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Berkeley brings light to uranium gloom

Daniel Gleeson

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In a dismal market for uranium, Berkeley Energia's Salamanca in-situ leaching project in Spain is one of the few bright prospects continuing to show its class.



The Zona 7 deposit is key to Berkeley sustaining steady-state production of 4MIbpa over the life of mine

While all of the uranium bears were signalling the death knell for the market as spot prices hit an 11-year low earlier this month, Berkeley shareholders were looking at the Salamanca definitive feasibility study with awe asking not if it can make money, but how much?

Since the study was announced, the company's London-listed share price has risen 26%, while the majority of its uranium peers have plummeted in value.

Scheduled to produce 4.4 million pounds per annum of U_3O_8 for an initial 10 years at an all-in cash cost of US$15.06 per pound, the DFS has shown that if Salamanca went into production today it would more than wash its face.

Requiring $95.7 million in initial capital – given the company has already started some development work – the project is scheduled to provide a post-tax net present value of $531.9 million and an internal rate of return of 60%.

Most investors reading this line will be waiting for the ‘but’ and, while there is a clause to insert here it is not the same one at which most of its peers fall down.

Instead of using the magical $65/lb long-term price that makes marginal uranium projects viable on paper, Berkeley has decided to use Ux Consulting’s base-case contract projections. This works out at an average price of $52.55/lb over 14 years, ranging from $39.06/lb in 2017 to $67.69/lb in 2030.

Managing director Paul Atherley said the company has faith the $65/lb long-term price analysts are guiding for over the long term will emerge, but it may not do so by the time Salamanca hits first production in 2018.

“Mid term, we think the forward curve is a better reflection. Certainly it is more in line with the discussions we are having with utilities,” he told *Mining Journal*.

It is these utilities that are currently causing the problems in the uranium market.

While companies like Cameco continue to cut or suspend output to reduce the market oversupply, utilities have proven resistant to signing long-term contracts, instead tiding inventories over with spot pounds where needed.

Atherley can see this trend continuing for up to two years, but the longer it goes on the bigger the bang the market is likely to receive down the line.

“What we’re anticipating is that from 2018-2024, US utilities become 82% uncovered [in terms of long-term uranium supply contracts]. Our argument is that when they move into the spot market in that kind of volume, they will be doing so at the same time the Chinese are increasingly looking for material for their new reactor builds, at the same time as primary supply is coming off stream. We think those three ingredients could be a catalyst to a price boom,” he said.

In terms of developments Berkeley can control, Atherley is aiming to convert 30Mlb of inferred resources and carrying out further drilling of the jewel in the Salamanca crown – the Zona 7 deposit – to boost output in the latter years of operation.

This is with the idea of sustaining production above 4Mlba for the entire mine life, which will benefit not only revenues, but also the average all-in cash cost, which is $17.15/lb over the 14 years of operation.

Such refinements will only bolster what is already a world-class project; an asset that stands out as one of the few potential mines able to make money in today's deep bear market.

Saying that, when production comes online in 2018, the market could be a very different beast and Berkeley could be reaping the rewards of hard work carried out in the market trough.

This is one uranium project that will be built upturn, or no upturn.