



Denison Mines Corp.

{DML-T, DNN-US}

SECTOR: Mining

STOCK PRICE	\$1.64
RATING	BUY
TARGET PRICE	\$2.20
RISK	Very High

AGREEMENT TO ACQUIRE A 50% INTEREST IN JCU

Denison to Consolidate 95% of Wheeler River with UEX/JCU Deal

OUR TAKE: Denison announced this morning that it has entered into a binding agreement with UEX Corporation (UEX-T, not covered) to **acquire a 50% interest in "JCU" (JCU (Canada) Exploration Company, Limited) for \$20.5M**, contingent on UEX acquiring 100% of JCU from "OURD" (Overseas Uranium Resources Development Co., Ltd.) for \$41M in cash <[see DML Press Release here](#) and [UEX Press Release here](#)>. Denison will enter into a 3-month term loan agreement with UEX to lend UEX the \$41M required to purchase JCU. Half that loan amount (\$20.5M) will be considered repaid upon the transfer to Denison of a 50% interest in JCU. Recall that UEX initially entered into an agreement to acquire 100% of JCU from OURD (announced Apr.22) for \$12.5M including working capital of JCU. On May 4th, Denison entered a superior competing bid to acquire 100% of JCU for \$40.5M in cash <[see May 4th Flash here](#)>, where we said we believed Denison should aggressively pursue JCU at that price level due to the attractive read-through valuation on just the embedded 10% share JCU owns in Denison's flagship 90%-owned Wheeler River Project. Today's news reflects similar acquisition metrics for JCU to DML's May 4th offer (<\$0.35/lb U3O8 in-situ resource), for half of JCU (rather than 100%), and **allows Denison to further consolidate the Wheeler River Project (to 95% ownership, following UEX's successful acquisition of JCU), which is very positive.** With both entities competing for JCU, overall the deal looks like a good compromise between DML and UEX. **We highlight that from a value accretion perspective, on the Wheeler River component alone, the deal is highly accretive to DML shareholders.** Specifically, we value DML's 90% share of the Wheeler River project at C\$1.486B (implies C\$1.65B 100% basis, or C\$82.5M for 5%). The binding agreement will enable DML to pick up the additional 5% interest in Wheeler for \$20.5M from UEX, or just under ¼ of our proportional NPV of the project. UEX's offer, at C\$41.0M to acquire JCU, equates to ~US\$0.347/lb for JCU's ~97Mlb U₃O₈ in resources, where DML currently trades at ~US\$5.94/lb and Athabasca Basin peers trade at an average of ~US\$4.49/lb. 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:** Denison will enter into a 3-month term loan agreement with UEX to lend UEX the \$41M required to purchase JCU. Half that loan amount (\$20.5M) will be considered repaid by UEX on the transfer of 50% of the JCU shares to Denison immediately following the closing of the OURD Agreement and the acquisition of the JCU shares by UEX. Under the terms of the agreement, UEX may extend the term loan by an additional three months, incurring interest charges at a rate of 4% from the date of the initial advance. Additionally, all of the shares of JCU owned by UEX will be held by Denison as security against the term loan pursuant to a pledge agreement until the term loan is fully repaid. **Please note that the "OURD Agreement" and UEX's acquisition of JCU is contingent on a shareholder vote by OURD to be held on June 18th in Tokyo. Upon OURD approval of the transaction, the deal is expected to close on August 3rd, 2021.**
- ◆ **JCU Project Portfolio:** DML will not only be acquiring an additional 5% of its Wheeler River Project (135.1 Mlb in resources - 100% basis), but also a 50% interest in JCU's stake in other valuable assets in the Basin. Notably, DML will be acquiring half of JCU's 30.1% stake in the Millennium Project with 104.9 Mlb in resources on a 100% basis (Cameco 69.9%), 33.8% interest in the Kiggavik Project with 133 Mlb in resources on a 100% basis (Orano Canada Inc. 66.2%), and 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	95%
Dividend Yield	N/A
Shares O/S	804.9M
Market Capitalization	\$1,320M
Cash	\$150M
Debt	NIL
Enterprise Value	\$1,170M
Daily Volume (3 mos.)	2,872,280
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

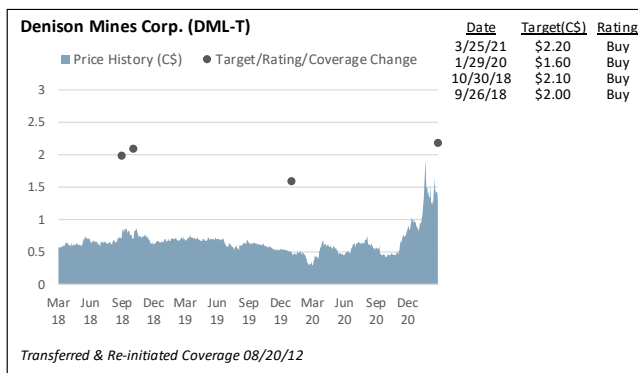
Of the companies included in the report the following Important Disclosures apply:

- ◆ 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.
- ◆ Haywood Securities, Inc. or one of its subsidiaries expects to receive or intends to seek compensation for investment banking services from Denison Mines Corp. (DML-T) in the next three months.

Distribution of Ratings (as of June 15, 2021)

	%	#	IB Clients (TTM)
Buy	85.9%	79	90.2%
Hold	7.6%	7	9.8%
Sell	0.0%	0	0.0%
Tender	2.2%	2	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 June 15, 2021)



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

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