

# Action Note

Equity Research

January 5, 2021

Metals &amp; Minerals

## Denison Mines Corp.

(DML-T) C\$0.87

### Downgrading to HOLD on Share-price Appreciation

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#### Event

We are lowering our recommendation to HOLD from Speculative Buy following share-price appreciation and limited upside potential to our revised target price of \$1.00 (up from \$0.85 previously).

#### Impact: NEUTRAL

- Strong share-price out-performance** — Since upgrading Denison to Speculative Buy from Hold on October 14, shares are up 93%. This compares with our broader uranium coverage universe (NXE-T, U-T, and CCO-T), which is up 37% and the uranium commodity (U3O8) — up just 3%. The uranium equities have significantly outperformed the commodity following Cameco's announcement on December 14 that it would temporarily close Cigar Lake for the second time to safeguard personnel and local communities in Northern Saskatchewan. Meanwhile, Denison shares have outperformed the broader group following the price weakness after the equity financing which closed in mid-October, combined, in our view, with positive developments at Wheeler River.
- Freeze wall design at Phoenix** — On December 1, 2020, Denison announced the decision to adopt a freeze wall design as part of the in-situ recovery (ISR) mining method at Wheeler River (Phoenix deposit). A trade-off study evaluated its potential use versus the previous methodology of a 'freeze dome' design and highlighted a number of key advantages, including improved environmental containment and lower technical risk, including the use of more conventional diamond drilling techniques versus the specialized horizontal drilling techniques required for the freeze dome. In addition, we believe that the shares have reacted positively to the potential reduced upfront capital requirements resulting from the staged approach to freezing and mining the deposit.

#### TD Investment Conclusion

**We have increased our target price for Denison to \$1.00 on the back of a higher target-price multiple (0.90x 10%NAV versus 0.80x previously).** We believe that the higher multiple is justified by improved trading valuations across the group, along with the de-risking of the Wheeler River project, in our view.

#### Recommendation:

**HOLD**↓  
 Prior: SPEC BUY

#### Risk:

**SPECULATIVE**

#### 12-Month Target Price:

**C\$1.00**↑  
 Prior: C\$0.85

#### 12-Month Dividend (Est.):

**C\$0.00**

#### 12-Month Total Return:

**14.9%**

#### Market Data (C\$)

Current Price	C\$0.87
52-Week Range	\$0.24 - \$0.97
Mkt Cap (f.d.) (\$mm)	\$610.8
EV (\$mm)	\$584.0
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	2,244,252

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	702.1
Float Shares (mm)	678.7
NAVPS	\$1.07
Working Cap (\$mm)	\$10.8

#### Estimates (C\$)

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

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

Year	2018A	2019A	2020E	2021E
Q1	(0.01)	(0.01)	(0.01)	–
Q2	(0.01)	(0.01)	0.00	–
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	35

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.

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## Details

**Staged freeze wall design at Phoenix** — On December 1, 2020, Denison released details on the plan to adopt a freeze wall design at Wheeler River. Details were preliminary, in our view, and did not include the potential economic trade-offs of its decision. Economics aside, the plan should reduce technical risk and enhance the environmental design by providing full containment of the ISR well field by establishing a full perimeter of the mining area that extends from the underlying basement rock to surface.

The new development strategy will adopt a five-phased approach to mining, with reduced freezing requirements upfront to recover the higher-grade portion of the deposit. Exhibit 1 outlines the contained reserves, expected drilling meterage, and mine-life of each phase, while Exhibit 2 presents the conceptual layout of each zone.

**We expect further details from Denison in 2021 as it refines the trade-off study, including a potential feasibility study later this year or early next.**

### Exhibit 1. Phased Mining Approach at Phoenix

Table 1. Freeze Wall Phased Mining Approach						
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Total
Reserves (% of total)*	36%	26%	14%	15%	9%	100%
Expected Life (months)	43	31	17	19	11	121

*\*Note: These amounts are estimates and projections only and do not include Phoenix Zone B2 reserves of 133,000 lbs U<sub>3</sub>O<sub>8</sub>. The aggregate reserves, and many of the assumptions and qualifications related thereto, as well as the mine plan associated with the declared reserves are set forth in the Wheeler River PFS.*

Table 2. Freeze Wall Holes Drilled Per Phase						
	Phase 1	Phase 2	Phase 3	Phase 4	Phase 5	Total
Expected (# of holes)	57	41	54	52	118	322
Expected Meterage	24,500	17,600	23,200	22,400	50,700	138,400

Source: Company

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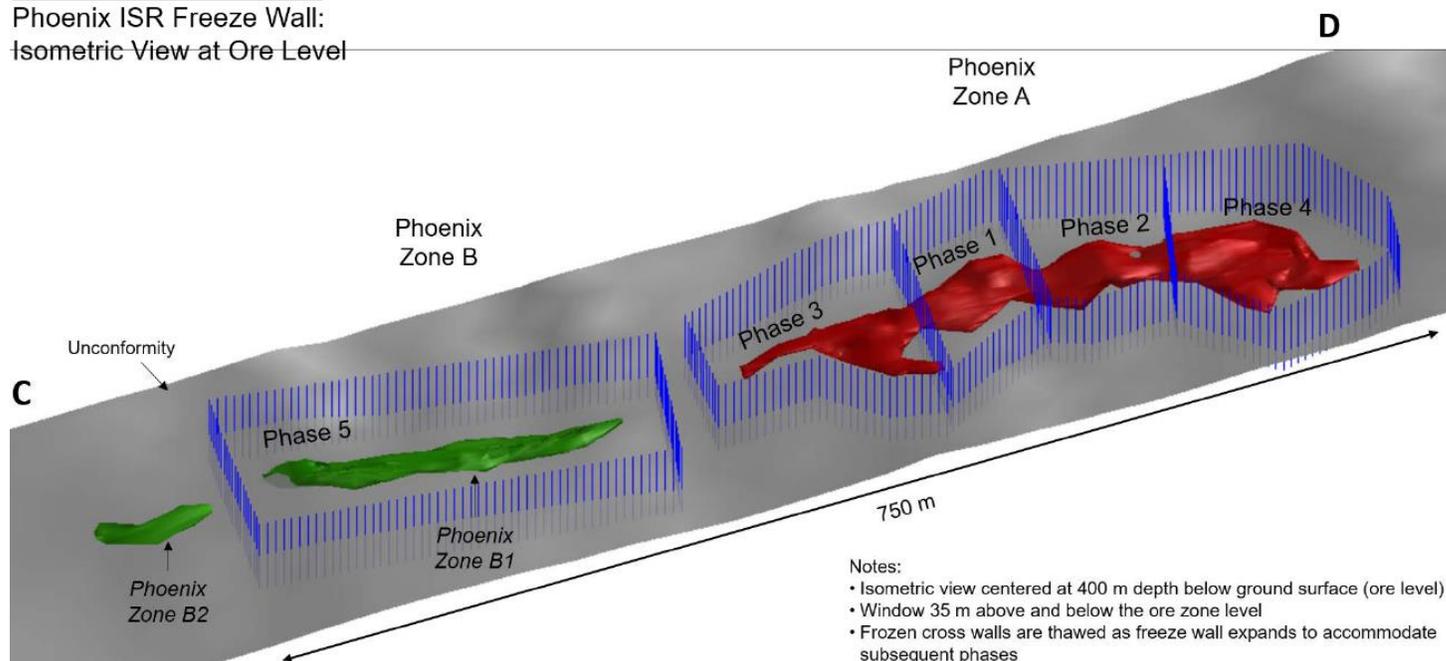
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## Exhibit 2. Phoenix Freeze Wall at Ore Level

### Denison Mines

Phoenix ISR Freeze Wall:  
Isometric View at Ore Level



Source: Company

## Outlook

We have updated our estimates to reflect the company's Q3/20 financials and announced private placement of flow-through shares priced at \$0.86/share for total proceeds of \$930k. Our estimates already include the US\$19 million financing which closed in mid-October. Based on our estimates, the company should be fully funded through 2021, assuming a similar level of spending and revenues this year versus 2020.

## Uranium Market Outlook

In mid-December, we lowered our uranium price deck to US\$34.50/lb for 2021 from US\$36.00/lb previously and trimmed our 2022 and 2023 price deck by approximately 5% to US\$36.00/lb and US\$38.00/lb, respectively. Our long-term price, which largely drives our valuation for Denison, remains unchanged at US\$45.00/lb U3O8 beginning in 2025.

2020 was another eventful year for uranium, as prices increased just over 20% in the year as several key trade issues have now been resolved, including the Section 232 investigation, the Nuclear Fuel Working Group report, and the extension of the Russian Suspension Agreement.

Despite several positive steps forward, some lingering issues remain as we enter 2021, including COVID-19 and its impact on demand and more importantly supply.

On the supply-side, we note that both Cameco and Kazatomprom continue to demonstrate supply discipline. McArthur River is expected to remain on care-and-maintenance for the foreseeable future (TD assumes a restart in 2023), while Kazatomprom announced earlier this year that it would extend its 20% production curtailment (relative to production expected under subsoil agreements) into 2022.

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Under the subsoil agreements, 2022 production would have been 28,000tU absent the 20% production curtailment versus current guidance of 22,000–23,000tU.

We are currently forecasting 2020 primary production of ~120 million pounds, resulting in an annual deficit of 27 million pounds. We expect primary production to recover to ~128 million pounds in 2021 (assuming that Cigar Lake is curtailed through Q1/21), with the deficit declining modestly to ~24 million pounds.

### Exhibit 3. TD Securities Uranium Supply/Demand Model

	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E
<b>Mine Supply - Western World (Mlb U3O8)</b>									
Total Mine Supply - Western World	100	83	85	75	76	69	67	61	65
Net Eastern Mine Supply (lbs U3O8)	54	54	55	44	52	53	60	66	72
<b>Total World Mine Supply (Mlb U3O8)</b>	<b>154</b>	<b>138</b>	<b>140</b>	<b>119</b>	<b>128</b>	<b>122</b>	<b>127</b>	<b>127</b>	<b>137</b>
YoY % change	-7.6%	-10.2%	1.7%	-15.0%	7.7%	-5.3%	4.5%	-0.2%	8.0%
<b>Secondary Supply</b>									
Global underfeeding and tails re-enrichment*	19	18	18	16	16	15	15	14	14
Mixed Oxide Fuel (MOX)*	5	5	6	6	6	6	6	7	8
US government sales (DOE Proposed)*	3	2	2	1	0	0	0	0	0
Additional Russian secondary supply*	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
<b>Total Secondary Supply (Mlb)</b>	<b>27</b>	<b>24</b>	<b>26</b>	<b>24</b>	<b>22</b>	<b>21</b>	<b>21</b>	<b>21</b>	<b>21</b>
Secondary supply as % of global reactor demand	16%	14%	15%	13%	12%	12%	12%	11%	11%
<b>Mobilization of Commercial Inventory</b>	<b>7</b>								
<b>Total Supply</b>	<b>187</b>	<b>169</b>	<b>173</b>	<b>150</b>	<b>157</b>	<b>150</b>	<b>155</b>	<b>155</b>	<b>165</b>
<b>Total World Demand</b>									
Total World Nuclear Generating Capacity (MWe) *	358,819	368,571	372,978	374,420	384,508	385,211	389,242	394,906	398,885
Uranium requirements per MWe	472	472	472	472	472	472	472	472	472
Uranium demand (mmlb)	169	174	176	177	181	182	184	186	188
First Core Requirement (2 year lead)	-	-	-	-	-	-	-	-	-
<b>Total World Demand (Mlb U3O8)</b>	<b>169</b>	<b>174</b>	<b>176</b>	<b>177</b>	<b>181</b>	<b>182</b>	<b>184</b>	<b>186</b>	<b>188</b>
YoY % change	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%	1.0%
<b>Supply / Demand Balance (Mlb)</b>	<b>18</b>	<b>-5</b>	<b>-3</b>	<b>-27</b>	<b>-24</b>	<b>-32</b>	<b>-28</b>	<b>-31</b>	<b>-23</b>
<b>Spot Uranium Price (US\$/lb U3O8)</b>	<b>\$22.12</b>	<b>\$24.82</b>	<b>\$25.94</b>	<b>\$29.49</b>	<b>\$34.50</b>	<b>\$36.00</b>	<b>\$38.00</b>	<b>\$40.00</b>	<b>\$45.00</b>

Source: UxC, Bloomberg, World Nuclear Association, TD Securities Inc.

### Valuation

Denison is trading at 0.81x our 10%NAVPS estimate of \$1.07 (previously \$1.04) versus the base metal developers in our coverage universe at 0.68x.

Denison is currently trading at an EV/lb of US\$2.87 based on its total resources. This compares with its current peer-group average EV/lb multiple of US\$2.71.

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## Exhibit 4. Uranium Company Comparisons (EV/lb ratios)

Comparable Company Analysis: Uranium Producers & Developers/Explorers									
Corporate Resources <sup>1</sup>									
Company	Ticker	4-Jan-21 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	17.13	5,486.6	467.1	891.1	1,065.8	11.75	6.16	5.15
<b>Denison Mines Corp.</b>	<b>DML</b>	<b>0.87</b>	<b>450.2</b>	<b>98.6</b>	<b>144.2</b>	<b>156.9</b>	<b>4.56</b>	<b>3.12</b>	<b>2.87</b>
Fission Uranium Corp.	FCU	0.43	191.2	-	102.4	135.2	n/a	1.87	1.41
NexGen Energy Ltd.	NXE	3.43	629.5	234.1	256.6	348.3	2.69	2.45	1.81
UEX Corp.	UEX	0.27	94.1	-	69.8	104.0	n/a	1.35	0.90
Uranium Energy Corp.	UEC	2.30	362.8	-	58.4	103.9	n/a	6.21	3.49
Ur-Energy Corp.	URE	0.97	136.2	-	32.9	41.2	n/a	4.14	3.31
<b>Median</b>							<b>4.56</b>	<b>3.12</b>	<b>2.87</b>
<b>Average</b>							<b>6.33</b>	<b>3.61</b>	<b>2.71</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 \$1.00 target price (previously \$0.85) is based on 0.90x our 10%NAVPS estimate (previously 0.80x) weighted 100% using a 0.76 Canadian dollar/U.S. dollar exchange ratio. We have increased our target price multiple to reflect higher valuations across the uranium sector, along with the de-risked approach to Wheeler River, in our view.

### 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. Denison's assets could be negatively affected by the ongoing restrictions to travel, social-distancing measures, and other challenges related to the COVID-19 pandemic.

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### Exhibit 5. Company Snapshot

Financial Data	2018A*	2019A	2020E	2021E
Average share price (C\$)	0.67	0.59	0.50	0.87
Wt. Avg. S/O (mm)	562.9	592.6	637.4	678.7
EPS (f.d.) (C\$/sh)	(0.05)	(0.03)	(0.03)	(0.02)
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	13.7	15.1
Operating Costs	15.9	14.4	11.3	10.6
Royalty	0.0	0.0	0.0	0.0
Depreciation	3.7	3.7	2.5	4.0
Exploration	15.5	15.2	7.3	8.0
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	4.2	4.0
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	(3.1)	0.0
EBITDA	(29.8)	(10.7)	(7.4)	(6.7)
EBIT	(33.5)	(14.4)	(9.9)	(10.7)
EBT	(37.2)	(18.5)	(14.1)	(14.7)
Taxes (recovery)	(8.3)	(5.4)	(0.5)	(4.4)
Effective tax rate	na	na	na	na
Minority interest	-	-	-	-
Reported net earnings	(33.8)	(18.1)	(17.3)	(10.3)
Adjusted net earnings	(27.7)	(18.1)	(17.3)	(10.3)
EPS Reported (C\$/sh.)	(0.06)	(0.03)	(0.03)	(0.02)
EPS (Adjusted) (C\$/sh.)	(0.05)	(0.03)	(0.03)	(0.02)

Revenues By Metal (C\$mm)	2018A*	2019A	2020E	2021E
Uranium/Tolling	4.2	4.2	2.2	4.4
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)	(12.2)	(10.7)
CF from operating activities	(21.0)	(18.8)	(12.3)	(10.7)
CF from financing activities	4.5	4.7	31.4	0.0
CF from investing activities	36.0	(0.9)	0.3	0.0
CAPEX	(1.6)	(0.9)	(0.2)	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	27.6	16.9
Current assets	31.7	16.5	44.2	33.5
Total assets	312.2	300.0	313.3	298.6
Current liabilities	12.5	14.9	12.4	12.4
Long term debt	0.0	0.0	0.0	0.0
Total liabilities	89.9	89.8	87.3	82.9
Non Controlling Interest	0.0	0.0	0.0	0.0
Working Capital	19.2	1.6	31.8	21.1
Shareholders' equity	222.2	210.1	226.0	215.7

\*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	29.48	34.50
Forex CAD to USD	0.77	0.75	0.74	0.76

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

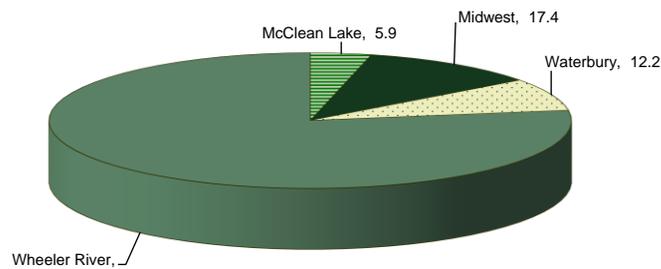
NAV Analysis	8% Discount		10% Discount	
	US\$mm	US\$/sh	US\$mm	US\$/sh
<b>Mining Assets</b>				
McClellan Mill Complex (22.5%)	65.8	0.09	65.8	0.09
Athabasca Basin Resources (22.5% to 60%)	183.4	0.26	183.4	0.26
Phoenix (90%)	496.6	0.71	397.7	0.57
Gryphon (90%)	61.6	0.09	18.7	0.03
Hook-Carter Property	3.9	0.01	3.9	0.01
<b>Total Project NAV</b>	<b>811.3</b>	<b>1.16</b>	<b>669.5</b>	<b>0.95</b>
<b>Other Tangible Assets</b>				
Investment - GoviEx	13.8	0.02	13.8	0.02
Skyharbour Resources	2.0	0.00	2.0	0.00
<b>Corporate Adjustments</b>				
Working Capital	31.8	0.05	31.8	0.05
Long Term Debt	0.0	-	0.0	-
In the Money Options/Warrants	11.4	0.02	11.4	0.02
Estimated Working Capital Additions	24.9	0.04	24.9	0.04
Estimated Debt Additions	0.0	-	0.0	-
<b>Total Net Asset Value US\$/sh.</b>	<b>680.4</b>	<b>0.97</b>	<b>572.6</b>	<b>0.82</b>
Total Net Asset Value C\$/sh.		1.28		<b>1.07</b>

Asset	Tonnes kt	Grade %	Interest %	Contained mmlb
McClellan 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) **\$2.87**

### Resources

Resources by Asset (mm lb U3O8)



Source: Company, TD Securities Inc.



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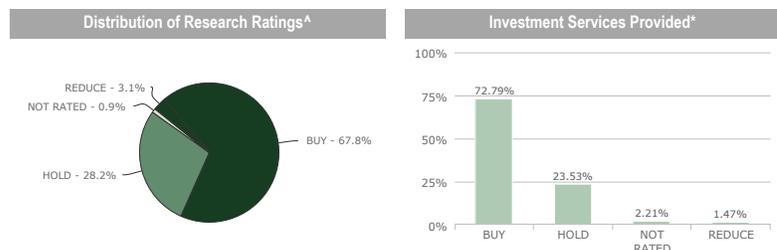
Company	Ticker	Disclosures
Denison Mines Corp.	DML-T	1, 2, 4

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Current as of: January 5, 2021

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**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.

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# Action Note

## Equity Research

January 5, 2021

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