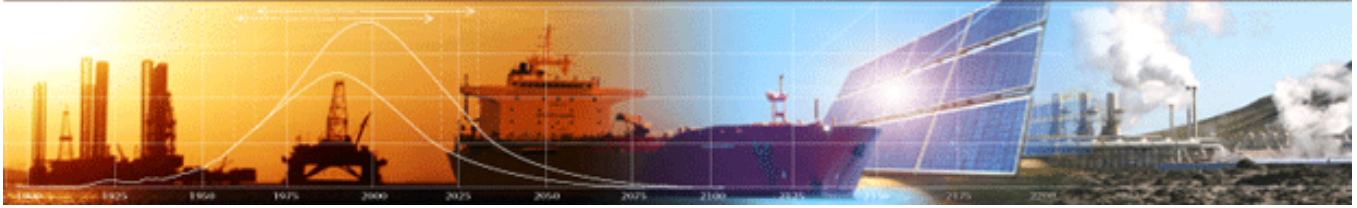


# ENERGY & SCARCITY INVESTOR



## Update on Uranium

Posted By [Byron King](#) On March 2, 2010 @ 4:44 pm

Last week's update was short. I was down in Texas, and the vagaries of time and distance caught up with me. For all I had to say, I could barely push it through to Starship Agora Financial in Baltimore. This week, your update is arriving early because I have to beam over to Baltimore for editorial meetings. And yes, through it all, I DO have a home life.

### The Yellowcake of Texas

Here's more on that visit to the Lone Star State. I drove all over the place between San Antonio and Corpus Christi looking at the new uranium mining project that **Uranium Energy Corp. (UEC: AMEX)** is setting up.

Or more accurately, *I looked at UEC's new project that ties together many pieces of the old American uranium industry that crashed in the 1980s.* It's quite a tale, and instructive to our current time.

First, let's look at some history. Back in the late 1970s and early 1980s, the U.S. produced over 40 million pounds of uranium oxide — "yellowcake" — per year. A lot of that yellowcake came from the great state of Texas, where there's a world-class uranium trend. (Hang on, and I'll discuss it below.)

Compare that old 40 million pound number with the current annual U.S. output of about 3 million pounds or so. Do the math. In the U.S., we've had a long-term decline of about 93% of domestic production. Today, the U.S. is more dependent on imported yellowcake than we are on imported oil. *Really, is ever there ANY good news on the macro energy front for the U.S.?*

What happened? After the Three Mile Island accident in 1979, the U.S. nuclear industry went into toxic shock. Public acceptance for anything "nuclear" just plain dried up. Political support evaporated. The growth curves dove downward into the dirt. Rosy projections burned. The result was that many well-known companies all but walked away from projects at every stage.

When you look at the history, there are a lot of familiar names that were active in mining uranium back in the 1970s. Just down in Texas, there were uranium mining companies like Union Carbide, U.S. Steel, Westinghouse, Mobil Oil, Tenneco, Kerr-McGee, Continental Oil and many more. These firms all had a goal of supplying yellowcake (and more) to the nuclear future of the U.S. Back then, they threw big money onto the table.

But after Three Mile Island, the nuclear business dried up on the vine. All over the country, companies laid off personnel. They closed facilities almost overnight. Projects were canceled left and right, with equipment sold for little more than scrap value. Management issued memos to clean out entire buildings. This meant discarding data sets — maps, logs, samples, chemical assays — that had taken decades, hundreds of thousands of man-hours and millions of dollars to acquire. Gone. Poof.

That's what happens when the bottom falls out of a market. That's what happens when an industry dies. That's what happens when a panic sets in. I guess that's why they call it a panic, eh?

## Putting an Industry Back Together

Now fast-forward to the present. Today, UEC is putting the south Texas uranium play back together. What's going on? How is UEC doing this? It's kind of like industrial archaeology. And who is the archaeologist?

I had several long visits with the CEO of UEC, Amir Adnani . Amir is just plain totally impressive. Amir makes sure UEC meets all three of Rick Rule's requirements for a great resource company. You know, "People, people and people." In fact, I learned that Amir is good friends with Rick, which makes sense. Good people gravitate toward each other.

A few years ago, Amir saw that uranium was in the dumps and decided to get into it for the inevitable ride back up. Really, how long can the world overlook a critical energy source? I don't have to explain that story to you.

So Amir began looking around for the "right" kind of uranium play. Go to the frozen north of Canada? Go to the outback of Australia? Go to the wind-swept steppes of Kazakhstan? Eventually, Amir's search narrowed toward the old Texas plays from decades past.

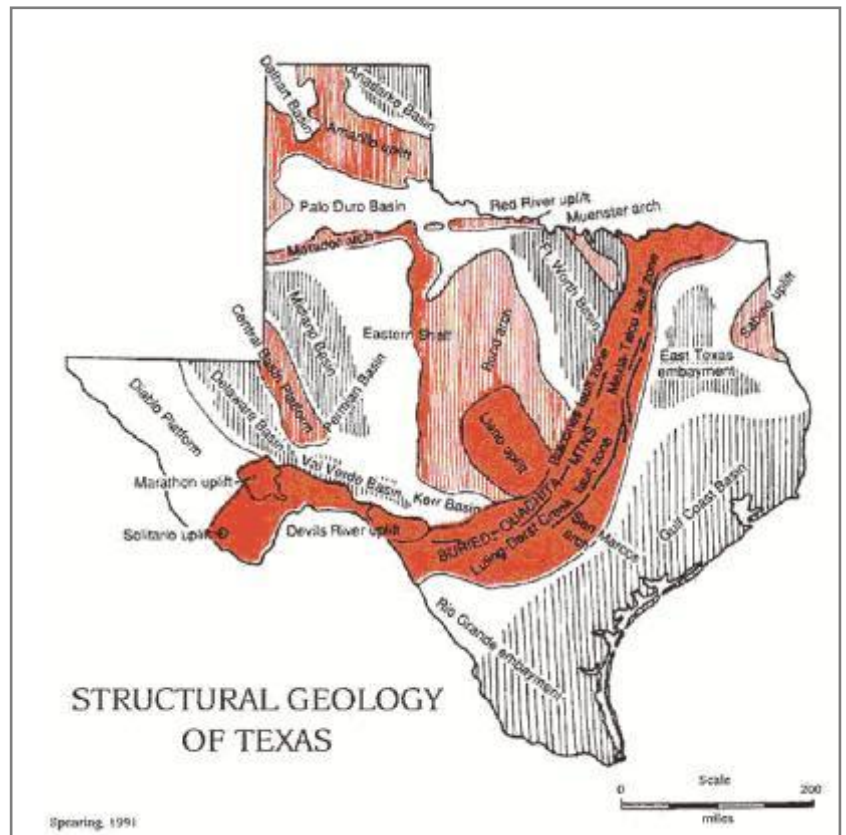
## It's Better in Texas

Geologically, Texas has immense volumes of uranium in a massive "roll front" trend over 300 miles long. It's more or less parallel to the reddish band in the structural map.

Industrially, the companies of old accomplished a lot of work in Texas, so there's old infrastructure. For personnel, a good many old hands still hang their Stetson hats down in Texas, and they know how to mine uranium. And politically, Texas is friendly to energy development.

## How to Start a Company

About five years ago Amir raised private funds and began to assemble his team. Amir hired some of the best of the best — the guys who were part of the uranium rush of old. Then with geologists working closely with land men, UEC acquired leases from private landowners. Meanwhile, UEC began the tedious regulatory process of getting permits and approvals for the first couple of mining projects, west of Corpus Christi.



All the while, UEC also built an astonishing library of data from the old days of exploration and early development. I've seen the data sets. UEC has somehow located literally tons of old paper logs and records, many in the original packing boxes from 30 years ago. UEC has old vellum maps, some with the original coffee stains still on them. There are old paper logs, aerial photos, chemical tests and assays and much more.

These were the boxes that escaped the fate of spending eternity in a landfill somewhere. Some of these boxes and files have sat in peoples' garages for decades. In a sense, UEC is now getting "free" exploration work from the distant past — paid for by companies like Mobil, Kerr-McGee, U.S. Steel and many others — just by opening up boxes and blowing the dust off the old files.

As I mentioned, UEC has rehired some of the salty old dogs who are still around from that bygone era. And with all this experience and old data in hand, UEC is picking up mining leases on old prospects that were explored and assessed in the 1970s, but never drilled. Talk about leveraging your resources. As I said, it's "people, people and people."

## **The Hobson Plant**

Then again, it's good to have the right tools and equipment. So in a coup of coups, in December 2009, UEC acquired one of only four licensed yellowcake processing facilities in the country, at Hobson, just southeast of San Antonio. This last item is a critical point.

There are only four such facilities in the U.S., and odds are that there won't be a fifth anytime soon. The political challenge of licensing any new nuclear facility in the U.S. is overwhelming. Indeed, Hobson dates from the 1970s, during the Cold War, when the U.S. justified expanding the nuclear infrastructure due to the needs of national defense. Today, you probably couldn't build a new version of Hobson. The environmentalists would mobilize their own armies and tie you up in court from here till eternity.

As it is, Hobson is the only processing facility in the Texas region. So any potential competitor has to deal with the fact that it has to cut a deal with UEC or ship its uranium product to some far-distant locale. The whole situation favors UEC.

As for the background, UEC bought the Hobson plant from another large uranium player called Uranium One. Uranium One's thinking was that its Texas resource base didn't fit with its core focus in Kazakhstan, South Australia and Wyoming. So Uranium One let Hobson go to UEC, taking about 5% ownership of UEC in terms of shares. In terms of numbers, Uranium One took about \$10 million in UEC stock, for an asset with a book value of \$93 million.

Huh? Uranium One took \$10 million in stock for a \$93 million plant? Evidently, Uranium One sees significant future value in UEC. And I do too. Right now, UEC is a small company, with a total market capitalization of just over \$200 million. It's not actually producing yellowcake, nor does it have any cash flow. Cash flow comes next year, according to the plan.

But UEC has everything going for it. It has strategic position in Texas. It has leases for uranium. It has decades' worth of data from companies past. It has people who can do the job. It has permitted projects in the final stages, ready for production. It has a licensed processing plant. In short, UEC is a company with vision, and it's going places.

## **Ride the Wave**

I've said on many previous occasions that I believe we're at the early stage of a nuclear renaissance. The atomic power business is making a comeback. So it's possible for you to get into UEC relatively early, at a low point, and ride the wave upward. At \$3.60 or so per share, I believe there's a great upside to the stock.

After paying a site visit, deep in the heart of Texas, I'm convinced that this company will give us some great returns over the coming months and years.

That's all for now. Thanks for reading... and of course, thanks to Amir Adnani and the many UEC staff for being such gracious hosts and answering every question I posed.

**Byron W. King**

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