

Azarga Uranium Corp.

(AZZ-T: C\$0.27) *intraday*

June 30, 2021

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BUY

Target: C\$0.50 (from C\$0.45)

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PEA for Gas Hills ISR Satellite Signals Doubling of Production at Flagship Dewey Burdock to 2 MM lbs pa

AZZ-T	New	Last
Rating	--	BUY
Target (C\$)	0.50 ▲	0.45
Projected Return	89% ▲	53%
Target/NAV multiple	--	0.8x
Corporate DCF (C\$)	0.48 ▲	0.42
Cash & Investments (C\$)	0.03 ▲	0.01
Debt (C\$)	--	0.00
Exploration & Unmodelled Resources	0.11 ▼	0.13
Total NAV	0.62 ▲	0.56
P/NAV	0.43x ▼	0.53x

Company Data	
Last Price	C\$ 0.27
52-week Range	C\$ 0.16 - C\$ 0.36
Market Cap (C\$MM)	C\$ 61.7
Enterprise Value (\$MM)	\$48.1
Shares Outstanding - Basic (MM)	232.7
Shares Outstanding - FD (MM)	276.6
Avg Volume - 100d (000 shares/day)	619.8
Cash (\$MM)	\$1.72
Debt (\$MM)	\$0.10
Working Capital (\$MM)	\$1.37

Forecast	2020A	2021E	2022E	LT
Spot (US\$/lb)	29.8	32.0	35.0	50.0
Term (US\$/lb)	32.0	35.0	40.0	50.0

All Figures in US\$ Unless Otherwise Noted
 Source: FactSet, Company Reports, Eight Capital

AZZ-T: Price/Volume Chart



Source: FactSet

Company Description

Azarga Uranium is developing five low cost ISR uranium properties in South Dakota and Wyoming. An updated PEA on its flagship Dewey-Burdock project indicates a pre-tax 8% NPV of \$171 MM and IRR of 55% using a \$55/lb U3O8 price. Second project Gas Hills is just over 200 miles from Dewey-Burdock and hosts an ISR amenable M&I resource of 7.7MMlbs grading 0.101%.

We maintain our BUY rating for Azarga Uranium and increase our target price to C\$0.50/sh (from C\$0.45/sh) after incorporating the results of the GH ISR satellite PEA. Our TP is based on a 0.8x multiple applied to our 10% DCF model.

PEA results were released for the Gas Hills (GH) low-cost ISR uranium project in Wyoming. The study contemplates trucking loaded ISR resin roughly 200 miles from GH to the proposed ISR plant at flagship Dewey Burdock (DB) in South Dakota, which could effectively double planned uranium production to roughly 2 MM lbs pa U3O8. The PEA yielded an after-tax NPV8% of \$102.6MM for GH production, for capex of only \$26 MM (per this GH PEA, largely for wellfield development), which excludes DB ISR plant expansion capex of roughly \$15-20MM that would be required to simultaneously process ISR feed from both DB and GH. Both DB and GH deposits are among the highest grade of ISR peer projects (both deposits grade around 0.1% U3O8).

This PEA essentially merges secondary GH with flagship DB. GH had been Azarga's secondary project. While secondary projects are sometimes heavily discounted by investors, today's announcement effectively combines GH with DB, and therefore the strong PEA economics from low capex should ultimately have a positive to very positive impact on the stock. AZZ stock rose 4% yesterday morning on this news (while uranium developer peers were largely flat), before closing the day flat (vs. our uranium developer peer group avg. loss for the day of 4%).

We now assume a DB ISR plant expansion in mine year 3 (2025) for additional capex of \$20 MM to accommodate additional ISR feed trucked from GH. This announced PEA followed a resource update on 30-MAR-21 that deemed 72% of the resource to be amenable to ISR mining, which we said created the opportunity to develop GH as a satellite to flagship DB ([see note](#)). We went ahead and DCF-modeled GH as a satellite to DB back in March/April, but we kept the bar low for management by conservatively assuming that GH was trucked to extend DB LOM (which heavily discounted the added cash flows from GH). This modeled LOM extension yielded a post-tax NPV8% of ~US\$40 MM at a uranium price of \$50/lb (which was offset in our valuation by deferring first production by one year to 2023). Management delivered the goods with this announced PEA's post-tax NPV8% at \$55/lb of US\$102.6 MM (NPV declines to \$82.6 MM if we account for DB plant expansion capex of \$20MM to allow for simultaneous processing of 1 MM lbs pa from both GH and DB for 2 MM lbs pa combined; so essentially, these announced GH PEA economics assume that GH production will displace/replace production from the proposed NRC licensed 1 MM lbs pa ISR plant at DB).

AZZ plans to build DB, then amend permits to double ISR plant throughput. Once final state permitting is complete at DB (targeted by YE or shortly after), AZZ aims to bring DB online in 2023 before applying for a permit amendment to expand the ISR plant to 2 MM lbs pa. This would free up additional plant capacity for GH to be developed (adding another 1 MM lbs pa for 2 MM lbs pa total).

There is precedent for this satellite ISR concept in the region. This GH satellite ISR concept is similar to Ur-Energy's (URE-T, BUY, C\$2.45 TP) proposed Shirley Basin project in Wyoming, which the company contemplated developing as a satellite to its Lost Creek mine a 2015 PEA ([link to PEA](#)).

AZZ could re-rate upon receiving final state permits. AZZ trades on the cheaper side at 0.43x our NAVPS vs. our uranium developer peer group avg. of 0.71x. The company was granted EPA approval in November 2020 following the clearing of the NRC Source and Byproduct Materials License in October 2020. The only major step remaining is for the State of South Dakota to issue the Mine Permit it has already recommended. We expect board hearings to take place this summer to finalize key state permits, which are expected to culminate in a briefing schedule by around fall that outlines the public hearing process. The public hearings are expected to lead to final state permit approval as early as YE, which could re-rate the stock and possibly lead to Azarga being taken out by the operators of the neighbouring ISR plants, namely Cameco (CCO-T, NEUTRAL, C\$22 TP, covered by R. Profiti), Energy Fuels (EFR-T, BUY, C\$10.50 TP), Peninsula Energy (Not Rated), Uranium 1 (Not Rated), or URE.

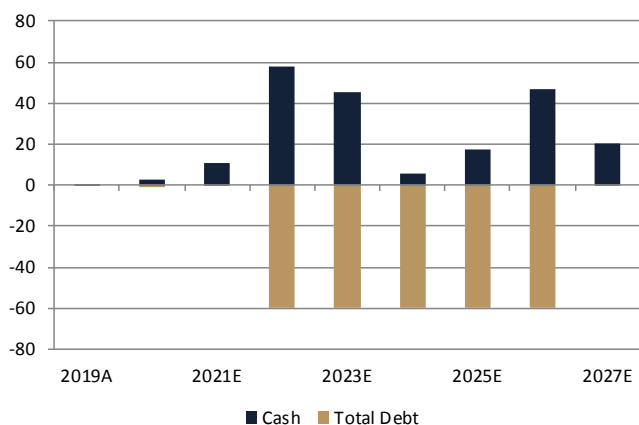
Azarga Uranium Corp.

Net Asset Valuation at Eight Capital Price Deck (C\$)

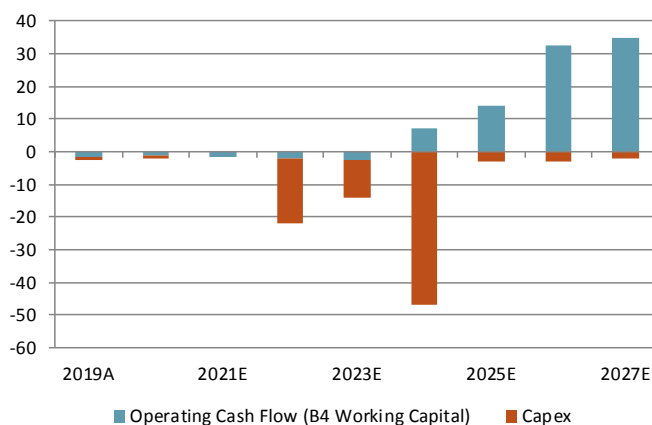
	Target Setting NAV			NAV at Various Discount Rates					
	Discount Rate	(\$MM)	(\$/Share)	0%		5%		15%	
				(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)
Uranium Assets									
Dewey Burdock (100%)	10%	133	0.47	319	1.13	203	0.72	90	0.32
Gas Hills (100%)	10%	54	0.19	128	0.45	84	0.30	34	0.12
Total Uranium Assets		188	0.66	446	1.58	286	1.01	124	0.44
Other Assets & Expenses									
Cash		8	0.03	8	0.03	8	0.03	8	0.03
Debt		0	0.00	0	0.00	0	0	0	0.00
Resources		31	0.11	31	0.11	31	0.11	31	0.11
Exploration, G&A, Other	10%	(52)	(0.18)	(167)	-0.59	(97)	(0)	(20)	(0.07)
Net Other Assets		(12)	(0.04)	(127)	-0.45	(58)	(0)	19	0.07
Net Asset Value		176	0.62	319	1.13	229	0.81	144	0.51
Share Price			0.27		0.27		0.27		0.27
P/NAV			0.43x		0.24x		0.33x		0.52x

Financial Forecasts at Eight Capital Deck (MM US\$)

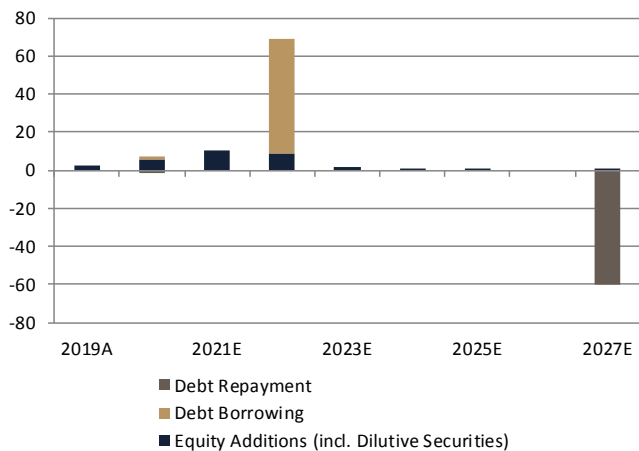
Cash and Debt



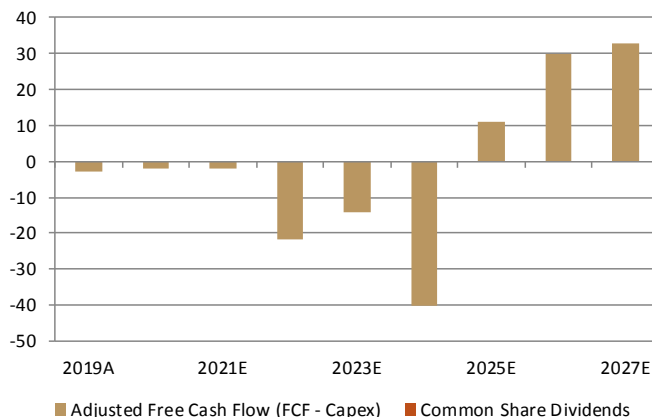
Operating Cash Flow and Capital Spending



Changes in Debt and Equity



Free Cash Flow and Common Share Dividends



Source: Company Reports, Eight Capital

Azarga Uranium Corp. (AZZ-T)					
Rating	BUY	C\$ Target	\$0.50	Shares O/S (MM)	232.7
		C\$ Close	\$0.27	Fully Diluted Shares (MM)	276.6
Mitch Vanderydt, P.Eng, Mining Research Analyst mvanderydt@viiicapital.com		12-month return	89%	Basic Mkt. Capitalization (\$MM)	C\$ 61.7
				Enterprise Value (\$MM)	C\$ 59.6

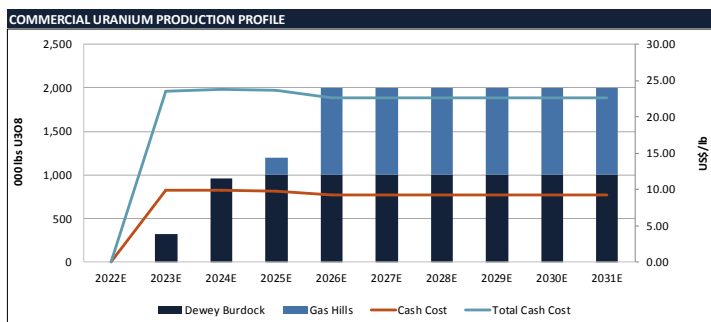
PRODUCTION ESTIMATES (000 lbs)					
Year-End December	2018A	2019A	2020A	2021E	2022E
Dewey Burdock	0	0	0	0	0
TOTAL	0	0	0	0	0

TOTAL CASH COST ESTIMATES (excl. non-cash, incl. wellfield expenditures) (US\$/lb)					
Year-End December	2018A	2019A	2020A	2021E	2022E
Dewey Burdock	0.0	0.0	0.0	0.0	0.0
Wt. Avg. Total Cash Costs	0.0	49.2	30.5	29.3	23.0

URANIUM RESERVES & RESOURCES					
	Ownership	Tons MM t	Grade % U3O8	Cont U3O8 (MM lbs) 100% Basis	PWE Share
Proven and Probable Reserves					
*The company has no NI 43-101 reserves at this time					
Total Reserves		0.00	0.00%	0.00	0.00
Measured and Indicated Resources					
Dewey Burdock	100%	8.49	0.11%	18.39	18.39
Centennial	100%	6.87	0.09%	10.37	10.37
Aladdin	100%	0.47	0.11%	1.04	1.04
Gas Hills / Juniper Ridge	100%	12.2	0.07%	16.8	16.8
Total Measured and Indicated Resources		27.99	0.09%	46.57	46.57
Inferred Resources					
Dewey Burdock	100%	0.76	0.05%	0.83	0.83
Centennial	100%	1.36	0.09%	2.33	2.33
Aladdin	100%	0.04	0.12%	0.10	0.10
Gas Hills / Juniper Ridge	100%	0.62	0.05%	0.67	0.67
Total Inferred Resources		2.79	0.07%	3.93	3.93
TOTAL RESOURCES		30.78	0.09%	50.49	50.49
Current Per Pound Metrics					
EV/lb (US\$)	AZZ		Dev. Peers	Prem./Disc.	
		0.95	1.99	(52%)	

NET ASSET VALUE (C\$) - 10%				
	NAV (\$ MM)	/Share	% NAV	
Assets:				
Dewey Burdock + Gas Hills (100%)	187.7	0.66	107%	
Unmined Resources	31.1	0.11	18%	
Balance Sheet & Other Items:				
Cash & Investments	8.5	0.03	5%	
Debt	0.0	0.00	0%	
Exploration, G&A, and Other	(51.6)	(0.18)	(29%)	
Total	175.7	0.62	100%	
Eight Capital DCF Target Multiple		0.80x		
Share Price Target		0.50		

Long Term Uranium Price Assumption (US\$/lb)					
Target(C\$/share)	30	40	50	60	70
0% Discount	0.24	0.59	0.93	1.27	1.61
5% Discount	0.22	0.45	0.67	0.90	1.13
10% Discount	0.20	0.37	0.52	0.68	0.84
15% Discount	0.20	0.32	0.43	0.55	0.66



BALANCE SHEET (US\$ MM)					
Year-End December	2019A	2020A	2021E	2022E	
Assets:					
Cash & ST Investments	0.18	2.40	10.60	57.56	
Other Current Assets	0.02	0.06	0.06	0.06	
Current Assets	0.21	2.46	10.66	57.62	
Mineral Properties	41.51	42.69	42.69	62.69	
Other Non-Current Assets	0.13	1.03	1.03	1.03	
Total Assets	41.85	46.17	54.37	121.34	
Liabilities:					
Current Liabilities	0.84	0.64	0.54	0.54	
Long-Term Debt	0.00	0.00	0.00	60.00	
Other Non-Current Liabilities	3.77	5.62	5.73	8.73	
Total Liabilities	4.61	6.27	6.27	69.27	
Capital Stock	64.23	69.04	79.04	87.90	
Retained Earnings	(27.0)	(29.1)	(30.9)	(35.8)	
Total Shareholder Equity	37.24	39.91	48.11	52.07	

INCOME STATEMENT (US\$ MM)					
Year-End December	2019A	2020A	2021E	2022E	
Total Revenue:					
Total Revenue	0.0	0.0	0.0	0.0	
% Uranium	0%	0%	0%	0%	
% Other	100%	100%	100%	100%	
Operating Costs					
Operating Costs	0.0	0.0	0.0	0.0	
G&A	1.9	1.6	1.9	1.9	
Exploration	0.0	0.0	0.0	0.0	
Depreciation	0.0	0.0	0.0	0.0	
Other	2.2	0.4	(0.1)	3.0	
EBITDA	(4.1)	(2.0)	(1.8)	(4.9)	
EBIT	(4.1)	(2.0)	(1.8)	(4.9)	
Interest Expense	0.0	0.1	0.0	3.0	
EBT	(4.1)	(1.9)	(1.8)	(1.9)	
Taxes	-0.1	0.2	0.0	0.0	
Equity Earnings	0.0	0.0	0.0	0.0	
Other	-3.8	0.0	0.0	0.0	
Net Income (Reported)	(8.0)	(1.7)	(1.8)	(1.9)	
Net Income (Adjusted)	(8.0)	(1.7)	(1.8)	(1.9)	
EPS (Reported) \$/sh					
	(0.04)	(0.01)	(0.01)	(0.02)	
EPS (Adjusted) \$/sh					
	(0.04)	(0.01)	(0.01)	(0.02)	
Average Shares (MM)	185.5	195.7	249.6	283.3	

CASH FLOW STATEMENT (US\$ MM)					
Year-End December	2019A	2020A	2021E	2022E	
Net Income (Reported)					
Net Income (Reported)	(8.0)	(1.7)	(1.8)	(1.9)	
Depreciation	0.0	0.0	0.0	0.0	
Working Capital Changes	(0.3)	(0.3)	0.0	0.0	
Other	6.8	1.1	0.0	0.0	
Operating Cash Flow	(1.4)	(1.0)	(1.8)	(1.9)	
Operating Cash Flow/sh (\$/sh)	(0.01)	(0.01)	(0.01)	(0.01)	
Capital Expenditures	(1.3)	(1.2)	0.0	(20.0)	
Acquisitions	0.1	0.0	0.0	0.0	
Other	0.0	(0.9)	0.0	0.0	
Investing Cash Flow	(1.2)	(2.1)	0.0	(20.0)	
Common Share Dividends	0.0	0.0	0.0	0.0	
Equity Financing	2.2	5.3	10.0	8.9	
Debt Issue	0.0	1.7	0.0	60.0	
Debt Repayment	0.0	(1.8)	0.0	0.0	
Other	0.0	0.0	0.0	0.0	
Financing Cash Flow	2.2	5.3	10.0	68.9	
Net Change in Cash	(0.2)	2.2	8.2	47.0	
Cash Balance	0.2	2.4	10.6	57.6	
Free Cash Flow	(2.8)	(2.1)	(1.8)	(21.9)	

VALUATION DATA					
Year-End December	2019A	2020A	2021E	2022E	
P/E	--	--	--	--	
P/CF	--	--	--	--	
EV/EBITDA	--	--	--	--	
FCF Yield	--	--	--	--	

INPUT PRICES					
	2019A	2020A	2021E	2022E	
Eight Capital Spot Uranium (US\$/lb)	25.7	29.8	32.0	35.0	
Uranium Realized Price (US\$/lb)	0.0	0.0	0.0	0.0	
Exchange (US\$/C\$)	0.75	0.73	0.80	0.80	

Source: Company Reports, FactSet, Eight Capital

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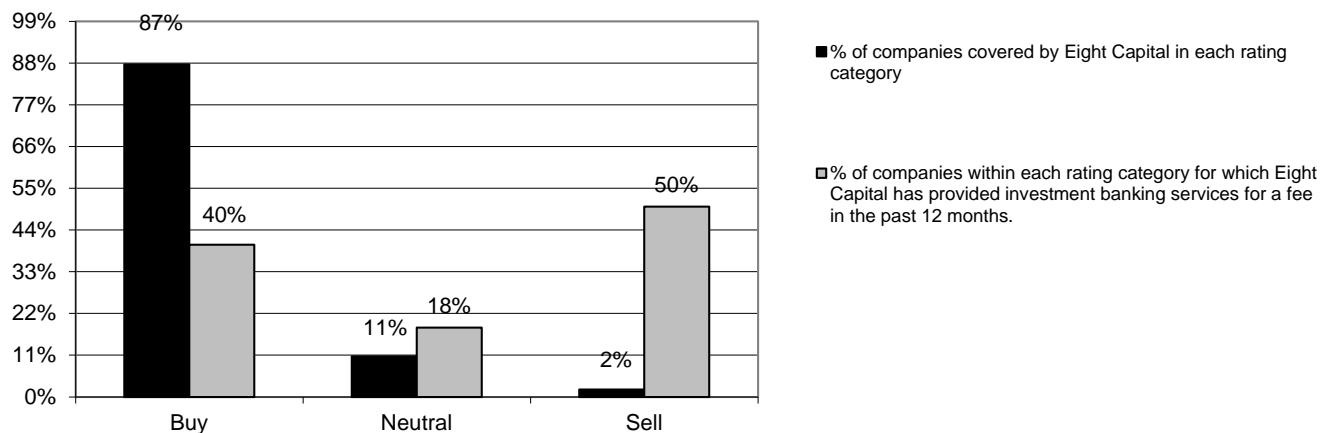
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