

## BAMBROUGH AND TARDIF TALK ABOUT URANIUM, ENERGY, FAVORITE STOCKS AND SHORT SELLING

### Part Two of a Two-Part Series

By James Finch

After offering their favorite tips on “how to choose a uranium stock,” StockInterview.com was offered the opportunity to question Market Strategist Kevin Bambrough and Senior Portfolio Manager Jean-Francois (J-F) Tardif, both of Sprott Asset Management, about the fine details. Who better to ask than a fund that has invested around reportedly invested about C\$175 million, of the firm’s C\$3.3 billion under management, in the uranium sector? The Sprott team has bet heavily on a nuclear energy renaissance, and early indications confirm very strong returns on their investments. During the course of the conversation, Mr. Tardif, one of Canada’s leading stock pickers, also shared some of his investing insights to help investors increase their future profits. During the interview, Mr. Tardif shared two of his favorite stocks, outside the uranium sector, which he holds in his Canadian Opportunities Fund (started April 7, 2004) and/or the newly launched an offshore version of that fund. Please see the bio snapshots of J-F Tardif and Kevin Bambrough at the end of this interview.



*Kevin Bambrough,  
Market Strategist*



*Jean Francois Tardif, CFA  
Senior Portfolio Manager*

**StockInterview:** How do you feel about uranium, which fuels nuclear reactors and generates electricity, and the uranium bull market for stocks that we’re in right now?

**J-F Tardif:** We are very bullish. We’re extremely bullish on uranium as a firm, not only for uranium, but we’re also very bullish on energy. Everything is inter-connected because we believe in the peak oil theory. That means the production of oil around the world will eventually peak, yet the demand will continue to increase. That puts a tremendous pressure on oil. With oil going up and natural gas price going up, then this has an effect on coal and uranium prices as well. So that’s why we’re very bullish on uranium.

**StockInterview:** Isn’t there a special situation, though, with uranium?

**J-F Tardif:** In the business of uranium, you have a huge shortage of production versus demand. Very close to half of the annual demand is produced from mining. The other half is coming from above ground inventories. Eventually, those inventories go down. Eventually, they go to zero. Obviously, you can not have a zero inventory. So that puts an additional pressure on the uranium price. The fact is we don’t produce enough uranium versus the demand. Rising oil prices puts pressure on the cost of energy so people are looking at alternatives. A lot of the growth in Asia, for example, is in terms of nuclear energy. So there are many reasons to be bullish.

**StockInterview:** Are uranium stocks still to be held at this time, or is time to circulate money elsewhere?

**J-F Tardif:** It depends on your view. Our view is to redeem in the long term because we have a bullish view on energy, and uranium. We're comfortable owning uranium here even though they've gone up. But, short term? Who knows the short term? The short term is probably the toughest thing to predict.

**Kevin Bambrough:** I think a lot of these stocks have run a lot in the short term so that makes us more cautious. There are not as many stocks that have a significant upside like we saw a couple of years ago. It's not the same picture out there, but there are still a few select companies that have a lot of potential. A lot of companies have gone up. Companies, which we think may not be as good, have also gone up. Perhaps, now is a better time to really focus on the companies we believe are better than others. That is actually something we've done here. We've started selling those we're not as confident in as others and have bought other uranium stocks we actually feel more confident in the quality.

**StockInterview:** It appears the recent uranium market was a bit overbought. On a day-to-day basis, what do you look for when isolating the stocks you want to hold?

**J-F Tardif:** I cannot say that we're traders. We do trade. We do buy and sell, sometimes, but we do have a mid-to-long term view about energy. We buy heavily when they're oversold. We have very important core holdings in the uranium business –

**Kevin Bambrough:** You could say we have belief in the fundamentals of different companies. If one seems to get overextended relative to another, we may do a switch, but that's pretty much it.

**J-F Tardif:** We've bought and sold different companies, reduced positions and increased positions. If you look back since we've started to invest in uranium, we've probably had more dollars invested in uranium every quarter. We keep adding to it, and the value of those holdings actually increased as well. In dollar terms, we've got more uranium today than we've had six months ago.

**StockInterview:** How you determine the quality of a uranium stock?

**J-F Tardif:** The first thing is a high quality resource in the ground or in production. If somebody is already producing, obviously we know they have it. If a company is not producing, but they have a resource, it has to be a high quality resource. This can be done by engineering work and drill holes and experts. I'm not a geologist so I cannot be a technician myself, but other people can. They can say there is X amount of uranium in the ground with X amount of certainty. Those, then, would be the type of stocks in which we would be interested.

**Kevin Bambrough:** And at a grade that we feel is in economic concentrations at various prices.

**StockInterview:** But there is such a spread on those concentrations, or grades. It can't always be the high-grade uranium found in Athabasca. What grades make you comfortable?

**J-F Tardif:** It's very different if you have an ore body or a deposit that is very deep in the ground. Obviously, it will be at a different cost than if it's an open pit. You have to understand how it's going to eventually be mined. Depending on the grade, let's say it costs \$100/ton to mine somewhere. Your value in the ground is \$200/ton. To value the uranium, you then have a \$100/ton of gross margin potential. You then figure out the cost per ton and the revenue per ton. Revenue per ton obviously is driven by the grade. Then, you try to figure out who has the best gross margin out there. Then you look at the gross margin versus the market cap and you compare. It's a lot of analysis and thinking about numbers and guessing. It's a guessing game as well. Finally, you try to guess the best you can, make an opinion, and make a decision.

**StockInterview:** How do you size up the geological team running the show, and how big a role do they play in your investment decision?

**J-F Tardif:** We certainly prefer people that have been involved in uranium for a long time – people that were actually involved in uranium in the 1970s. A guy with 40 years of experience in mining, and 10 years of that in uranium is certainly better than another type of guy who has never dealt with uranium. Management is important, but the deposit is more important. Either they have it or they don't, right? Obviously we don't want to go with a company that has management that we don't like and .with no deposit.

**Kevin Bambrough:** Early on, when we first started looking at uranium, and the land grab phase was on, we valued management a little more highly than. We were talking to people who were saying things like, "Give us some money, we're going to go and try and stake some things." Or they'd say, "We've bought a database so we know people who know where these deposits are, and we're going to get them." Back then, we were in an early stage. Now, a lot of the most prospective properties have been snatched up. So, now it becomes more about the mining team than it was in the early stage, during the acquiring phase.

**J-F Tardif:** We want to invest in companies that we think have a good chance at actually producing. One of our successes did happen. The management was very knowledgeable of uranium. They were very knowledgeable of mining. They built a team. They've done feasibility studies. They are in the process of building a mine. And they will produce uranium. That company is called Paladin Resources (TSE: PDN)

**Kevin Bambrough:** From our initial investment we made almost – from the initial investment to the peak that it hit just in the last month, I think we're up 40 times our money.

**StockInterview:** Mr. Tardif, in your fund, what percentage do you hold in uranium versus gold?

**J-F Tardif:** In the fund that I run, the Canadian fund, we have, as we speak today, 3.8 percent in gold and 10.5 percent in uranium. (*Editor's Note: [StockInterview.com](#) interviewed Mr. Tardif on February 3rd, 2006.*)

**StockInterview:** Mr. Bambrough, in an earlier interview, a number of investors apparently read the headline, but not the rest of the article, entitled "Uranium to Head North of \$500/pound?" Some may have misinterpreted your remarks.

**Kevin Bambrough:** That price was mainly to illustrate the point of how cheap and how irrelevant the cost of uranium is in the production of nuclear power. What is possible and what is likely are two different things. That pricing was not what the price really should be, but what price the utilities could afford to pay, or would pay, before they would be willing to shut down a facility. For the long run, I'd agree that prices are going to have to be higher and that they'll be set by the more marginal mines that will have to come on. When I say marginal, I mean, higher cost, higher risk mines that will have to come on in order to fill the gap.

**StockInterview:** What pricing do you see in the spot uranium market?

**Kevin Bambrough:** I think that prices may be more than \$50 as a sustainable level. Again, I'm looking at a few years, and it's really hard to even make these predictions. Look at the cost of mining inflation, the costs keep going up. There does seem to be quite a lot of low cost uranium production that's available to come on in the world given the passage of time. But, because of the excessive demand we believe that's going to be out there in the nuclear industry, it's going to require more than just the low cost mines coming on. We're going to need a lot of these higher cost mines, those that need like the \$40 or \$50 spot uranium prices in order to justify the investment required to bring these properties on.

**StockInterview:** Do you believe we're still going to see a uranium shortage?

**Kevin Bambrough:** I think it's clear that there is a uranium shortage right now. I think it's going to continue for some time.

**StockInterview:** Mr. Tardif, what else do you invest in besides gold and uranium?

**J-F Tardif:** We invest in energy service companies, oil and gas producers, what we call in Canada Business Income Trusts (companies that distribute all of their earnings to shareholders). Some of those companies can give as high as a 10-, 12-, or 13-percent yield on distribution. We also invest in technology, consumer products and so on.

Kevin Bambrough: We also have a gold fund at our firm with over one-half billion dollars invested in gold companies.

**StockInterview:** When making your general investment decisions, what do you look for?

**J-F Tardif:** Typically, we buy companies that have rising earnings, rising sales, hopefully rising margins as well. On top of it we try to buy stocks very cheaply. Hopefully, we can see a multiple expansion on top of all of those items. That's on the long side. When the ratio is very attractive, then we try to take larger positions. On the short side, we try to do the opposite, try to find companies that have earnings growth slowing down, or earnings actually going down. The same with sales: sales growth slowing down or sales going down, margins going down and hopefully a multiple contraction. Basically, there are really two sides to the portfolio.

**StockInterview:** What strategies do you use before taking the leap?

**J-F Tardif:** We have many strategies. With oil and gas producers, in Canada with the ones we own, we look at growth of production, growth of cash flow and growth of earnings. We also own some energy services companies. With those companies, we project them to still grow their earnings and sales. We feel that they're not very expensive. Some income trusts that we own, business income trusts, they're growing their earnings, growing their sales, and at a multiple we feel they're not that expensive.

**StockInterview:** Can you share with us a name one of those stocks you've owned for a while?

**J-F Tardif:** One is called Total - not the big Total. This one is a business income trust in Canada. They actually are an energy service company, providing services to produce oil and gas. The stock actually was around \$2, three years ago, and today it's still trading around 10X earnings for 2006. (Editor's Note: Total Energy Services Trust trades on the TSE with the ticker symbol of TOT.UN. Website: <http://www.totalenergy.ca/>) The company has been growing around roughly 50 percent per year for the last few years. We expect them to grow at least 30 percent for the next two to three years, maybe more.

**StockInterview:** Care to share another favorite with our readers?

**J-F Tardif:** In the fund that I run, we're long a company called Aastra Technologies (TSE: AAH). (Editor's note: <http://www.aastra.com/>) We like it because management has created a lot of value in the past. We feel they're still creating value today by buying businesses that have problems. After cutting costs substantially, and making them much more efficient, they then try to grow those businesses going forward. Their business is doing well now. Actually, most of their divisions are growing now, and their earnings now are on the rise. The stock should do well and is a very special situation.

**StockInterview:** How does your fund move with the market to capitalize upon the market's momentum?

**J-F Tardif:** Obviously, the firm has a view about the market, but we try not to apply it too much in this fund. We just go stock by stock. As long as we find good stocks that we like, we buy them. And as long as we find shorts that we like as shorts, we short them. The portfolio ends up being what it is in terms of how much we're shorting and in terms of how much we're long. So we don't go with, "Oh I want to be short or I want to be long." It's rather ideas driven, stock driven.

**Kevin Bambrough:** When markets go to an extreme, I remember lots of times at major market peaks, J-F, would say, “I can barely find anything I like now. I have hardly any new long ideas. I can’t seem to find anything, anything with real value here.” And he finds himself taking profits, looking at more things that look negative and shorting more. It just seems to evolve that way.

**J-F Tardif:** We use pair trading at times. It’s not a significant part of the fund but it helps in reducing some sector risks and volatility at times. For instance, if we feel that we have too much exposure to energy on the long side, we could short some energy stocks that we don’t like. This reduces the sector exposure. That partially explained why in October 2005, our fund was only down 0.99% in a very tough environment. Short positions and the short side of pair trading help in tough environments.

**StockInterview:** Earlier, you mentioned about taking large positions in stocks with an attractive risk-to-reward ratio. I have read that Sprott Asset Management sometimes takes very large percentage positions in some companies, occasionally more than 10 or 20 percent?

**J-F Tardif:** It happens that some stocks we own in multiple funds. In the Opportunities Fund, we do own some stocks that are owned by other funds. In total, the firm owns more than 10% of a certain number of companies.

**Kevin Bambrough:** Sometimes it’s a team that will find something, and everyone agrees that they love the company. We go and try to buy 20 percent. Up to 20 percent is usually our limit that we buy in the company. And then, to be fair to all the funds, we spread it around equally across the funds. That’s typically how it happens.

(Editor’s Note: In reviewing uranium holdings, we contacted Strathmore Minerals and Energy Metals about the current percentage holdings in their companies. Ran Davidson, Corporate Communications for Energy Metals (TSX: EMC) reported Sprott Asset Management owned 15.2 percent of EMC. Craig Christy, Investor Relations for Strathmore Minerals (TSX: STM; Other OTC: STHJF) reported Sprott Asset Management owned 21 percent of STM.)

**StockInterview:** From what I’ve heard, the Sprott Asset Management firm works together as a team in finding your next success.

**J-F Tardif:** We’re a pretty good team here. I’m part of the team, so I do my best. Some people succeed in finding stocks more than others. So far, so good. We’ve had good returns, so obviously we’ve been successful at finding good stocks.

For additional information: [www.sprott.com](http://www.sprott.com)



**Jean-François Tardif, CFA**  
**Senior Portfolio Manager**

Jean-Francois Tardif joined Sprott Asset Management (SAM) in November 2001 as co-manager to the Sprott Long/Short Funds and Sprott Canadian Equity Fund. Since joining the Firm, he has played an important role in generating new and exciting investment ideas that have contributed to the Fund’s impressive performance results. Jean-Francois was recruited to SAM based on his notable stock picking abilities and portfolio management successes which were demonstrated throughout his 11 years in the financial industry and as a Portfolio Manager for various funds at ING Investment Management and Montreal-based Cote 100. Jean-Francois has a Bachelor of Business Administration from Sherbrooke University as well as the CFA Charter. He is the Lead Portfolio Manager for the Sprott Opportunities Hedge Fund LP.



**Kevin Bambrough**  
**Market Strategist**

Kevin Bambrough joined Sprott Asset Management Inc. as a Research Analyst in August 2002. He has worked in the investment industry for over 5 years and adds greater depth and analysis to the investment team due to his diverse background and experience across various industries. Prior to joining SAM, Kevin worked as a Microsoft Systems Engineer for five years. Since 2003, Kevin has focused his analysis in the coal and uranium mining sectors for the Sprott Investment Team.