



Denison Mines Corp.

{DML-T, DNN-US}

SECTOR: Mining

STOCK PRICE	\$1.41
RATING	BUY
TARGET PRICE	\$2.20
RISK	Very High

ACQUISITION OFFER UPS THE BAR – SHOULD GET OURD'S ATTENTION

Denison Moves to Lock Down 100% of Flagship Wheeler River Project

OUR TAKE: Denison announced this morning that it has delivered an offer to Overseas Uranium Resources Development Co., Ltd. (“OURD”) to acquire a 100% interest in its subsidiary JCU (Canada) Exploration Company, Limited (“JCU”) for \$40.5M in cash, more than tripling the \$12.5M accepted offer in place with UEX Corporation (TSX: UEX) announced the week before last <[see UEX Press Release here](#)>. It should come as little surprise that Denison is making a move to acquire JCU with a premium bid to jump ahead of UEX. Denison’s offer is not contingent on due diligence or financing, as DML already has the cash resources to fund the transaction. **We think Denison should aggressively pursue JCU at this price level as the transaction would be quite accretive.** Specifically, JCU’s assets include 10% ownership in DML’s flagship Wheeler River project (which DML owns the remaining 90%). We value DML’s 90% share of the Wheeler River project at \$1.49B (implies \$1.65B 100% basis, or \$165M for 10%). JCU’s fractional ownership in the Wheeler River asset alone would justify DML’s premium bid in our view, although JCU owns stakes in other valuable assets in the Basin, including an ~30.1% share in the Millennium project (Cameco, 69.9%, 104.9Mlb U₃O₈) and others (see Table 1). In total, JCU’s attributable resource pounds across all projects amount to ~97 Mlb U₃O₈ (see Table 2). According to UEX, its offer for JCU reflected an acquisition cost of ~US\$0.097/lb U₃O₈ in-situ resources. DML’s offer at \$40.5M equates to ~US\$0.34/lb (before adjusting for JCU working capital), where DML currently trades at ~US\$5.27/lb and Athabasca Basin peers trade at an average of ~US\$4.23/lb. DML’s offer is “binding subject only to the completion of definitive documentation, regulatory approvals (if applicable), and the termination of OURD’s existing definitive purchase agreement with UEX Corporation (TSX: UEX) in accordance with its terms.” As a reminder, Denison was highlighted in our Haywood 2021 Top Picks Report <[Link to Haywood 2021 Top-Picks report. DML details on p.30](#)>.

HIGHLIGHTS

- ◆ **Offer details:** DML’s proposed offer includes cash payments of up to \$40.5 million and the assumption of JCU’s existing liabilities (see details below). The cash payments include a \$10.0 million refundable deposit on signing of a definitive agreement, followed by \$28.0 million on closing, and a further payment of up to \$2.5 million expected to be paid within 45 days of the closing date that is subject to adjustment based upon JCU’s actual working capital on the closing date. As mentioned, this offer compares to UEX’s definitive agreement with OURD to acquire JCU for cash payments of up to \$12.5 million and the assumption of JCU’s existing liabilities.
- ◆ **JCU’s existing liabilities:** JCU has an outstanding liability of ~\$34.5 million (as of Dec. 2020) to the Japan Atomic Energy Agency (“JAEA”) as a result of a transaction in November 2000 where JCU acquired Canadian exploration assets from PNC (JAEA’s predecessor). At the time, the purchase price was funded through an agreement to make annual payments equal to 10% of free cash flow from any projects in the JCU portfolio that have entered commercial production after full recovery of any capital invested in the asset. As of year-end, the liability, comprised of the purchase price plus accrued interest, totals \$34.5 million. However, this requirement to make future cash flow payments to JAEA terminates on the earlier of its termination date of March 31, 2030, or the payment of all outstanding liability (including accrued interest).
- ◆ **JCU Project Portfolio:** If accepted, DML will not only be acquiring the remaining 10% of its Wheeler River Project (135.1 Mlb in resources - 100% basis), but also a 30.1% stake in the Millennium Project with 104.9 Mlb in resources on a 100% basis (Cameco 69.9%), a 33.8% interest in the Kiggavik Project with 133 Mlb in resources on a 100% basis (Orano Canada Inc. 66.2%), and a 34.5% interest in UEX’s Christie Lake Project (20.35 Mlb in resources on a 100% basis). Furthermore, JCU also owns a minority equity stake in eight other grassroots and mid-stage exploration projects within the Athabasca Basin (see Tables 1 and 2).

RECOMMENDED ACTION

We recommend adding exposure as Denison continues to de-risk the Wheeler River project and sector fundamentals improve...

- ◆ **Denison continues to be rated a top-pick in the uranium space largely underpinned by our thesis that recent de-risking work at Wheeler River regarding the ISR mining approach to the ultra-high-grade Phoenix deposit is going under-appreciated by the market.** We expect ongoing and future work to further demonstrate the viability of this low-cost mining approach and believe that will translate into more positive movement in DML’s share price. Denison is applying its growing in-house ISR skill set, unique in the Athabasca Basin, to another deposit, potentially unlocking value in a project that would otherwise likely require significant scaling to be economic by conventional mining techniques. We recommend buying Denison to gain leverage to the uranium sector and potentially ultra low cost future production from Wheeler River while Denison works to uncover additional value in its extensive portfolio of other projects.

KEY STATISTICS AND METRICS

52-Week High/Low	\$2.29/\$0.41
YTD Performance	68%
Dividend Yield	N/A
Shares O/S	803.9M
Market Capitalization	\$1,133.5M
Cash	\$150M
Debt	NIL
Enterprise Value	\$983.5M
Daily Volume (3 mos.)	3,225,960
Currency	C\$ unless noted

HAYWOOD ESTIMATES (CAD)

	2019A	2020A	2021E
Revenue (\$M)	\$15.5	\$14.4	\$13.5
U ₃ O ₈ Production	-	-	-
EBITDA (\$M)	(\$14.8)	(\$7.2)	(\$15.1)
CFPS (\$/share)	(\$0.03)	(\$0.02)	(\$0.02)

VALUATION

Our target is based on a corporate NAV sum-of-parts assessment of Denison’s full suite of interests, including a DCF_{6%} assessment of future production from the Wheeler River project and other credits.

Net of corporate adjustments, our NAV is \$1.9 billion, or \$2.18 per fully diluted share.

Table 1 - JCU 's Canadian Exploration Projects and Ownership as of December 31, 2020

Project	Province	JCU Share (%)	Partners (%) * Operator	
Millennium	Saskatchewan	30.0990	Cameco Corporation*	69.9010
Kiggavik	Nunavut	33.8123	Orano Canada Inc.* Urangesellschaft Canada Ltd	24.0033 42.1844
Wheeler River	Saskatchewan	10.0000	Denison Mines Corp.*	90.0000
Christie Lake	Saskatchewan	34.4508	UEX Corporation*	65.5492
Wolly	Saskatchewan	13.1077	Orano Canada Inc.* Denison Mines Corp.	64.9997 21.8926
Close Lake	Saskatchewan	10.3128	Orano Canada Inc.* Cameco Corporation	75.1279 14.5593
Candle Lake	Saskatchewan	25.0000	Denison Mines Corp.* Uranium One	44.9400 30.0600
Beatty River	Saskatchewan	21.4253	Orano Canada Inc.* UEX Corporation	56.5303 22.0444
Waterfound River	Saskatchewan	26.9830	Orano Canada Inc.* Denison Mines Corp.	60.7008 12.3162
Cree Extension	Saskatchewan	30.0990	Cameco Corporation* Orano Canada Inc.	41.9645 27.9365
Moon Lake	Saskatchewan	20.1494	Cameco Corporation* Orano Canada Inc.	56.6816 23.1690
Moore Tomblin	Saskatchewan	13.5947	Orano Canada Inc.* Cameco Corporation	66.6194 19.7859

Source: UEX Corporation

Table 2 – Historic Indicated and Inferred Resources – JCU Projects

Deposit ⁽¹⁾	Ownership Interest	Indicated Resources				Inferred Resources			
		Tonnes	Grade (wt% U ₃ O ₈)	U3O8 (lbs)	Combined Company Share (lbs)	Tonnes	Grade (wt% U ₃ O ₈)	U3O8 (lbs)	Combined Company Share (lbs)
Wheeler River ⁽⁴⁾	JCU - 10%	1,809,000	3.3	132,100,000	13,210,000	82,000	1.700	3,000,000	300,000
Millennium ⁽⁵⁾	JCU - 30.099%	1,442,600	2.39	75,900,000	22,845,141	412,400	3.19	29,000,000	8,728,710
Kiggavik ⁽⁶⁾	JCU - 33.8123%	10,418,000	0.47	127,267,000	43,031,900	713,000	0.28	5,353,000	1,809,972
Christie Lake ⁽²⁾⁽³⁾	JCU - 34.45%					588,000	1.57	20,350,000	7,010,575
Subtotal - JCU Projects					79,087,041				17,849,257

Source: UEX Corporation



Important Information and Legal Disclosures

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Analyst Certification

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.

Important Disclosures

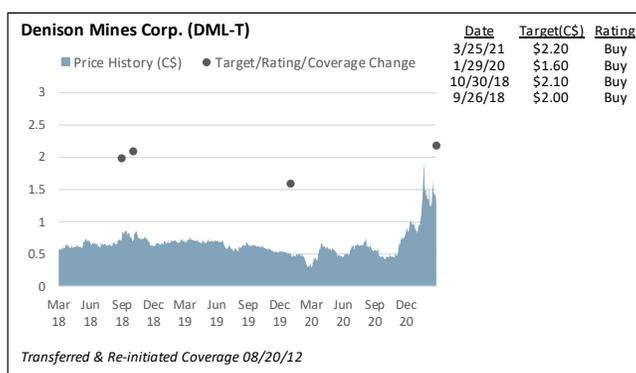
Of the companies included in the report the following Important Disclosures apply:

- ◆ Haywood Securities, Inc. has reviewed lead projects of Denison Mines Corp. (DML-T) and a portion of the expenses for this travel have been reimbursed by the issuer.
- ◆ Haywood Securities Inc. or one of its subsidiaries has managed or co-managed or participated as selling group in a public offering of securities for Denison Mines Corp. (DML-T) in the past 12 months.

Distribution of Ratings (as of May 4, 2021)

	%	#	IB Clients (TTM)
Buy	84.8%	78	91.9%
Hold	7.6%	7	8.1%
Sell	0.0%	0	0.0%
Tender	3.3%	3	0.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	4.3%	4	0.0%

Price Chart, Rating and Target Price History (as of May 4, 2021)



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

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