



# Azarga Uranium Corp.

(AZZ-T)

SECTOR: Metals & Mining

STOCK PRICE \$0.175  
 RATING **BUY**  
 TARGET PRICE \$0.50  
 RISK Very High

## DEWEY BURDOCK NRC LICENSE FINAL CONTENTION REMOVED

### ASLB in Favour of Azarga on Dewey NRC License

**OUR TAKE:** Azarga has announced that the Atomic Safety & Licensing Board (ASLB) has **dismissed the final contention related to the NRC License** issued for its flagship ISR uranium project, Dewey Burdock, SD, USA. **The positive decision from the ASLB is a huge boost for Azarga and significantly de-risks the Dewey Burdock Project**, opening the way for aggressive advancement including pursuing other required permits for future construction and production. **With the path clear to advance the project and the stock price starting to see buying pressure and improving momentum, we recommend taking positions at current levels (keeping in mind a key overhead resistance zone in the \$0.23-\$0.26 range).**

#### KEY HIGHLIGHTS

- ◆ **ASLB decision is major de-risking event for Azarga.** We have been highlighting the NRC License decision by the ASLB regarding the last outstanding contestation as the single biggest risk to Azarga and the project. We believe Azarga is now in a much stronger position with this issue resolved, although we note that it is possible for an interested party to file a petition for review of the ASLB decision within 25-days. We view the likelihood of success with any petition for review as very low. **With a Final Decision rendered, the outlook significantly improves as Azarga can push forward with additional permitting at Dewey Burdock unencumbered.** Remaining permits ahead of production include:
  - Environmental Protection Agency ("EPA") final Class III and Class V underground injection control permits. (Revised draft permits issued in August 2019)
  - Three State permits submitted to the South Dakota Department of Environment and Natural Resources [Groundwater Disposal Plan, Water Rights and Large-Scale Mine Plan permits], all deemed complete and recommended for approval.
- ◆ **Recent PEA impact was muted based on overhang of this event; robust economics now in focus:** We published the following report on the PEA update last week [<LINK>](#). With all-in pre-tax cost of production of US\$29/lb, Dewey Burdock should be a very resilient project capable of generating positive cash-flow even at currently depressed term market prices.
- ◆ **PEA Highlights Revisited following ASLB positive outcome (vs 2015 PEA):**
  - Mine-life: 16 years, including ramp-up (+45%)
  - Production: 1 Mlbpa U<sub>3</sub>O<sub>8</sub> (unchanged); LOM Production: 14.3 Mlb U<sub>3</sub>O<sub>8</sub> (+47%)
  - Cash OPEX: US\$10.46/lb U<sub>3</sub>O<sub>8</sub> (-16.5%)
  - Total pre-tax Production Cost: US\$28.88/lb U<sub>3</sub>O<sub>8</sub> (-12%)
  - CAPEX: US\$31.7M (+17% from US\$27M)
  - After-Tax NPV/IRR @ US\$55/lb: US\$147.5M / 50% (prior US\$65/lb, US\$114M / 57%)

#### RECOMMENDED ACTION

**We recommend owning AZZ shares at current levels and adding on a break-through resistance in the \$0.23-\$0.26 zone**

- ◆ **Positive PEA sets stage for big share price move following positive ASLB decision.** The Dewey Burdock PEA issued last week significantly improved on the 2015 iteration on all important metrics. The sub US\$11/lb OPEX, <\$29/lb total operating costs (pre-tax), and low CAPEX, highlighting the potential for this project to become one of the next U.S.-based production sources. Azarga is trading at less than 0.3x our corporate NAV and we view it as highly attractive at its current price. We are now starting to see evidence of improving momentum and buying pressure in the stock and are looking for a near-term move towards resistance in the \$0.23-26 range.

#### KEY STATISTICS AND METRICS

52-Week High/Low	\$0.28/\$0.11
YTD Performance	-34%
Dividend Yield	N/A
Shares O/S	186M
Market Capitalization	\$33M
Cash	\$0.3M
Debt	\$0M
Enterprise Value	\$33M
Daily Volume (3 mos.)	66,390
Currency	CAD

#### HAYWOOD ESTIMATES USD

	2019E	2020E	2021E
Revenue (\$M)	0	0	0
EBITDA (\$M)	(3.2)	(3.4)	(3.5)

#### VALUATION

**Our \$0.50/share target is primarily based on an NPV<sub>10%</sub> on the Dewey Burdock project, assuming a US\$70/lb uranium price.** Including credit for its other projects and corporate adjustments, we apply a 0.6x P/NAV multiple to arrive at our target.

Technical Analysis

**Momentum starting to improve.** The stock exhibited bullish momentum divergence over the past few months where the new low in price was not confirmed by the RSI and MACD indicators. We have now seen the stock price move above its 50-day moving average and its relative strength against the Global X Uranium ETF (URA) start to turn around. These are all positive developments, but the overall technical profile for the stock remains weak. A sustained break above the \$0.23-0.26 resistance zone would signal sufficient buying pressure to get through overhead supply and would make the chart looks substantially more bullish. We would accumulate positions at current levels and add above this resistance zone.

Stock Chart (Daily)



Source: Haywood Securities Inc., Stockcharts.com



## Important Information and Legal Disclosures

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I, Colin Healey, hereby certify that the views expressed in this report (which includes the rating assigned to the issuer's shares as well as the analytical substance and tone of the report) accurately reflect my/our personal views about the subject securities and the issuer. No part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations.

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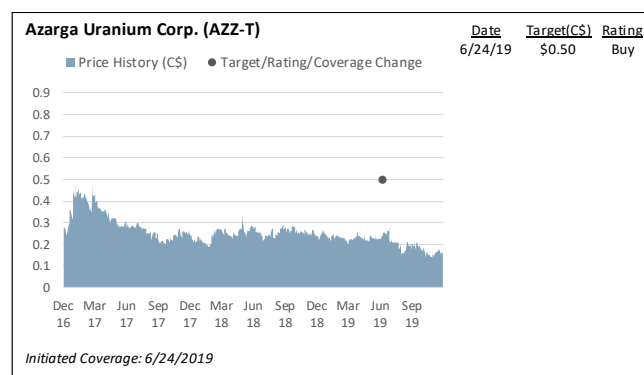
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- ◆ n/a

### Distribution of Ratings (as of December 13, 2019)

	%	#	IB Clients (TTM)
<b>Buy</b>	75.7%	81	96.6%
<b>Hold</b>	10.3%	11	0.0%
<b>Sell</b>	2.8%	3	0.0%
<b>Tender</b>	0.9%	1	0.0%
<b>UR (Buy)</b>	0.9%	1	0.0%
<b>UR (Hold)</b>	0.0%	0	0.0%
<b>UR (Sell)</b>	0.0%	0	0.0%
<b>Dropped (TTM)</b>	9.3%	10	3.4%

### Price Chart, Rating and Target Price History (as of December 13, 2019)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review  
Source: Capital IQ and Haywood Securities

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