

# Action Note

Equity Research

October 14, 2020

Metals &amp; Minerals

## Denison Mines Corp.

(DML-T) C\$0.45

### Upgrading to SPECULATIVE BUY following Recent Share Price Pullback

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#### Event

We are resuming coverage following the completion of Denison's US\$19mm public offering. We are maintaining our \$0.85 target price and upgrading our recommendation to SPECULATIVE BUY from Hold following the recent share price pullback.

#### Impact: MIXED

Denison issued 51.3mm shares at a price of US\$0.37/sh. for total gross proceeds of US\$19mm. The financing was upsized from the original US\$10mm offering announced on October 7.

Proceeds from the financing are expected to be used to fund the advancement of environmental assessment (EA) activities on the company's Wheeler River project, along with general working capital purposes. Based on our estimates, the company should have sufficient liquidity to fund activities through H2/2021.

On October 1, TD hosted a Uranium Roundtable conference that included several key industry participants including Denison ([Uranium Roundtable](#)). During the conference, management highlighted that all key environmental and technical personnel have been retained through 2020 following the temporary suspension of the Phoenix EA process due to COVID-19. In the interim, these key individuals have executed on other work items including building further confidence in the hydrogeological model through field work conducted over the summer that will support future activities in 2021.

Denison is expected to provide an update on the resumption of the EA process in the coming weeks-or-months along with the company's plans for 2021. In addition, the company is expected to release a PEA on the Waterbury project before the end of 2020, which will outline the potential to use ISR recovery methods on the J-zone deposit.

#### TD Investment Conclusion

Although the financing was slightly dilutive to our 10%NAVPS estimate (-3%), the fact that the offering was up-sized reflects what we believe is a growing interest in the uranium sector after several years of limited interest. In our view, investors are starting to recognize that the uranium market is transitioning away from substantial oversupply to one that is increasingly tight. Furthermore, the resolution of a number of trade policy issues that have acted as roadblocks to market activity for much of the past two years have now been resolved, and the pathway to a renewed contracting cycle is, in our view, much clearer.

<b>Recommendation:</b>	<b>SPEC BUY↑</b> <i>Prior: HOLD</i>
<b>Risk:</b>	<b>SPECULATIVE</b>
<b>12-Month Target Price:</b>	<b>C\$0.85</b>
<b>12-Month Dividend (Est.):</b>	<b>C\$0.00</b>
<b>12-Month Total Return:</b>	<b>88.9%</b>

#### Market Data (C\$)

Current Price	C\$0.45
52-Week Range	\$0.24 - \$0.75
Mkt Cap (f.d.) (\$mm)	\$306.3
EV (\$mm)	\$270.9
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,395,116

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	680.7
Float Shares (mm)	626.1
NAVPS	\$1.04
Working Cap (\$mm)	\$16.1

#### Estimates (C\$)

Year	2018A	2019A	2020E	2021E
EPS (f.d.)	(0.05)	(0.03)	(0.03)	(0.02)
EPS (f.d.) (old)	-	-	(0.02)	(0.01)
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	31	36

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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## Outlook

We have updated our estimates to reflect the close of the US\$19mm financing (51.3mm shares at US\$0.37/sh). The net impact of the financing lowered our 10%NAVPS to C\$1.04 from C\$1.07.

## Uranium Market Outlook

**Uranium market in deficit.** We have made no changes to our uranium supply-demand outlook. Please refer to our recent Uranium Industry Bulletin for addition details ([link](#)). We are projecting that the uranium market will record a supply deficit of ~26Mlbs in 2020 and sustained deficits over the next several years. In our view, these deficits will be of sufficient magnitude to materially draw-down surplus inventories that have been over-hanging the market.

### Exhibit 1. TD Securities Uranium Supply/Demand Model

	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
<b>Mine Supply - Western World (mm lbs U3O8)</b>										
Total Mine Supply - Western World	106	104	100	83	85	75	81	80	85	88
Net Eastern Mine Supply (lbs U3O8)	57	62	54	54	55	44	49	60	60	66
<b>Total World Mine Supply (mmlb U3O8)</b>	<b>163</b>	<b>166</b>	<b>154</b>	<b>138</b>	<b>140</b>	<b>120</b>	<b>130</b>	<b>140</b>	<b>145</b>	<b>154</b>
YoY % change	12.2%	2.1%	-7.6%	-10.2%	1.7%	-14.7%	8.3%	7.8%	3.5%	6.8%
<b>Secondary Supply</b>										
Global underfeeding and tails re-enrichment*	20	18	19	18	18	16	16	15	15	14
Mixed Oxide Fuel (MOX)*	4	5	5	5	6	6	6	6	6	7
US government sales (DOE Proposed)*	7	4	3	2	2	1	0	0	0	0
Additional Russian secondary supply*	2	2	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
<b>Total Secondary Supply (mmlb)</b>	<b>34</b>	<b>29</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>
Secondary supply as % of global reactor demand	21%	17%	16%	14%	15%	13%	12%	12%	12%	11%
<b>Mobilization of Commercial Inventory</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
<b>Total Supply</b>	<b>205</b>	<b>202</b>	<b>187</b>	<b>169</b>	<b>173</b>	<b>150</b>	<b>159</b>	<b>168</b>	<b>173</b>	<b>183</b>
<b>Total World Demand</b>										
Total World Nuclear Generating Capacity (MWe) *	345,377	351,271	358,819	368,571	372,978	374,420	384,508	385,211	389,242	394,906
Uranium requirements per MWe	464	474	472	472	472	472	472	472	472	472
Uranium demand (mmlb)	160	167	169	174	176	177	181	182	184	186
First Core Requirement (2 year lead)	-	-	-	-	-	-	-	-	-	-
<b>Total World Demand (mmlbs U3O8)</b>	<b>160</b>	<b>167</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>
YoY % change	3.4%	3.9%	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%
<b>Supply / Demand Balance (mmlb)</b>	<b>44</b>	<b>35</b>	<b>18</b>	<b>-5</b>	<b>-3</b>	<b>-26</b>	<b>-23</b>	<b>-14</b>	<b>-11</b>	<b>-4</b>
<b>Spot Uranium Price (US\$/lb U3O8)</b>	<b>\$36.89</b>	<b>\$26.57</b>	<b>\$22.12</b>	<b>\$24.82</b>	<b>\$25.94</b>	<b>\$31.30</b>	<b>\$36.00</b>	<b>\$37.50</b>	<b>\$40.00</b>	<b>\$40.00</b>

\* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case

Note - TD LT price assumption starts in 2025; a flat US\$45/lb price is assumed for 2025 and beyond.

Source: UxC, Bloomberg, World Nuclear Association, TDS

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### Exhibit 2. 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	0.80
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		9.30
Average Annual Operating Costs	C\$/lb		11.62
Post Tax NPV-8% (90%)*	C\$ mm	755.9	558.1
NPV-10% (90%)	C\$ mm		416.4

\* At fiscal 2021. TDS Discounted to 2020

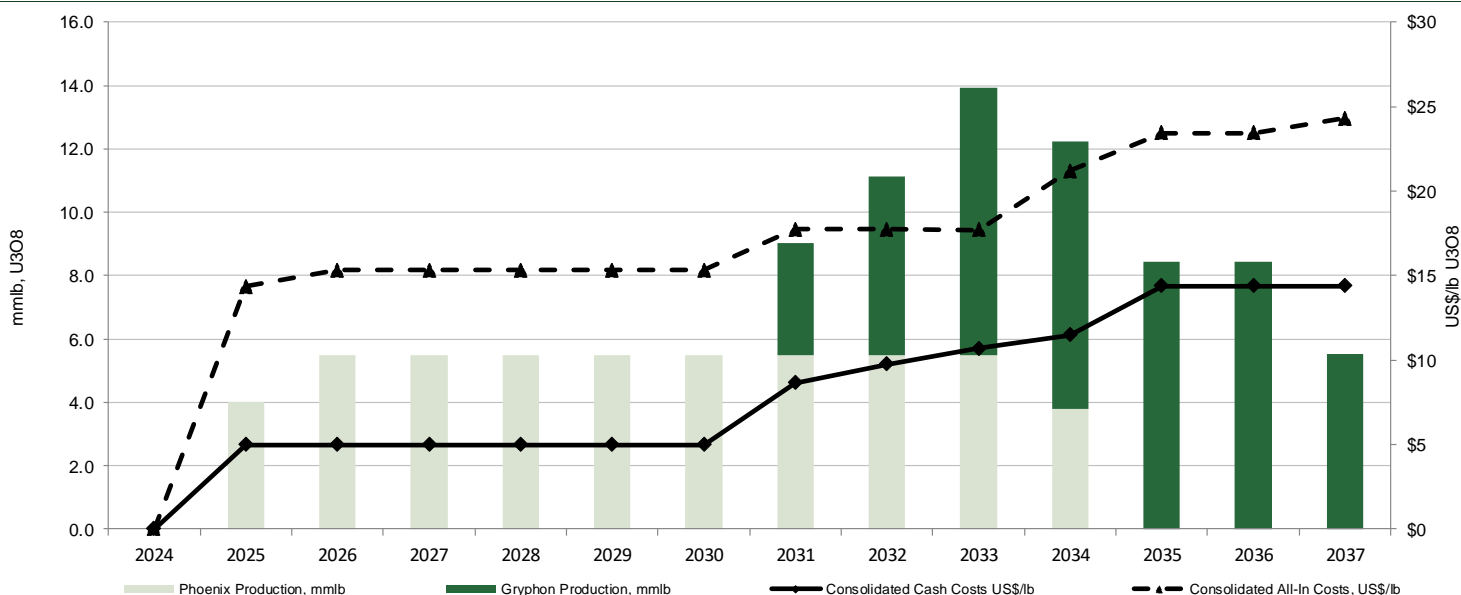
Source: Company, TDS

### Exhibit 3. 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 4. Wheeler River Production and Cost Profile**



Source: Company, TDS

### Valuation

Denison is trading at 0.43x our 10%NAVPS estimate of \$1.04 (previously \$1.07) versus the base metal developers in our coverage universe at 0.64x.

### Justification of Target Price

Our \$0.85 target price (unchanged) is based on 0.80x our 10%NAVPS estimate (unchanged) weighted 100% using a 0.75 Canadian dollar/U.S. dollar exchange ratio.

### 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	0.45
Wt. Avg. S/O (mm)	562.9	592.6	621.8	647.5
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\$m)	2018A*	2019A	2020E	2021E
Revenues	15.6	15.5	15.4	16.4
Operating Costs	15.9	14.4	12.5	11.6
Royalty	0.0	0.0	0.0	0.0
Depreciation	3.7	3.7	3.6	4.0
Exploration	15.5	15.2	7.0	9.0
Reclamation	0.0	0.0	0.0	0.0
G & A	5.4	2.6	3.2	3.2
Interest Expense	3.7	4.1	4.1	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	(1.9)	0.0
EBITDA	(29.8)	(10.7)	(6.7)	(7.4)
EBIT	(33.5)	(14.4)	(10.3)	(11.4)
EBT	(37.2)	(18.5)	(14.4)	(15.4)
Taxes (recovery)	(8.3)	(5.4)	(0.9)	(4.6)
Effective tax rate	na	na	na	na
Minority interest	-	-	-	-
Reported net earnings	(33.8)	(18.1)	(16.0)	(10.8)
Adjusted net earnings	(27.7)	(18.1)	(16.0)	(10.8)
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\$m)	2018A*	2019A	2020E	2021E
Uranium/Tolling	4.2	4.2	4.0	5.8
Vanadium	0.0	0.0	0.0	0.0

Cash Flow Statement (C\$m)	2018A*	2019A	2020E	2021E
Operating CF bf. ch. in WC	(21.3)	(21.1)	(13.8)	(12.6)
CF from operating activities	(21.0)	(18.8)	(15.4)	(12.6)
CF from financing activities	4.5	4.7	30.3	0.0
CF from investing activities	36.0	(0.9)	(0.3)	0.0
CAPEX	(1.6)	(0.9)	(0.1)	0.0
CFPS bf. ch. in WC (C\$/sh)	(0.04)	(0.04)	(0.02)	(0.02)

Balance Sheet (C\$m)	2018A*	2019A	2020E	2021E
Cash	23.2	8.2	22.8	10.2
Current assets	31.7	16.5	40.6	27.9
Total assets	312.2	300.0	308.8	292.1
Current liabilities	12.5	14.9	9.3	9.3
Long term debt	0.0	0.0	0.0	0.0
Total liabilities	89.9	89.8	83.1	77.2
Non Controlling Interest	0.0	0.0	0.0	0.0
Working Capital	19.2	1.6	31.2	18.6
Shareholders' equity	222.2	210.1	225.7	214.9

\*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	31.30	36.00
Forex CAD to USD	0.77	0.75	0.74	0.75

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

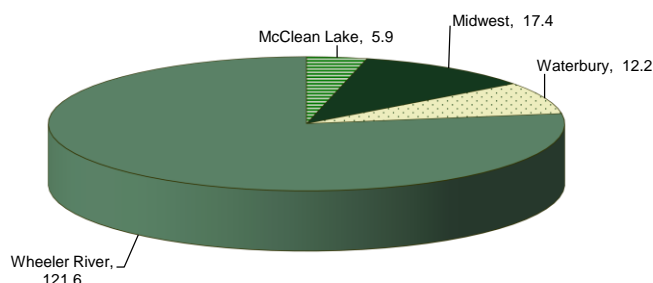
NAV Analysis	8% Discount		10% Discount	
	US\$m	US\$/sh	US\$m	US\$/sh
<b>Mining Assets</b>				
McClean Mill Complex (22.5%)	66.7	0.10	66.7	0.10
Athabasca Basin Resources (22.5% to 60%)	169.1	0.25	169.1	0.25
Phoenix (90%)	496.6	0.73	397.7	0.58
Gryphon (90%)	61.6	0.09	18.7	0.03
Hook-Carter Property	4.0	0.01	4.0	0.01
<b>Total Project NAV</b>	<b>798.0</b>	<b>1.17</b>	<b>656.2</b>	<b>0.96</b>
<b>Other Tangible Assets</b>				
Investment - GoviEx	7.6	0.01	7.6	0.01
Skyharbour Resources	1.0	0.00	1.0	0.00
<b>Corporate Adjustments</b>				
Working Capital	16.1	0.02	16.1	0.02
Long Term Debt	0.0	-	0.0	-
In the Money Options/Warrants	1.3	0.00	1.3	0.00
Estimated Working Capital Additions	23.8	0.03	23.8	0.03
Estimated Debt Additions	0.0	-	0.0	-
<b>Total Net Asset Value US\$/sh.</b>	<b>635.8</b>	<b>0.93</b>	<b>529.4</b>	<b>0.78</b>
Total Net Asset Value C\$/sh.		1.25		<b>1.04</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) \$1.29

### Resources

Resources by Asset (mm lb U3O8)



Source: Company, TDS



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### TD Securities Equity Research Disclosures

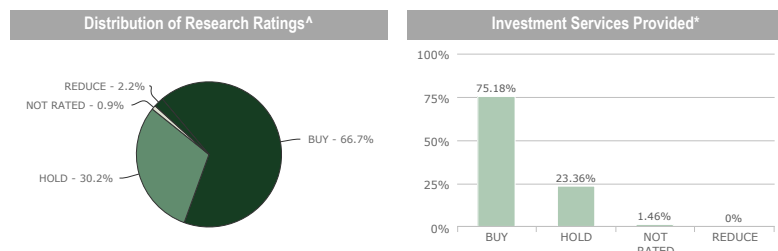
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Denison Mines Corp.	DML-T	1, 2, 4

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Current as of: October 14, 2020

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# Action Note

## Equity Research

October 14, 2020

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