

## Nuclear Fuel Working Group Signals Staunch Support for Uranium Miners

**THE U.S. DEPARTMENT OF ENERGY (DOE) HAS RELEASED THE WIDELY ANTICIPATED NUCLEAR FUEL WORKING GROUP'S REPORT ENTITLED "RESTORING AMERICA'S COMPETITIVE NUCLEAR ENERGY ADVANTAGE" ([LINK TO REPORT](#)). THE REPORT ACKNOWLEDGES THE DECLINE IN AMERICA'S LEADERSHIP AND COMPETITIVENESS IN GLOBAL NUCLEAR ENERGY AND PROVIDES A FRAMEWORK TO RESTORE ITS POSITION AND PRESERVE NATIONAL SECURITY INTERESTS.**

**OUR TAKE:** Our focus within the report is primarily on the front-end of the nuclear fuel cycle, specifically looking for strategy and recommendations that support a robust domestic uranium exploration, development and mining industry. **The report shows a strong commitment to reviving and strengthening the domestic uranium mining industry and re-establishing America's leadership in the global nuclear technology competitive landscape.** This is underscored through multiple strongly supportive statements reiterating that "Nuclear power is intrinsically tied to National Security", and that the Government "will take bold action to revive and strengthen the uranium mining industry", while recognizing "the importance of taking focused, deliberate action to prevent the near-term collapse of the domestic uranium mining, milling, and conversion industries."

Uranium stocks had been rallying since Wednesday morning when news broke of the pending release of the NFWG report on anticipation of definitive positive action to support the domestic uranium mining industry. Much of those gains retraced mid-day Thursday upon release of the report. **Despite the very positive tone of the report, it did not reveal much that was not already known to the market that would immediately benefit domestic miners and contained the caveat that "[a]ny recommendations in this strategy beyond those already reflected in the President's Budget will be subject to relevant budgetary, regulatory, and policy development processes before adoption or execution."** See our report on the [President's budget from February](#) for background. Despite the confirmation that real stimulus is possible, even probable, with uncertain timing and scope, that tone sapped some of the excitement out of U.S. focused uranium equities today.

### KEY HIGHLIGHTS of the NFWG REPORT pertaining to domestic uranium production:

- ◆ The main quantifiable 'stimulus' for domestic miners is the reference to the well-known Trump proposed budget which included \$150M annually for 10-years to establish a 'strategic uranium reserve' ([our note from Feb. 11 here](#)). At that time, we said this alone would not be sufficient to revive the U.S. uranium mining industry. **It is our interpretation that the potential for a larger reserve to include enriched uranium is outlined in the report but appears to be a recommendation requiring a future decision and not included in the current budget.**
  - **The scale of the potential larger strategic uranium reserve (to include enriched uranium to support 24 reactor fuel loadings) is detailed in the report where the proposed uranium requirements for this expansion are outlined as "[m]ined and milled uranium [is] estimated between 17 and 19 million pounds in the form of U<sub>3</sub>O<sub>8</sub>, beginning in 2020".**
    - If we assume that 17-19 Mlb volume is spread over 10 years, similar to the timeframe of the currently proposed reserve, and consider it "in addition", that could mean volumes of 5 Mlb /year or more depending on price, which could be enough to support 2 or more domestic producers.
    - Our note from February regarding the Trump-proposed budget said that if we assume \$150M annually for a strategic reserve, and assume \$50/lb U<sub>3</sub>O<sub>8</sub>, this would equate to 3.0 Mlb/year. Add 1.8 Mlb/year to that number from the proposed expanded reserve (of 17 to 19 Mlb total), and this suggests a range of 5.0 Mlb/year of domestic production, or ~10% of domestic demand (ignoring the fact that reserve pounds would not presumably be consumed, and thus represent incremental demand increase).
- ◆ Another potentially highly beneficial, less quantifiable recommendation of the report addresses the major post-economic study, pre-production issue facing developers and producers with secondary projects, which is "permitting". The report specifically recommends an aim to "smartly decrease undue permitting and regulatory burdens on industry to level the domestic playing field." This could be very beneficial in the future to all of our US covered names which have key projects and/or secondary projects in various stages of permitting, as well as names like Uranium Royalty Corp. (URC-V, not rated) with streams tied to several undeveloped U.S. uranium assets.

**BOTTOM LINE:** It's very positive to see a strongly supportive tone from the NFWG report. The majority of tangible recommendations pertaining to uranium equities were either already fairly well recognized in the market, or, for the potential outcomes that we hadn't seen before, have significant bureaucratic uncertainty. Any proposal or recommendation from the report not already captured in the currently proposed Trump budget is clearly disclaimed as subject to budgetary, regulatory and policy processes that can protract even the most beneficial initiatives. **With uranium prices continuing to move positively, we continue to evaluate the U.S. uranium names on their project and management merits and remind investors that none of our estimates or assumptions for our U.S. coverage names are contingent on government action or intervention and we continue to recommend buying into commodity strength as we are watching the best setup for uranium equities in almost a decade.** Please see our review of our top-picks in the uranium space and best ideas to play U.S. sector catalysts on page 2.

## Uranium Sector Top Picks

**Our best bets for 2020:** Our top picks for 2020 include one carry over from last year in NexGen (NXE-T, Rating: Buy, Target: \$6.00) and one new addition in Azarga Energy (AZZ-T, Rating: Buy, Target: \$0.50). NexGen controls the best uranium discovery made anywhere in the world in decades, in the ultra-high-grade Arrow deposit, while Azarga has made major project level and regulatory progress in 2019 and we expect it can convert this success into share price performance in 2020.

### NexGen (NXE-T, Last: \$1.86, Rating: BUY, Target: \$6.00)

**Our Take:** NXE remains our top pick in the uranium space due to the disruptive potential of the Arrow deposit, with its massive scale and strong economics. [Link to Most Recent Report](#)

- ◆ **Top Asset:** We view the Arrow deposit as ‘the best undeveloped uranium asset globally and highly strategic’.
- ◆ **Take-out Candidate:** We believe that it is critical for existing major producers to control this deposit because of its disruptive potential and that this is their only option to preserve the value of their existing deposits and maintain their ability to affect price with production curtailments.
- ◆ **Ultra Low-Cost:** The Arrow PFS suggests cash operating costs of US\$4.65/lb vs. a current UxC term price of US\$32/lb, implying an industry leading margin for a tier 1 scale operation.
- ◆ **Catalyst:** Feasibility Study (FS) expected in “mid H1 2020”.
- ◆ **Cash of \$40 million** expected to be sufficient to carry NexGen all the way to a construction decision on Arrow.
- ◆ **Current share price represents a great opportunity to accumulate NXE positions as it continues to de-risk the project in 2020.**

### Azarga Uranium (AZZ-T, Last: \$0.20, Rating: BUY, Target: \$0.50)

**Our Take:** AZZ delivered on many objectives in 2019, hitting some major milestones which de-risked the stock and should convert in share price performance in 2020. [Link to Most Recent Report](#)

- ◆ **Big Permitting De-risking in 2019:** In mid-December 2019, Azarga announced that the Atomic Safety & Licensing Board (ASLB) had dismissed the final contention related to the NRC License issued for its flagship ISR uranium project, Dewey Burdock, SD, USA. While there remains a period of review of the ASLB decision, we believe the dismissal was a major event and will be very difficult to overturn upon review. We expect the stock to re-base as this fog clears.
- ◆ New PEA in 2019 confirmed our thesis regrading Dewey Burdock’s potential to evolve into a lower-cost, low CAPEX uranium producing operation in the US. In early December 2019, AZZ published a PEA update showing major improvement over the prior iteration, demonstrating the project’s tolerance for lower prices. With strong economics at our uranium price forecast (*After-Tax NPV/IRR @ US\$55/lb U<sub>3</sub>O<sub>8</sub>: US\$147.5M / 50%*), it was also reassuring to see a US\$63M NPV<sub>8%</sub> / 28% IRR (pre-tax) at US\$40/lb. 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 long-term market prices.
- ◆ **Take-out Candidate:** We believe that with the major permitting/regulatory progress and robust PEA delivered in 2019, Azarga would make a very attractive tuck-in acquisition for any of the U.S. producers or neo-producers, especially if there is a political catalyst in the U.S. on the back of the Nuclear Fuel Working group report delivered to the President.
- ◆ **Catalysts:** We expect Azarga to get through the review period regarding the ASLB decision they received in their favour in mid-December 2019. Once that hurdle is cleared, we expect the Draft EPA permits to be finalized, with State-level permits to follow later in 2020.

**Other recommended ways beyond Azarga (AZZ-T) to play the U.S. sector catalysts are Uranium Energy Corp. (UEC-US) and Energy Fuels (UUUU-US). These more advanced producer/neo-producer names are both rated “Buy” and have demonstrated excellent torque to sector catalysts.** Cameco (not rated) also has significant U.S. assets under care and maintenance, although its larger ex-US operations may dilute the response to U.S. specific catalysts.

### Covered Names

- ◆ NexGen Energy Ltd. (NXE-T) – Buy; \$6.00 Target
- ◆ Uranium Energy Corp. (UEC-US) – Buy; US\$2.60 Target
- ◆ Energy Fuels Inc. (EFR-T, UUUU-US) – Buy; US\$3.50 Target
- ◆ Denison Mines Corp. (DML-T) – Buy; \$1.60 Target
- ◆ Uranium Participation Corporation (U-T) – Buy, \$5.90 Target
- ◆ Azarga Uranium Corp. (AZZ-T) – Buy, \$0.50 Target



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	TSX:AZZ	Azarga Uranium Corp.		X	X					
	TSX:DML	Denison Mines Corp.			X	X				
	AMEX:UUUU	Energy Fuels Inc.			X	X				
	TSX:NXE	NexGen Energy Ltd.			X					
	TSXV:PLU	Plateau Energy Metals Inc.		X	X		X	X		
	AMEX:UEC	Uranium Energy Corp.			X					
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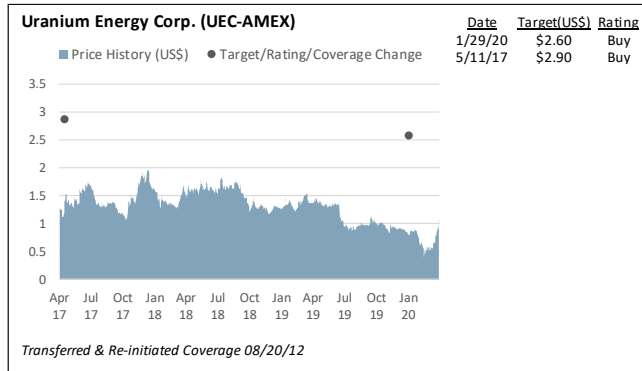
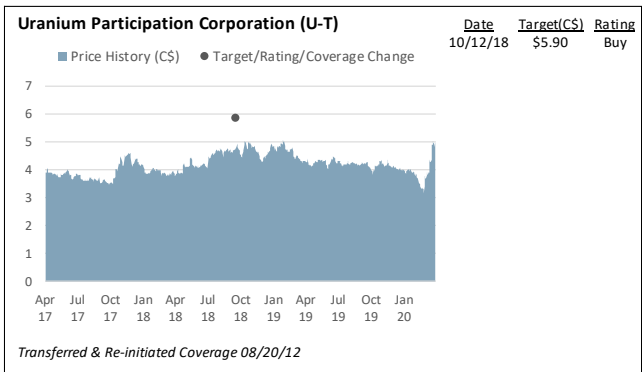
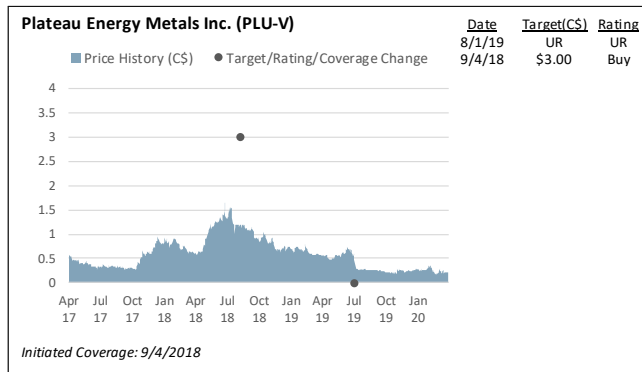
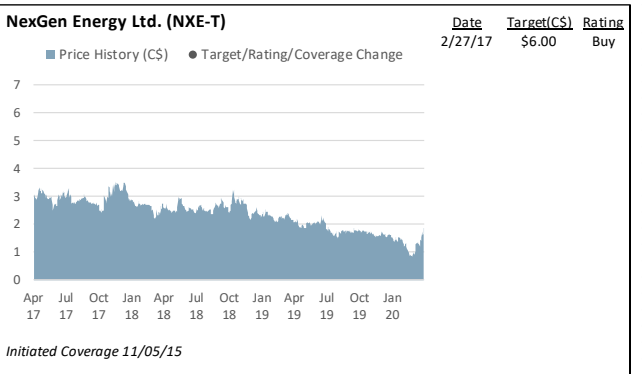
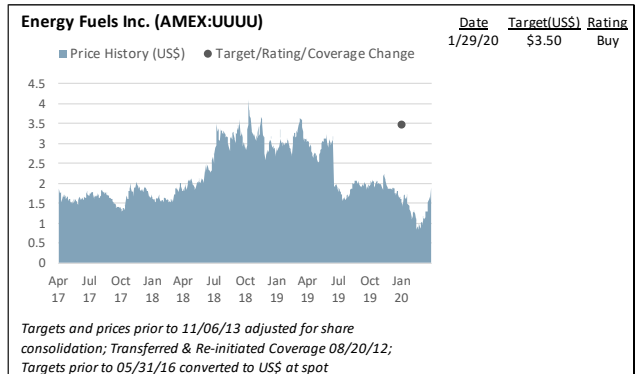
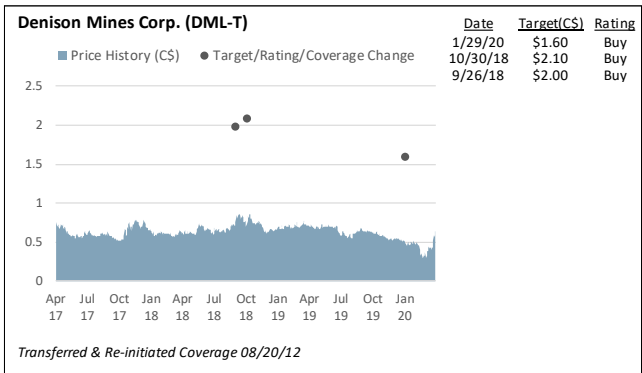
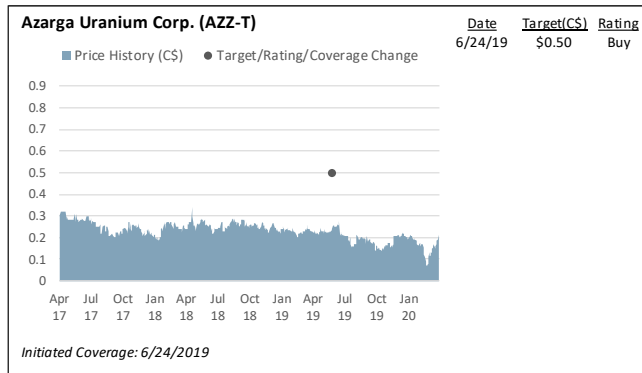
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	%	#	IB Clients (TTM)
<b>Buy</b>	66.0%	68	92.6%
<b>Hold</b>	20.4%	21	3.7%
<b>Sell</b>	3.9%	4	3.7%
<b>Tender</b>	1.9%	2	0.0%
<b>UR (Buy)</b>	1.0%	1	0.0%
<b>UR (Hold)</b>	0.0%	0	0.0%
<b>UR (Sell)</b>	0.0%	0	0.0%
<b>Dropped (TTM)</b>	6.8%	7	0.0%



Price Chart, Rating and Target Price History (as of April 24, 2020)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review  
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