

Ticker: FCU CN
Market cap: C\$387m

Net cash: C\$21m
Price: C\$0.66/sh

Project: Patterson Lake South (PLS)
Country: Saskatchewan, Canada

RECOMMEND. (unc): BUY

TARGET (up): C\$0.80/sh

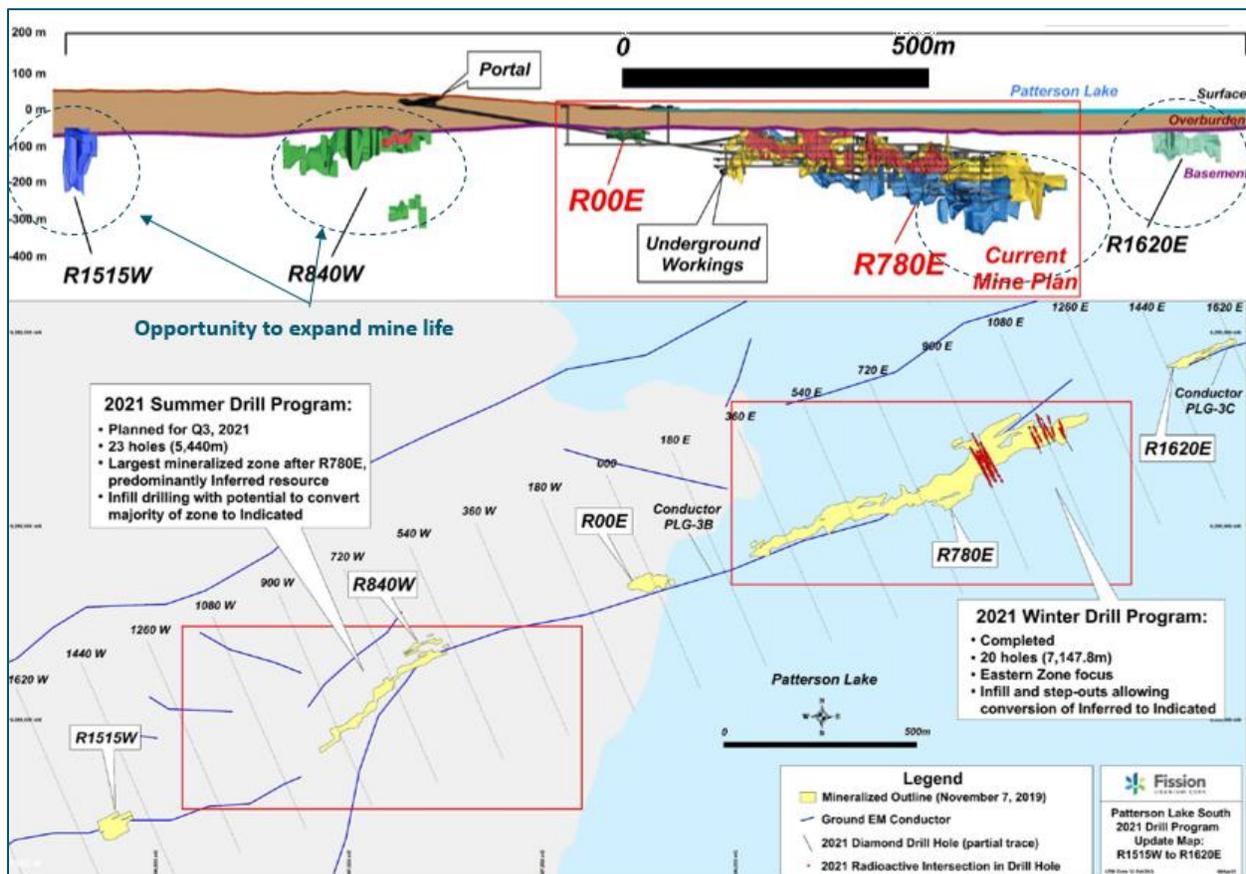
RISK RATING: HIGH

While current uranium prices and Covid-19 travel sensitivities both support conservative exploration budgets for the time being, Fission continues to add value through infill of inferred and extension of near mine plan areas to bring them into mine life. Yesterday's results were focused on eastern areas of the R780E zone, where there are currently 10.1Mlbs at 0.83% U₃O₈ in inferred. As much of the R780E zone is already in the mine plan, newly converted areas are likely to require limited lateral development and the 225m of strike could add up to ~600kt of ore ~20Mlbs to resources. We note that one additional year of mining at 1.5% U3O8 adds C\$101m or C\$0.16/sh to our NAV and we currently estimate 600kt of additional ore (20Mlbs) from 780E above the current reserve, plus 26Mlbs at R840w and R1515W. We maintain our BUY rating and increase our price target to C\$0.80/sh, based on 0.8x NAV8%-50/lb, up from 0.75x, on improved sentiment in the uranium sector and for Fission, which remains excellent value relative to peers.

Successful drilling at R780E highlights ability to grow production and decrease capex intensity

Fission released results of 20 drill holes for 7,147.8m at the R780E zone at PLS. The goal of the program was to upgrade mineralization at R780E to the indicated category, to add to the mine plan. Assays are pending, but natural radiation is reported using scintillometer counts per second (cps) readings. 19 of 20 holes intersected mineralization. Drilling focused on 225m of strike in grid lines 900E to 1125E. Results included 31.5m @ 320-27,300cps on line 1125E, 46m of total composite mineralization (TCM) including 4.75m @ >10,000cps on line 1050E, 110m of TCM over a 272.5m interval including 4.15m @ >10,000cps from line 930E and 92TCM over a 214m interval including 4.8m @ >10,000TCM on line 900E.

Figure 1: Map of PLS deposits and 2021 drilling programs



Source: Fission Uranium, SCP

Our View:

Fission's shares have performed strongly as investors take notice that it is trading at less than half of the per lb valuation of Athabasca peers and US ISR comps. PLS is high-grade (1.61% U₃O₈ reserve grade), shallow (starts at ~50m below surface), and basement-hosted (amenable to LH-stopping) and therefore should have bottom quartile cash costs (SCPe C\$11.63/lb ex-royalties), so the key opportunity is to lower initial capital intensity. Here we think Fission is doing the right thing by using capital efficiently to upgrade the 33Mlbs of inferred resources and focusing on advancing permitting and development options, while waiting for higher prices to consider a larger regional exploration program. Bigger picture we see significant opportunities to lower capital intensity further through potential development synergies with NexGen's neighbouring Rook I project, or through additional step out exploration given the size and prospectively of its landholdings in the Patterson Lake corridor.

Why we like Fission Uranium

- World class size, grade, jurisdiction and setting make this a globally significant asset.
- Trading at less than half of the peer EV/insitu average
- Has significant exploration holding in the highly prolific Patterson trend to add to 135Mlb resource base
- Significant potential synergies with neighbour NexGen as two projects are less than 20km apart

Catalysts

- 2021: Commence EA
- 2022: FS
- 2023 EIS
- 2025/2026 Construction start (SCPe 2H25)
- 2028/2029 First production (SCPe 2028)

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Ticker: FCU CN	Price / mkt cap: C\$0.66/sh, C\$387m	Market P/NAV: 0.65x	Assets: PLS
Justin Chan / Brandon Gaspar	Rec / PT: BUY / C\$0.80	1xNAV₂₀₂₀ FD: C\$1.01/sh	Country: Canada (Sask)

Group-level SOTP valuation		4Q20	1Q21E
	C\$m	O/ship	NAVx
PLS NPV 1Q21E	796.6	100%	1.24
Central SG&A & fin costs 1Q21E	(207.0)	--	(0.32)
Lbs outside mine plan (US\$/lb U3O8)	15.3	--	1.0x
Other assets	1.3	--	1.0x
Cash and restr. cash 4Q20	31.1	--	1.0x
Debt 4Q20	(7.2)	--	(0.01)
ITM options	20.1	--	1.0x
1xNAV8% US\$50/lb	650		1.01
Assumed build equity issuance	300.0		0.32
1xNAV fully funded8% US\$50/lb	950		1.02
P/NAV - fully diluted for build (x)			0.64x
Target multiples		Multiple	C\$/sh
Target P/NAV Multiple		0.80x	0.80
Target price			0.80

Sources	Uses	
PFS capex	C\$1177m	SCPe 3Q20 cash + ITM options
SCPe contingency	C\$281m	Mine debt @ 60% gearing
SCPe G&A + fin. cost to first Au	C\$61m	Build Equity
SCPe working capital	-C\$1m	Offtake
Total uses	C\$1518m	Total proceeds

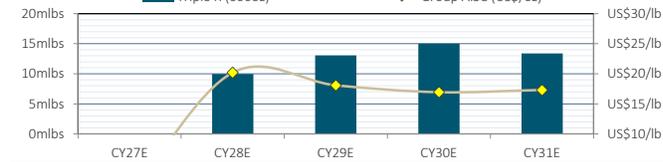
1xNAV sensitivity to gold price and discount / NAV multiple					
1xNAV PLS (C\$m)	\$30/lb	\$40/lb	\$50/lb	\$60/lb	\$70/lb
10% discount	-6	285	576	867	1,158
9% discount	30	354	679	1,003	1,327
8% discount	73	435	797	1,158	1,520
7% discount	124	528	933	1,337	1,742
6% discount	184	637	1,090	1,543	1,996
5% discount	256	764	1,272	1,781	2,289

Valuation (C\$/sh)	\$30/lb	\$40/lb	\$50/lb	\$60/lb	\$70/lb
0.6xNAV	nmf	0.25	0.60	0.95	1.30
0.7xNAV	nmf	0.30	0.70	1.15	1.55
0.80xNAV	nmf	0.35	0.80	1.30	1.75
0.9xNAV	nmf	0.40	0.90	1.45	2.00
1.0xNAV	nmf	0.45	1.05	1.60	2.20

Valuation over time	1Q20E	1Q21E	1Q22E	1Q23E	1Q24E
Mines NPV (US\$m)	797	863	943	1,030	1,128
Cntrl G&A & fin costs (US\$m)	-196	-204	-215	-226	-238
Net cash at 1Q (US\$m)	23	7	28	8	569
Other Assets + Options	21	21	21	21	21
1xNAV (US\$m)	645	688	779	833	1,481
P/NAV (x):	0.51	0.56	0.52	0.51	0.35
1xNAV share px FD (C\$/sh)	1.30	1.17	1.28	1.30	1.91
ROI to equity holder (% pa)	96%	78%	39%	25%	30%
1.2xNAV share px FD (C\$/sh)	1.55	1.41	1.53	1.56	2.29
ROI to equity holder (% pa)	136%	113%	52%	33%	36%

Resource / Reserve	Mt	Mlbs	EV/oz Ag	EV/lb	
Measured, ind. & inf. - Triple R	3,437	135.2	2.22	2.22	
SCPe Mine inventory - Triple R	3,918	127.5	2.35	2.35	
Production (100%)					
	CY27E	CY28E	CY29E	CY30E	CY31E
Triple R (000lb U3O8)	--	10.0	13.0	15.0	13.4
Triple R cash cost (US\$/lb)	--	\$17.56	\$16.07	\$15.19	\$15.36
Triple R AISC (US\$/lb)	--	\$20.18	\$18.07	\$16.93	\$17.31

C1 = opex (excl. G&A) + royalties; AISC = C1 + sust capex + capitalized stripping/development



Share data					
Basic shares (m): 586.2	FD + options (m): 642.0			FD + FF 927.4	
Commodity price	CY25E	CY26E	CY27E	CY28E	CY29E
Uranium price (US\$/lb)	50.0	50.0	50.0	50.0	50.0
Ratio analysis	CY25E	CY26E	CY27E	CY28E	CY29E
FD shares out (m)	920.6	927.4	927.4	927.4	927.4
EPS (C\$/sh)	0.001	(0.029)	(0.088)	0.130	0.251
CFPS before w/c (C\$/sh)	0.00	(0.00)	(0.00)	0.37	0.51
FCFPS pre growth (C\$/sh)	0.00	(0.03)	(0.09)	0.24	0.41
FCF/sh (C\$/sh)	(0.13)	(0.58)	(0.68)	0.24	0.41
FCF yield - pre growth (%)	0.2%	neg	neg	48.8%	82.2%
FCF yield (%)	neg	neg	neg	48.8%	82.2%
EBITDA margin (%)	--	--	--	64.1%	67.3%
FCF margin (%)	--	--	33.7%	43.4%	49.0%
ROA (%)	0.1%	(2.0%)	(4.7%)	7.5%	14.7%
ROE (%)	0.1%	(4.3%)	(15.3%)	18.4%	26.2%
ROIC (%)	(2.7%)	(0.7%)	(0.4%)	23.6%	35.6%
EV (C\$m)	2	541	1,170	1,046	725
PER (x)	641.6x	(17.2x)	(5.6x)	3.8x	2.0x
P/CF (x)	597.6x	(874.6x)	(331.8x)	1.3x	1.0x
P/Book value (x)	0.7x	0.7x	0.9x	0.7x	0.5x
EV/EBITDA (x)	(0.4x)	(108.2x)	(234.1x)	2.5x	1.2x
Income statement					
	CY25E	CY26E	CY27E	CY28E	CY29E
Revenue (C\$m)	--	--	--	665	870
COGS (C\$m)	--	--	--	(233)	(280)
Gross profit (C\$m)	--	--	--	431	590
Expenses (C\$m)	(5)	(5)	(5)	(5)	(5)
Impairment & other (C\$m)	--	--	--	--	--
Net finance costs (C\$m)	6	(22)	(77)	(92)	(66)
Tax (C\$m)	--	--	--	(80)	(112)
Minority interest (C\$m)	--	--	--	--	--
Net income attr. (C\$m)	1	(27)	(82)	254	407
EBITDA	1	(27)	(82)	120	232
Cash flow					
	CY25E	CY26E	CY27E	CY28E	CY29E
Profit/(loss) after tax (C\$m)	1	(27)	(82)	120	232
Add non-cash items (C\$m)	0	26	80	227	241
Less wkg cap / other (C\$m)	--	--	--	(56)	(14)
Cash flow ops (C\$m)	1	(1)	(1)	291	460
PP&E (C\$m)	(120)	(509)	(548)	(30)	(30)
Other (C\$m)	--	--	--	--	--
Cash flow inv. (C\$m)	(120)	(509)	(548)	(30)	(30)
Debt draw (repayment) (C\$m)	(14)	450	450	(225)	(225)
Equity issuance (C\$m)	4	--	--	--	--
Other (C\$m)	(0)	(26)	(80)	(137)	(110)
Cash flow fin. (C\$m)	(9)	424	370	(362)	(335)
Net change post forex (C\$m)	(129)	(86)	(179)	(100)	96
FCF (C\$m)	(119)	(536)	(629)	224	377
Balance sheet					
	CY25E	CY26E	CY27E	CY28E	CY29E
Cash (C\$m)	449	363	183	83	179
Accounts receivable (C\$m)	0	0	0	25	33
Inventories (C\$m)	--	--	--	58	70
PPE & exploration (C\$m)	490	1,000	1,547	1,443	1,299
Other (C\$m)	0	0	0	0	0
Total assets (C\$m)	939	1,363	1,731	1,611	1,581
Debt (C\$m)	(6)	444	894	669	444
Other liabilities (C\$m)	304	304	304	288	251
Shareholders equity (C\$m)	791	791	791	791	791
Retained earnings (C\$m)	(149)	(176)	(258)	(137)	95
Minority int. & other (C\$m)	--	--	--	--	--
Liabilities+equity (C\$m)	940	1,363	1,731	1,611	1,581
Net cash (C\$m)	454	(82)	(711)	(587)	(266)
Net Debt to NTM EBITDA (x)	nmf	nmf	1.7	1.0	0.4

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UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	33

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