

## Uranium Boom heads for bust

*Buying uranium shares are for long term investors where recovery might not come for a decade.*

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Investor Michael Birch says he fields calls every week from stockbrokers offering new shares in uranium explorers, most of which have not found any of the metallic element used for nuclear fuel and would not be allowed to mine it if they did.

"You've got a lot of new stocks making extraordinary gains very quickly," says Mr Birch, from Wallace Funds Management in Sydney, who is avoiding the shares for the same reason he stayed clear of internet-related companies in the late 1990s - a lack of earnings. "There doesn't seem to be much to back up their performance," he said. "It's like the dot-com boom all over again."

Toro Energy and U308 more than tripled soon after their initial public offerings on the Australian Stock Exchange in March and May.

They are among six uranium explorers listed so far this year. Three pending IPOs will help double the number of uranium-related stocks in Australia from a year ago.

Australia has about 40 per cent of the world's known uranium reserves and supplies about a fifth of all the metal mined.

Exploration companies are gambling that soaring global energy costs and China's plan to expand nuclear energy fourfold by 2020 will attract investors, even though Australia's state governments limit mining of uranium to just three mines.

Australia's Labor state governments ban the construction of new uranium mines beyond those three: BHP Billiton's Olympic Dam mine in South Australia, Energy Resources of Australia's Ranger mine in the Northern Territory; and Heathgate Resources' Beverley mine in South Australia. Heathgate is owned by San Diego-based General Atomics.

Prime Minister John Howard has urged states to end their bans on new mining, and there are signs that he's succeeding.

The Labor Party's energy spokesman, Martin Ferguson, said on March 31 that the bans' removal should be considered, while South Australian Premier Mike Rann already advocates abolishing it.

Paladin Resources, Australia's biggest uranium explorer, has bypassed the new mining ban in Australia by building the Langer Heinrich mine in Namibia.

It is due to begin operating in September.

A \$1000 investment in Paladin on January 1, 2004, is now worth \$73,600.

Perth-based Energy Ventures yesterday announced it had found uranium at its Njame North project in Zambia.

Toro soared to \$1.40 three days after it was listed at 25¢ on March 24.

U308, named after the uranium oxide that makes up the majority of processed uranium ore known as yellowcake, soared 240 per cent on its May 9 debut.

Encounter Resources shares quadrupled three days after it listed on March 24. A-Cap Resources leapt 80 per cent on its May 19 listing, InterMet Resources jumped 33 per cent on its April 20 debut, while Primary Resources rose 7.5 per cent on its March 8 start.

Existing mining companies are also getting in on the act, further swelling the number of uranium-related companies.

Great Western Exploration jumped 146 per cent on May 4, when it said it would change its name to Uran Ltd and buy uranium assets in Eastern Europe.

Polaris Metals and Washington Resources gained 21 per cent and 15 per cent respectively on May 11, after saying they would spin off their uranium assets to form a new company, Northern Uranium.

Canada has experienced a similar trend.

The number of small-cap uranium stocks has doubled in the past year to 90, according to John Wilson, an analyst at Resource Capital Research, in a March quarterly review of the industry.

That compares with 65 uranium stocks in Australia, up 96 per cent in the past 12 months.

Ottawa-based Ur-Energy Inc., which explores in Nunavut in Canada and Wyoming in the U.S., has jumped 99 per cent this year.

Uranium prices have surged almost fourfold in the past three years as countries turn to nuclear power generation.

Higher coal, gas and oil prices and pressure to cut greenhouse gas emissions, blamed for global warming, are prompting the switch.

The spot price of uranium was \$42.75 a pound on May 17, up from \$11 on May 14, 2003, according to industry publication Metal Bulletin.

On April 3, Australia signed an agreement with China permitting uranium sales to the world's fastest-growing major economy and Asia's biggest energy consumer for the first time. Exports may begin within four years.

Still, investors such as Brian Eley, a fund manager at Eley Griffiths Group, are sceptical that the recent surge in uranium-related stocks is justified, given that many explorers have yet to earn a dollar from uranium-related activities.

"This is even worse than the technology bubble in 2000," he says.

"Of all the uranium listings, I doubt that more than half-a-dozen will ever mine an ounce of uranium. These companies are getting extraordinary valuations based on pure speculation."

Neill Arthur, executive chairman of Uranium Exploration Australia Ltd, said last month that the timing of his company's first profit was "in the lap of the geological gods".

The company's shares are up 148 per cent this year.

Barry Dawes, a director of Uranium Exploration, argues that some of the gains are justified given the potential for uranium finds close to existing deposits.

"You only need one significant discovery and the whole lot will take off," Mr Dawes said.

"That's likely when you consider the vast tracts of prospective land that haven't been properly explored."

Uranium Exploration is searching within 50km of BHP's Olympic Dam, which holds the world's biggest known uranium deposit.

"It's a game, but a serious one at that," said Mr Dawes, who is a founding principal of Martin Place Securities Pty Ltd. in Sydney, which has helped raise A\$150 million in mining-related initial public offerings since 2000.

"There are a few ratbags out there, particularly among the later listings, so you have to be careful."

allace Funds' Mr Birch is sticking to existing producers, like BHP Billiton, the world's biggest mining company, and Rio Tinto Group, which controls Energy Resources of Australia.

"The fundamentals for the uranium industry look enticing, but you still need to actually dig the stuff up to make a buck out of it," Mr Birch said.

"I'm not so sure how many of these recently listed explorers will ever make it to that stage."