reduced output, and there are few new operations being developed because of the lack of price support

"The supply horizon is contracting and new and existing mines won't meet the expected demand, in fact they are reducing it, and there is a very long permitting time," Young said.

"Our Public Environmental Review took 1232 days. It took about 1360 days for me from first drillhole to first shipment with (former company) BC Iron."

Young said Vimy was well-positioned to ride the bull market at a time when demand for nuclear power is expected to rise by 117% by 2050, both from natural growth and the forecast electrification of the global transport fleet.

"Batteries are sexy," Young noted.

He said nuclear power could deliver the cleanest source of the power to charge batteries with emissions from nuclear-charged cars at just 275g of CO_2/100km, with was on par with wind, one-fifth less than solar-linked emissions and a fraction of those generated from coal at 20,500g CO_2/100km, which is actually cleaner than the emissions from petrol cars of 25,500g CO_2/100km.

The average e-car uses 3.8MWh per annum and the average Australian home uses 6.4MWh. The average home has 1.9 cars.

"If you were to give everyone in Australia a Tesla, which isn't realistic, but we are thinking around the metrics here, we would need to more than double the grid. And that demand growth is what's happening around the world," he said.

Despite Young's enthusiasm, Vimy shares have been drifting south since 2014, last trading at A13.5c, valuing the company at $48.6 million.