

# Action Note

Equity Research

April 9, 2020

Metals &amp; Minerals

## Denison Mines Corp.

(DML-T) C\$0.43

### Target Increased on Higher U-Prices Amid Supply Contractions

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#### Event

We are resuming coverage of Denison following the completion of the US\$5.75mm public offering of common shares. We have also increased our target price to reflect our higher uranium price forecasts amid tightening supply on the back of COVID-19 related restrictions.

#### Impact: SLIGHTLY POSITIVE

- Denison issued 28,750,000 shares at US\$0.20/sh for total gross proceeds of US\$5.75mm. Management plans to use the proceeds to fund its business activities planned for the remainder of 2020 and 2021, as well as for working capital purposes. We have updated our estimates to reflect the close of today's financing. We model a modest \$5mm financing in Q4/20, but note that the company has the flexibility to trim expenses to maintain a positive cash balance through 2020 without additional financing.

#### Uranium Market Outlook

- Earlier today, we increased our uranium price deck on the back of higher spot prices (currently, US\$29.18/lb) and tightening supply. We are now forecasting U3O8 spot prices of US\$28.94/lb for 2020 (previously US\$25.13); U \$31/lb for 2021 (previously US\$27/lb); and US\$33/lb for 2022 (previously US\$30/lb). See our uranium market note "[Uranium Mine Supply Contracts on COVID-19 Restrictions](#)", published today.
- We estimate that ~12.8mmlbs of U3O8 primary mine production has been removed from the market so far, or ~9.5% of the mine supply forecast we had at the start of this year. We believe that the supply cuts announced so far (Cigar Lake, Namibia, and Kazakhstan) will result in the 2020 uranium market moving into a supply deficit of ~24mmlbs U3O8, assuming that uranium demand remains relatively unchanged. We expect that demand should remain mostly inelastic despite weaker global electricity demand because of the base-load nature of nuclear power generation.

#### TD Investment Conclusion

We are increasing our target price to \$0.65 from \$0.50 and maintain our HOLD rating. Our revised target price reflects a higher NAV multiple on the back of improving supply-demand dynamics that will shift uranium into a deeper deficit this year.

<b>Recommendation:</b>	<b>HOLD</b>
<b>Risk:</b>	<b>SPECULATIVE</b>
<b>12-Month Target Price:</b>	<b>C\$0.65↑</b> Prior: C\$0.50
<b>12-Month Dividend (Est.):</b>	<b>C\$0.00</b>
<b>12-Month Total Return:</b>	<b>51.2%</b>

#### Market Data (C\$)

Current Price	C\$0.43
52-Week Range	\$0.24 - \$0.79
Mkt Cap (f.d.) (\$mm)	\$273.7
EV (\$mm)	\$254.1
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	979,719

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	636.5
Float Shares (mm)	596.1
Net Debt (\$mm)	\$(8.2)
Net Debt/Total Cap	0.0%
NAVPS	\$0.93
Working Cap (\$mm)	\$1.6

#### Estimates (C\$)

Year	2018A	2019A	2020E	2021E
EPS (f.d.)	(0.05)	(0.03)	(0.02)	(0.01)
EPS (f.d.) (old)	-	-	(0.03)	(0.02)
CFPS (f.d.)	(0.04)	(0.04)	(0.02)	(0.02)
CFPS (f.d.) (old)	-	-	(0.03)	-

#### EPS (f.d.) Quarterly Estimates (C\$)

Year	2018A	2019A	2020E	2021E
Q1	(0.01)	(0.01)	(0.01)	-
Q2	(0.01)	(0.01)	(0.01)	-
Q3	(0.01)	(0.01)	(0.01)	-
Q4	(0.02)	0.00	(0.01)	-

#### Supplemental Data

Year	2018A	2019A	2020E	2021E
U3O8 (US\$/lb)	25	26	29	31

Note: Starting January 1, 2018, the company began reporting its financial results in CAD. 2017 financial results are presented in USD.

All figures in C\$, unless otherwise specified



#### Company Profile

Denison Mines Corp. has a diversified portfolio of uranium assets, including an interest in the McClean Lake milling operation; development projects; an environmental management division; and exploration properties located in Canada's Athabasca Basin.

# Action Note

Equity Research

April 9, 2020

## Outlook

Earlier today, we updated our uranium price forecasts on higher spot prices and tightening of supply (Exhibit 1).

**Reduced primary production and weaker credit conditions have made the uranium market more challenging for traders.** Uranium traders have been very active in the uranium market over the past several years providing material to utilities in the "mid-term" market (material for delivery in the 1-3 year time-frame). We understand that the traders have been effectively supplying this material by way of a carry trade – committing to deliver material 1-3 years forward that they do not have on hand but will source from utilities/producers that are selling into the spot market. We believe that some traders may have been caught short by the recent production curtailments and could be struggling to find material to meet contractual commitments.

**Returning curtailed capacity will have to be carefully managed.** The lack of transparency in the uranium market (particularly with respect to the level of available inventories), the complacency of utilities that believe that there will always be plenty of uranium available (although that could be changing) and the number of false starts we have experienced over the past decade mean that we remain cautious. We also are aware that there is a substantial volume of latent primary uranium supply capacity (e.g. McArthur River) – bringing that supply back on line in a measured way so as not to return to a significantly oversupplied market will have to be carefully managed.

### Exhibit 1. Revised Uranium Price Deck

	Q1/20A	Q2/20E	Q3/20E	Q4/20E	2020E	2021E	2022E	2023E	2024E	2025/LT
Old	25.00	24.50	25.00	26.00	25.13	27.00	30.00	35.00	40.00	45.00
<b>New</b>	<b>24.77</b>	<b>31.00</b>	<b>30.00</b>	<b>30.00</b>	<b>28.94</b>	<b>31.00</b>	<b>33.00</b>	<b>35.00</b>	<b>40.00</b>	<b>45.00</b>
% Change	-0.9%	26.5%	20.0%	15.4%	15.2%	14.8%	10.0%	0.0%	0.0%	0.0%

Source: UxC, TD Securities

**We continue to expect Denison's non-discretionary expenditures in 2020 to be largely unchanged (Exhibit 2).** We have updated our estimates to reflect the close of today's US\$5.75mm financing. We model a modest \$5mm financing in Q4/20 but note that the company has the flexibility to trim expenses to maintain a positive cash balance through 2020 without additional financing.

**Discretionary expenditures to be deferred in 2020 —** As a reminder, the company highlighted two key discretionary spending items which are not currently in the budget: (1) EIS-related work programs aimed at submitting a draft EIS to federal and provincial regulators (\$7mm); and (2) ISR field work to support detailed wellfield designs for the feasibility study (~6.6mm). Based on management's COVID-19 update on March 20th, we do not formally model these discretionary expenses, and continue to expect these items to be deferred to 2021.

# Action Note

Equity Research

April 9, 2020

## Exhibit 2. 2020 Outlook

Business Segment	2020 Budget C\$000	Commentary
<b>Canada Mining Segment</b>		
Mineral Sales	\$791	26,000lbs of U3O8 held in inventory
Development and Operations	(\$5,181)	Includes \$3.6mm of costs related to SABRE program
Mineral Property Exploration & Evaluation	(\$8,973)	Includes \$6.4mm budget at Wheeler River
	(\$13,363)	
<b>DES Segment</b>		
DES Environmental Services	\$1,014	\$7.9mm of revenue offset by \$6.9mm of expenses
	\$1,014	
<b>Corporate and Other Segment</b>		
UPC Management Services	\$2,009	Based partly on UPC's NAV. Assumes US\$29.57/lb U3O8 for 2020
Corporate Administration & Other	(\$5,200)	
	(\$3,191)	
<b>Total</b>	<b>(\$15,540)</b>	

Source: Company, TD Securities Inc.

Exhibit 3 presents our Wheeler River assumptions, which are unchanged. Exhibit 4 presents the company's original timeline based on its 2018 PFS. We continue to model Phoenix beginning production in 2025.

## Exhibit 3. Wheeler River Assumptions

		Sep-2018 PFS	TDS
Ownership	%	90.0%	90%
Total Tonnes in the DCF	ktonnes	1,398	1,398
Total Resources Used in DCF, U3O8	mmlb	109.4	109.2
Life of Mine	years	14	13
Production Start-Up		2024	2025
Assumed LT Price, U3O8	US\$/lb	65.00	45.00
Assumed LT CAD/USD Exchange Rate		0.77	0.82
Average Head Grade	%	3.5%	3.5%
Average Recovery	%	100%	97%
Total U3O8 Production (100% basis)	mmlb	109.4	106.0
Annual Avg. Production (100% basis)	mmlb	7.8	8.2
Initial Capex (100% basis)	C\$ mm	323	350
Sustaining Capex & Closure Costs (100%)	C\$ mm	809	887
Total Capex (100% basis)	C\$ mm	1,132	1,237
Total Operating Costs (100% basis)	C\$ mm		1,294
Average Annual Operating Costs	US\$/lb		9.53
Average Annual Operating Costs	C\$/lb		11.62
Post Tax NPV-8% (90%)*	C\$ mm	755.9	523.4
NPV-10% (90%)	C\$ mm		388.3
NPV-11% (90%)	C\$ mm		340.7

\* At fiscal 2021. TDS Discounted to 2020

Source: Company, TD Securities Inc.

# Action Note

Equity Research

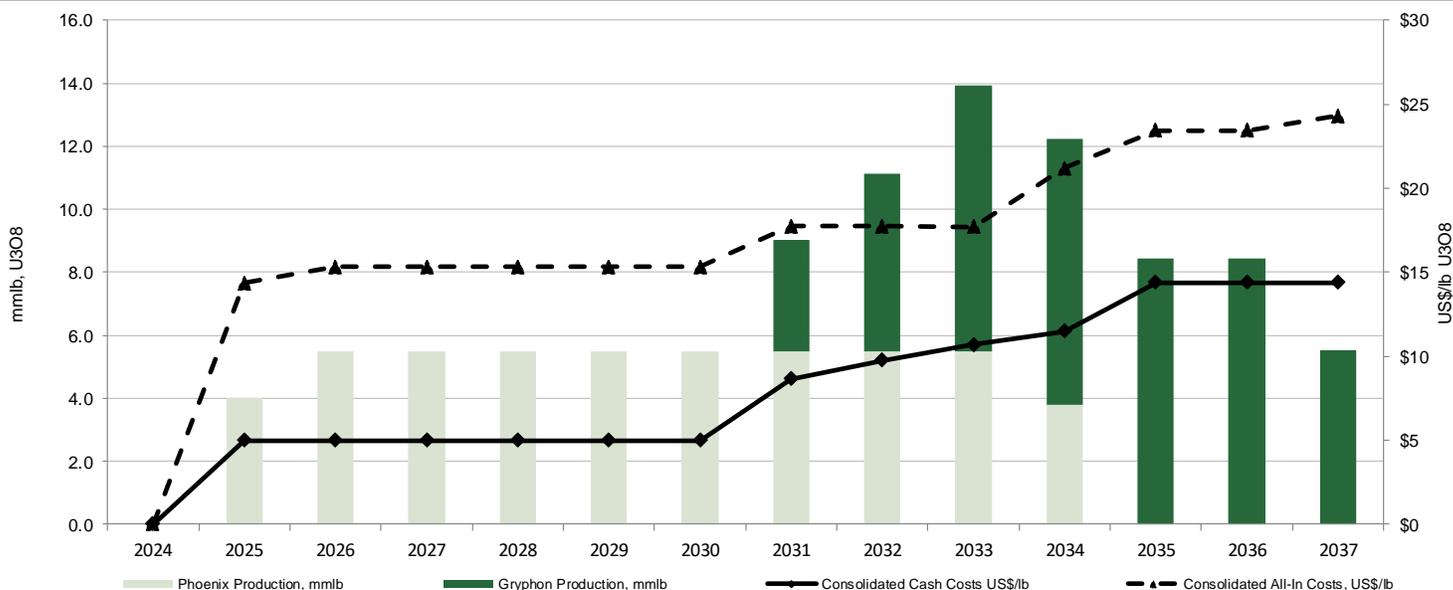
April 9, 2020

**Exhibit 4. Wheeler River Project Schedule**

Description	2019 - 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030-2033	2034	2035	2036	2037	2038-2039	2040-2043
Environmental Assessment	█	█	█													
Phoenix Feasibility Study and Detail Engineering	█	█	█													
Gryphon Feasibility Study and Detail Engineering			█	█	█	█	█	█	█							
Phoenix Construction		█	█	█	█	█										
Phoenix ISR Production				█	█	█	█	█	█	█	█	█	█	█	█	█
Phoenix Restoration												█	█	█	█	█
Gryphon Construction						█	█	█	█	█						
Gryphon Production										█	█	█	█	█	█	█
Gryphon Restoration and Site Closure															█	█

Source: Company

**Exhibit 5. Wheeler River Production and Cost Profile**



Source: Company, TD Securities Inc.

## Valuation

Denison is trading at 0.46x our 11%NAVPS estimate of \$0.93 (previously \$0.94) versus the base metal developers in our coverage universe, which are trading at 0.45x. Denison is currently trading at an EV/lb of US\$1.19 based on its total resources. This compares to its peer average currently trading at an EV/lb multiple of US\$1.35.

# Action Note

Equity Research

April 9, 2020

## Exhibit 6. Uranium Company Comparisons (EV/lb ratios)

	Ticker	8-Apr-20 Share Price (C\$)	EV (US\$mm)	Corporate Resources <sup>1</sup>			EV/Res		
				2P (Mlbs)	M+I (Mlbs)	Global Resources (Mlbs)	EV/2P (US\$/lb)	EV/M&I (US\$/lb)	EV/All (US\$/lb)
Cameco Corp.	CCO	12.63	3,532.9	461.2	885.2	1,059.9	7.66	3.99	3.33
<b>Denison Mines Corp.</b>	<b>DML</b>	<b>0.43</b>	<b>186.0</b>	<b>98.6</b>	<b>144.2</b>	<b>156.9</b>	<b>1.89</b>	<b>1.29</b>	<b>1.19</b>
Fission Uranium Corp.	FCU	0.23	74.9	-	87.8	140.6	n/a	0.85	0.53
NexGen Energy Ltd.	NXE	1.33	269.6	234.1	256.6	348.3	1.15	1.05	0.77
UEX Corp.	UEX	0.13	34.2	-	69.8	86.4	n/a	0.49	0.40
Uranium Energy Corp.	UEC	0.91	129.1	-	58.4	103.9	n/a	2.21	1.24
Ur-Energy Corp.	URE	0.67	80.9	-	32.9	41.2	n/a	2.46	1.97
<b>Median</b>							<b>1.89</b>	<b>1.29</b>	<b>1.19</b>
<b>Average</b>							<b>3.57</b>	<b>1.76</b>	<b>1.35</b>

1: Resources are shown inclusive of reserves; M&I+I includes historical resource estimates.

Source: Company, CapIQ, TD Securities Inc.

### Justification of Target Price

Our \$0.65 target price (\$0.50 previously) is based on 0.70x our 11%NAVPS estimate (0.50x previously) weighted 100% using a 0.76 Canadian dollar/U.S. dollar exchange ratio. Our revised target price reflects a higher NAV multiple on the back of improving supply-demand dynamics that will shift uranium into a deeper deficit this year..

### Key Risks to Target Price

Relative to the other companies in our equity coverage universe, we believe that an investment in Denison Mines is subject to a SPECULATIVE level of risk. Our recommendation is subject to forecast, financial, technical, political, and deposit-size risks. These include risks related to uranium prices; fuel cost; the governing fiscal and legislative regimes in the countries it operates in; the timing of key developments; market conditions; capital and operating costs; foreign exchange rates; resources; access to capital; operating parameters; permitting; environment; indigenous people; and staffing and key personnel retention.

# Action Note

## Equity Research

April 9, 2020

### Exhibit 7. Company Snapshot

Financial Data	2018A*	2019A	2020E	2021E
Average share price (C\$)	0.67	0.59	0.44	0.44
Wt. Avg. S/O (mm)	562.9	592.6	616.3	636.5
EPS (f.d.) (C\$/sh)	(0.05)	(0.03)	(0.02)	(0.01)
CFPS bf WC (C\$/sh)	(0.04)	(0.04)	(0.02)	(0.02)

Income Statement (C\$mm)	2018A*	2019A	2020E	2021E
Revenues	15.6	15.5	14.6	15.7
Operating Costs	15.9	14.4	13.0	12.4
Royalty	0.0	0.0	0.0	0.0
Depreciation	3.7	3.7	5.2	4.0
Exploration	15.5	15.2	6.8	9.0
Reclamation	0.0	0.0	0.0	0.0
G & A	5.4	2.6	3.3	3.3
Interest Expense	3.7	4.1	0.0	0.0
Realized Hedge Gain (loss)	0.0	0.0	0.0	0.0
UnRealized Hedge Gain (loss)	0.0	0.0	0.0	0.0
Other	(13.5)	1.0	0.0	0.0
EBITDA	(29.8)	(10.7)	(8.4)	(8.9)
EBIT	(33.5)	(14.4)	(13.6)	(12.9)
EBT	(37.2)	(18.5)	(13.6)	(12.9)
Taxes (recovery)	(8.3)	(5.4)	0.0	(3.9)
Effective tax rate	na	na	na	na
Minority interest	-	-	-	-
Reported net earnings	(33.8)	(18.1)	(13.6)	(9.1)
Adjusted net earnings	(27.7)	(18.1)	(13.6)	(9.1)
EPS Reported (C\$/sh.)	(0.06)	(0.03)	(0.02)	(0.01)
EPS (Adjusted) (C\$/sh.)	(0.05)	(0.03)	(0.02)	(0.01)

Revenues By Metal (C\$mm)	2018A*	2019A	2020E	2021E
Uranium/Tolling	4.2	4.2	4.7	5.8
Vanadium	0.0	0.0	0.0	0.0

Cash Flow Statement (C\$mm)	2018A*	2019A	2020E	2021E
Operating CF bf. ch. in WC	(21.3)	(21.1)	(13.1)	(10.9)
CF from operating activities	(21.0)	(18.8)	(13.1)	(10.9)
CF from financing activities	4.5	4.7	12.4	0.0
CF from investing activities	36.0	(0.9)	0.0	0.0
CAPEX	(1.6)	(0.9)	0.0	0.0
CFPS bf. ch. in WC (C\$/sh)	(0.04)	(0.04)	(0.02)	(0.02)

Balance Sheet (C\$mm)	2018A*	2019A	2020E	2021E
Cash	23.2	8.2	7.5	(3.4)
Current assets	31.7	16.5	15.9	5.0
Total assets	312.2	300.0	294.1	279.2
Current liabilities	12.5	14.9	14.9	14.9
Long term debt	0.0	0.0	0.0	0.0
Total liabilities	89.9	89.8	85.2	79.4
Non Controlling Interest	0.0	0.0	0.0	0.0
Working Capital	19.2	1.6	0.9	(10.0)
Shareholders' equity	222.2	210.1	208.9	199.9

\*Historic financial results (prior to January 1, 2018) are presented in U.S. dollars.



Realized Metal Prices & Costs	2018A*	2019A	2020E	2021E
Uranium, U3O8 (US\$/lb)	24.86	25.94	28.94	31.00
Forex CAD to USD	0.77	0.75	0.75	0.76

Production and Sales	2018A*	2019A	2020E	2021E
Total U3O8 Production (000' lbs)	0	0	0	0

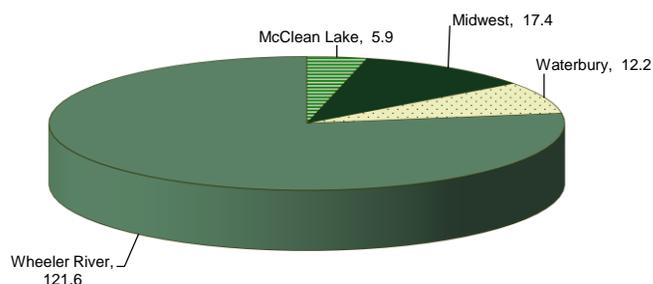
NAV Analysis	10% Discount		11% Discount	
	US\$mm	US\$/sh	US\$mm	US\$/sh
<b>Mining Assets</b>				
McClean Mill Complex (22.5%)	65.7	0.10	65.7	0.10
Athabasca Basin Resources (22.5% to 60%)	166.7	0.26	166.7	0.26
Phoenix (90%)	381.0	0.60	340.7	0.54
Gryphon (90%)	7.3	0.01	0.0	0.00
Hook-Carter Property	3.9	0.01	3.9	0.01
<b>Total Project NAV</b>	<b>624.7</b>	<b>0.98</b>	<b>577.1</b>	<b>0.91</b>
<b>Other Tangible Assets</b>				
Investment - GoviEx	8.6	0.01	8.6	0.01
Skyharbour Resources	1.0	0.00	1.0	0.00
<b>Corporate Adjustments</b>				
Working Capital	1.6	0.00	1.6	0.00
Long Term Debt	0.0	-	0.0	-
In the Money Options/Warrants	0.0	-	0.0	-
Estimated Working Capital Additions	4.7	0.01	4.7	0.01
Estimated Debt Additions	0.0	-	0.0	-
<b>Total Net Asset Value US\$/sh.</b>	<b>487.5</b>	<b>0.77</b>	<b>451.3</b>	<b>0.71</b>
Total Net Asset Value C\$/sh.		1.01		<b>0.93</b>

Asset	Tonnes kt	Grade %	Interest %	Contained mmlb
McClean Lake - Athabasca Basin	977	1.24	22.5	6
Midwest Deposit -Athabasca Basin	1865	1.68	25.17	17
Wheeler River - Athabasca	1891	3.24	90.0	122
Waterbury - Athabasca	291	1.50	65.9	12
<b>Total Resources (all categories, M+I+I)</b>	<b>5,025</b>	<b>2.17</b>		<b>157</b>

US\$ EV/lb Athabasca Basin and categories (M+I+I) **\$1.19**

### Resources

Resources by Asset (mm lb U3O8)



Source: Company, TD Securities Inc.



# Action Note

## Equity Research

April 9, 2020

### TD Securities Equity Research Disclosures

Company	Ticker	Disclosures
Denison Mines Corp.	DML-T	1, 2, 4

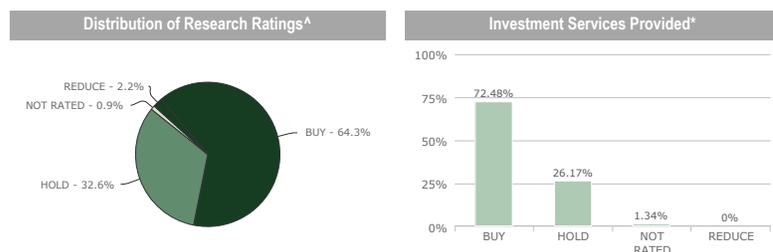
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13. This security has Restricted voting shares.
14. This security has Non-voting shares.
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### Additional Important Disclosures

We visited Denison Mine's Wheeler River mine in northern Saskatchewan on August 27, 2019. The Wheeler River mine accounts for 75% of our NAV estimate. The company provided local transportation and meals during this site visit.

### Price Graphs

Full disclosures for all companies covered by TD Securities can be viewed at <https://www.tdsresearch.com/equities/welcome.important.disclosure.action> by TD Securities' institutional equity clients.



Current as of: April 9, 2020

<sup>^</sup> Percentage of subject companies under each rating category: BUY (covering ACTION LIST BUY, BUY and SPECULATIVE BUY ratings), HOLD, and REDUCE (covering TENDER and REDUCE ratings).

<sup>\*</sup> Percentage of subject companies within each of the three categories (BUY, HOLD, and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

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**ACTION LIST BUY:** The stock's total return is expected to exceed a minimum of 15% (with higher thresholds for less liquid, more risky securities) over the next 12 months and it is a top pick in the Analyst's sector.

**BUY:** The stock's total return is expected to exceed a minimum of 10% (with higher thresholds for less liquid, more risky securities) over the next 12 months.

# Action Note

## Equity Research

April 9, 2020

**SPECULATIVE BUY:** The stock's total return is expected to exceed a minimum of 30% over the next 12 months (with higher thresholds for less liquid securities); however, there is material event risk associated with the investment that could result in a significant loss.

**HOLD:** The stock's total return is expected to be between 0% and 10%, (with higher thresholds for less liquid, more risky securities) over the next 12 months.

**TENDER:** Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

**REDUCE:** The stock's total return is expected to be negative over the next 12 months.

**SUSPENDED:** Due to evolving circumstances, we can no longer generate what we consider a defensible target price and rating at the current time.

**UNDER REVIEW:** Our rating is under review pending additional information and/or analysis. The prior rating should not be relied on.

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# Action Note

## Equity Research

April 9, 2020

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