

With \$96M Capex, \$15/lb Cash Costs, Salamanca DFS Dazzles

By Roger Murray, Global Correspondent

Berkeley Energia (AIM/ASX:BKY) has further boosted the appeal of its Salamanca project in Spain with the recently-completed definitive feasibility study (DFS) that shows an upfront capital outlay of \$95.7 million and all-in cash costs of \$15.06 per pound U3O8, significantly below current spot and term price indices (*see sidebar, right*).

The firm announced the DFS results on July 14, highlighting that the study “has confirmed the Salamanca project as one of the world’s lowest cost producers capable of generating strong after tax cash flow through the current low point in the uranium price cycle.”

With a current target of developing a mine by 2018, there is room for a price upside if a recovery gets underway next year as some analysts anticipate.

FCW was told by Berkeley that the DFS was managed by MDM Engineering, part of the Amec Foster Wheeler group. It contained inputs from a number of specialized contractors, including major Spanish firms OHL and Iberdrola.

The DFS found that over an initial ten year period Salamanca is capable of producing an average of 4.4 million pounds (1,996 tonnes) U3O8 per year at a cash cost of \$13.30 per pound and at a total cash cost of \$15.06 per pound.

This compares with the current spot price of \$26 per pound and term contract price of \$41 per pound.

During the ten year steady state period, based on the most recent UxC forward curve of uranium prices, the project is expected to generate an average annual net profit after tax of \$116 million.

Managing director Paul Atherley commented: “The Salamanca project is capable of generating strong, sustainable cash flow through the low point in the uranium price cycle. We have commenced initial infrastructure works and are aiming to establish the operation as one of the world’s top ten producers, reliably supplying long term customers from the heart of the European Union.”

Key Metrics: Salamanca DFS

- Initial mine life = 14 years
- M&I resources = 59.8 million pounds (27,125 tonnes) U3O8
- First 10 years of production = 4.4 million pounds (1,996 tonnes) U3O8 per year
- Cash cost = \$13.30 per pound
- Total cash cost = \$15.06 per pound
- Avg annual net profit after tax = \$116 million
- Upfront capex = \$95.7 million
- Post-tax IRR = 60%
- Post-tax NPV = \$532 million at an 8% discount rate.
- Peak annual EBITDA = \$226 million

With operating costs almost exclusively in euros and a revenue stream in U.S. dollars the project is expected to continue to benefit from the effects of deflationary pressures within the European Union.

Berkeley’s current view that whilst uranium prices will remain soft in the near term starting in 2018, when Salamanca is scheduled to come on line, the market is expected to be dominated by U.S. utilities looking to re-contract.

Those utilities will also be competing with Chinese new reactor demand, which may lead to higher prices.

The firm said it had “recently been approached by a number of utilities looking to secure long term off take agreements.” The discussions are underway and off take arrangements are being negotiated.

Brokers Enthused

Both Toronto-based Dundee Capital Markets and London-based Whitman Howard were impressed with the DFS numbers. Dundee recommended Berkeley as (a high risk) BUY and has raised its target price from £0.90 (\$1.18) to £1.10 (\$1.44) per share in response to the results.

In a July 14 mining sector update, WH commented that “as expected” the DFS is positive “and shows robustness against lower uranium prices.”

It noted that Berkeley uses price projections “which are considerably more conservative than most analysts,” with a \$40.10 per pound U3O8 price for 2018, when the mine is set to

come on stream.

This compares to the current spot price of around \$26.00 per pound and a term price of about \$41.00 per pound.

However, the firm suggested the price may be higher as remaining U.S. reactors will be looking to renegotiate long term contracts, just at the same time as Chinese demand continues to grow.

Accordingly, under Berkeley's currently conservative assumptions the price forecast rises to \$41.83 per pound in 2020. WH further noted that as of July 14, Berkeley's share price held its London market gains on a trading volume of 475,000 shares.

On July 19, Berkeley registered further gains on AIM, moving up

by 3.6% to 43.5 pence (\$0.57), above its previous 52-week high of 42 pence (\$0.55).

Dundee stated that the management focus was now centered on a strategic alliance, post-completion of the DFS. The bank calculated that if the management sold a 20% interest in the project at a premium to NPV, its NPV estimate would increase from £1.24 (\$1.62) to £1.73 (\$2.27) per share with a £1.50 (\$1.97) target.

"BKY is outperforming its peers as it hits milestones as promised," Dundee wrote. "Well-funded, Salamanca has updated resources, a positive DFS and permits."

It added: "Management can now focus on arranging strategic alliances to help fund construction." ●

Q2 RESULTS RELEASED

Paladin Raises \$200M from Much Anticipated Asset Sales

By Roger Murray, Global Correspondent

Paladin Energy (ASX/TSX:PDN) announced on July 21 it had completed a "strategic initiative process" with two transactions expected to raise "in excess" of \$200 million, just days after issuing its second quarter operations report (*see p. 5*).

The quarterly report had indicated an announcement would be made by the end of this month but CEO Alexander Molyneux has evidently pulled out the stops to get a package wrapped up quickly. The key transaction will be the sale of a further 24% equity interest in the Langer Heinrich mine in Namibia, the firm's sole producing asset.

Paladin currently owns a 75% interest, with China National Nuclear (CNN) owning 25% under a deal concluded in 2014. A non-binding terms sheet has been signed with an unidentified "major participant in the global nuclear power industry" which is expected to raise \$175 million in cash for Paladin and be accompanied by a long-term uranium off-take agreement.

It seems most likely this will turn out to be another Chinese company, perhaps China General Nuclear (CGN), which owns a 90% stake in the near-to-completion Husab uranium mine, also in Namibia.

Given that President Hage Geingob's government welcomes Chinese investment in the resource sector, it is unlikely to lodge an objection. Paladin said it was working towards a formal close of the transaction in the fourth quarter of 2016.

"Other than as set out in this announcement the other key terms of this proposed transaction remain confidential, including the identity of the counterparty," the firm said.

It added: "Further announcements will be made, as appropriate," including the buyer's identity.

The second, smaller asset sale, is of a 75% equity interest in Paladin's 100%-owned Manyingee project, Western Australia, containing a sandstone-hosted deposit containing 26 million pounds (11,793 tonnes) U3O8. This excludes the recently-acquired Carley Bore deposit 100 kilometers to the south.

Under a binding terms sheet with Australian tin producer MGT Resources (ASX:MGS), the 75% interest will be acquired in two stages.

Paladin Sales Q2 2016					
	2016		2015	% change	
	Q2	Q1	Q2	Q2/Q1	Q2/Q2
Sales (tU3O8)	819	270	801	203.3	2.2
Revenue (\$m)	63	20.6	73.1	205.8	-13.8
Average sales price (\$/lb)	34.91	34.67	41.5	<1	-24.3

Source: Paladin Energy