On the fence

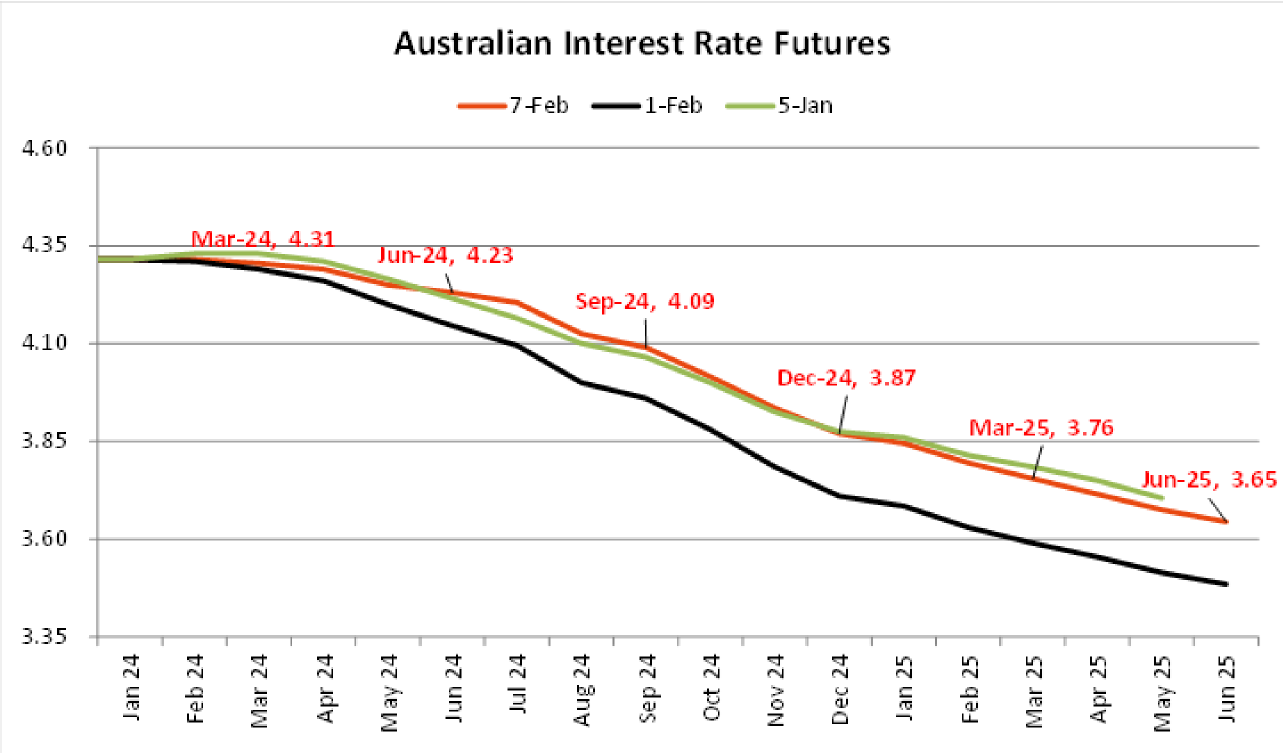
Interest rates were on hold on Tuesday in the first meeting of the year, with Governor Bullock delivering a masterclass on fence sitting in the now mandatory media conference after each meeting.

Bullock said; 'if the risks on the downside present themselves, then the bank will have the option of cutting interest rates.' However, Bullock qualified this comment by adding 'while if risks heightened then it will need to look at whether another rate hike is needed'. Yeah, nah.

UBS see the first easing starting in August, when the CPI for the second quarter is available and for the pace of cuts to be relatively slow, around 25bps per quarter, reaching 3.1% by the end of 2025.

We had UBS economist George Tharenou share his thoughts going into 2024. Here's a summary of some of the views to the question; ***Will CPI ease enough to see RBA deliver a soft landing?***

- Population boom is supporting GDP but is also adding significantly to inflation pressures.
- RBA rate hikes to slow real (inflation adjusted) GDP further in 2024 to 1.5% year on year.
- Expects weak real GDP to lift unemployment significantly towards 4.5% by the end of 2024.
- The RBA will likely hold the cash rate at 4.35% for now, as lower CPI means rates now likely peaked.
- The national minimum wage increases of 8.60% and 5.75% for awards wages plus the removal of public sector wage caps means there will be relatively sticky Wages/CPI.
- Expiry of fixed-rate mortgages will continue to drag on consumer cash flow into 2024 (albeit fading).
- RBA has historically started cutting the cash rates 4 months after unemployment rose by 0.25%+.
- Consumption will require households to continue to drawdown on savings to avoid a 'spending cliff'.
- Government Budgets could add fiscal stimulus of 1%+ of GDP; as spending boom continues and tax cuts.



IODM Ltd (IOD)

As written last week, IOD announced on Monday a **"Material revenue event"** with their largest customer, Convera (Western Union) in the UK Education market. The announcement can be found here.

The new agreement, backdated to 1 Jan 2024, is for two years, with a minimum payment of GBP£50,000 per month (AUD$96,565), scaling up to a GBP£150,000 per month (AUD$289,695).

This is the fifth iteration of the contract between the companies, demonstrating the value added by IOD to Convera's business.

The new contract gives Convera exclusive rights to the IOD technology, but only for UK and European universities. It provides IOD with greater certainty of monthly cash flows in the UK, and a template for replication across different sectors and regions over coming months and years. It also encompasses all international payments made through Convera, not just those that come via IOD's communications.

How it will work

IOD will receive 25% of all foreign exchange payments revenue from existing onboarded universities, and 30% of all foreign exchange payments revenue from new onboarded universities from 1 Jan 2024, subject to the above minimums.
As the Foreign Exchange payments revenue increases and new universities are onboarded, IOD's revenue share grows, so if for example new onboarded universities bring in revenue of GBP£250,000 per month, the minimum payment per month steps up through the first threshold to be GBP£75,000 (ie 30% of GBP£250,000).

IOD believe, based on the pipeline, that this first threshold will be met by the end of FY24.

Why the muted price reaction?

Perhaps the announcement was missed or misinterpreted by the market. But it has us excited. It shores up the revenue from the UK (which last quarter was AUD$233,000 – and will now be a minimum of around AUD$290,000 per quarter) and given the growing Australian market revenues and fixed cost base of the business it will have us eyeing off profitability in the near future.

Uranium

Two events in the past week have caught our eye in the Uranium market, both with positive implications for the price of Uranium going forward

EVENT 1

Kazatomprom has released its 4Q23 Operations and Trading Update. Kazatomprom is the world's largest supplier of uranium, accounting for about 25-30% of global production. As flagged earlier in the year, Kazatomprom has cut its 2024 production and sales guidance of uranium. The cuts are about 14% of production. Sales guidance for 2024 is now below 2023 – which will further tighten an already tight market. Uranium looks likely to reach US$150/lb in 2H25 and remain elevated until new supply enters the market later this decade.

Uranium Sector - Nuclear Summer – Upgrading Uranium to US$150/lb - 22 Jan 2024

HIGHLIGHTS

- Kazatomprom is now expecting production of 21,000 – 22,500t in 2024 (100%). The previous guidance was that Kazatomprom would lift production to ~25,300t in 2024 which is 90% of its Subsoil Use Agreement. The reduction in production is about 8.5Mlb of uranium, or 5% of total global uranium demand.
- The reductions are due to 'challenges related to the availability of sulphuric acid and construction delays at the newly developed deposits'. The company says that it is 'actively engaged in discussions with sulphuric acid manufacturers in the neighbouring countries to augment the supply volumes for 2024'.
- The company is also warning that 2025 could be impacted – previous guidance for 2025 was production of 31,000t - If the limited access to sulphuric acid continues throughout the current year and the Company does not succeed in reducing the delay in the construction schedule at the newly developed deposits in 2024, this could unfavourably influence Kazatomprom's production plans for 2025. Should there be any adjustments to the 2025 production plans, these are expected to be announced in the report of the Company's financial results for the first half of 2024. However, a swift return to a 100% production volume level relative to Subsoil Use Agreements may be at risk.
- We also note that sales guidance for 2024 is materially below the sales level for 2023. Kazatomprom now expects to sales volumes in 2024 in the range of 15,500 - 16,500 tU, which is below the 18,069t sold in 2023.
- Kazatomprom will be releasing its 2023 results on 15th March 2024, it will provide financial guidance for 2024 at that time.

EVENT 2

Cameco, the world's largest Uranium producer, reported its **2023 Q4 results** overnight.
There are two reasons why the Cameco result is important for Uranium stocks:

1. Cameco missed their production guidance for CY23 (17.6Mlb vs 18.7Mlb guidance). At this stage the company is not changing their 2024 production guidance of 22.4Mlb in 2024, however they do admit they'll need to transition to new mines to achieve guidance. This is likely to put further upward pressure on the uranium price.

2. It is interesting to note that **Cameco's cashflow in 2023 was actually NEGATIVELY correlated with the spot uranium price** in 2023. **A US$5/lb higher spot price negatively impacted Cameco's cash flow by C$18m**. In 2024, **a US$5/lb increase in the uranium price NEGATIVELY impacts Cameco's cash flow by C$49m.**

Cameco has got itself into a difficult position with its contract book.

Cameco has sales contracts of about 29Mlb/yr out to 2027 at an average price of about US$52/lb. It only produced about 17.6Mlb in 2023 and is guiding to 22.4Mlb in 2024. The shortfall is made up by purchasing spot uranium. That was fine when spot was below the contract price, but with spot uranium at US$100/lb, Cameco will be losing almost US$50/lb on its spot purchases – which could total around US$500mpa.

Once investors realise they are not getting positive uranium price exposure in Cameco – they'll look for alternatives. The ASX listed uranium stocks, particularly Paladin, may benefit.

Uranium has run but looks to have more under the hood. Shaw and Partners have a buy recommendation for Paladin, Silex, Peninsula, Lotus and Bannerman.

- **Paladin Energy (Buy, PT A$1.50)** – our preferred exposure to an improving uranium market. Paladin is commissioning a restart of Langer Heinrich in early CY24.
- **Silex Systems (Buy, PT A$7.60ps)** – the company's 3rd generation uranium enrichment technology will revolutionise the uranium enrichment industry.
- **Peninsula Energy (Buy A$0.34ps)** – is restarting production from the Lance Project in the US and is likely to be a major beneficiary of US government support.
- **Lotus Resources (Buy, PT A$0.72ps)** – is close to a Final Investment Decision (FID) on the Kayelekera Project in Malawi and has growth options at Letlhakane in Botswana.
- **Bannerman Energy (Buy, PT A$7.04ps)** – the huge, but low grade, Resource at Etango is becoming increasingly more valuable as the uranium price increases.
- **Boss Energy (Hold, PT A$4.75ps)** – restarting the Honeymoon Project. On our numbers the stock is fully valued but we recently upgraded from Sell to Hold given our uranium price view.

Diversification – Sow the seeds

Click on the link below to read

Diversification

Have a good weekend

Ben and the team.

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