

BERKELEY ENERGIA LTD (LON:BKY)

Positioned to be Global Top Ten Uranium Producer

Berkeley Energia Ltd (LON:BKY) is a London AIM and ASX listed minerals development company. The firm is currently progressing the Salamanca Uranium Project in western Spain, aiming to commence production in the second half of 2018.

REASONS TO CONSIDER BERKELEY ENERGIA

A strong, clear, straightforward story: Berkeley Energia Ltd (LON:BKY) possesses a low capex, low operating cost asset which it aims to bring to production in the near term (H2 2018), this should very swiftly (~2021), see the company enter the top 10 global uranium producers. The mining and processing methods planned, are well-established techniques which should present relatively little risk. The project has strong community support in a region with extensive established infrastructure. Furthermore, the company is likely to begin delivering their product into a strengthening uranium market; following its recent nadir, during which time there has been very little competing investment into new capacity.

A standout project: The project feasibility studies suggest the Salamanca project could comprise a 15-20 year operation, with some of the lowest operating costs and lowest capex intensity within the global uranium market. We note that current offtake agreements are being signed at average prices above US\$42/lb, which (if Berkeley Energia Ltd (LON:BKY) were to average this pricing level over the life of mine) could suggest an asset value of ~US\$480m (versus the US\$170m current market capitalisation of the equity). Our analysis also suggests that the asset valuation has a sensitivity of ~US\$25m for each US\$1/lb change in the average uranium price received. Furthermore, once the initial build phase is complete, and the company reaches steady state production levels (~2021), the asset will likely be generating significant cash. In fact, at the same pricing levels as discussed above (i.e. ~US\$42/lb), we could expect the asset to generate >50%pa average free cash flow yield after hitting steady state based on the ~US\$170m market cap of the company (i.e. before financing costs, corporate overheads & additional exploration).

Leverage to structural changes in the Energy mix: With nuclear being an ultra-low carbon emission source of power (i.e. comparable with renewable energy sources) it is important to note that initiatives to decarbonise the global energy system, along with relatively little investment into uranium capacity in recent years means we would anticipate that the uranium market is one in which new supply sources should be highly sought after in coming years. Anticipated Nuclear utility restarts in Japan, in conjunction with the expected commissioning of numerous new nuclear plants in China alone should see demand pick up in this market as we move forward.

Strong financing support: Providing strong evidence in support of the project economics, Berkeley recently announced that it had entered into an investment agreement with the Sultanate of Oman, for an investment of up to US\$120m via the form of an interest free, unsecured convertible loan (US\$65m), and options (US\$55m). Maximum dilution if all financing is converted to ordinary equity is 37%. Again, referencing the ~US\$170m market cap and the US\$480m asset value detailed above suggests the outcome for equity investors remains highly attractive even after financing costs. Before this deal was announced, on a range of uranium price assumptions we believed the company needed US\$120-130m to finance the complete development of the operation. Accordingly, it is relatively unlikely that Berkeley would require any further external funding unless uranium price drop well below recently contracted levels

Overall: Berkeley Energia possesses a fully funded, strong flagship project, with no obvious major hindrances. Asset level valuation presents upside on a range of input price scenarios. Uranium as a commodity is also well positioned to take advantage of the global structural transition to a lower carbon energy system.

MINING

13/09/2017

SHARE PRICE

▲ 48.75p

52 WEEK LOW

▲ 40.6p

MARKET CAP

▲ £124.1m

52 WEEK HIGH

▲ 71.7p

SHARES IN ISSUE

▲ 254.5m

CASH

▲ \$43.18m

*31st Dec 2016

MAJOR SHAREHOLDERS

- 1) Computershare Clearing Pty – 41.28%
- 2) HSBC Custody Nominees – 14.41%
- 3) Merrill Lynch – 9.88%

Shares in Issue 254.49M

Avg Volume 329.82k

Primary index AIM

EPIC BKY.L

Next Key

Announcement -

Sector Mining

SHARE PRICE CHART



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ASSETS

The company's key focus is the Salamanca Project, which is being developed in western Spain.

Salamanca Project Location



Source: Berkeley Energia, July 2017

RESOURCES

Known resources occur in 4 main deposits, and a number of satellite deposits, with total contained U_3O_8 (the main uranium bearing mineral) of ~90Mlbs.

There is still ongoing drilling and geological work to increase resources, and also to improve confidence levels, but we believe that existing defined resources should give investors confidence that Berkeley's development plans are underpinned by a robust resource base.

The three key deposits of immediate focus for investors are Retortillo, Zona 7 and Alameda. These three deposits form the underlying resources for the reserve base, which the feasibility studies have been underpinned by. The project's Ore Reserve Estimate stands at 54.6Mlbs of U_3O_8 (of which 20.6 percent is considered Proved and 79.4 percent is considered Probable after the application of all mining factors).

The next phase of the Company's exploration programme will focus on discovering additional deposits with similar characteristics to Zona 7. Following extensive structural mapping and the interpretation of regional geological structures, two areas have been selected for an intensive geochemical sampling programme incorporating the latest uranium exploration techniques, in addition to some others like radiometrics and radon emissions.

Salamanca has significant Resource Base

		July 2016		
Deposit	Resource	Tonnes	U ₃ O ₈	U ₃ O ₈
Name	Category	(Mt)	(ppm)	(Mlbs)
Retortillo	Measured	4.1	498	4.5
	Indicated	11.3	395	9.8
	Inferred	0.2	368	0.2
	Total	15.6	422	14.5
Zona 7	Measured	5.2	674	7.8
	Indicated	10.5	761	17.6
	Inferred	6.0	364	4.8
	Total	21.7	631	30.2
Alameda	Indicated	20.0	455	20.1
	Inferred	0.7	657	1.0
	Total	20.7	462	21.1
Las Carbas	Inferred	0.6	443	0.6
Cristina	Inferred	0.8	460	0.8
Caridad	Inferred	0.4	382	0.4
Villares	Inferred	0.7	672	1.1
Villares North	Inferred	0.3	388	0.2
Total Retortillo Satellites	Total	2.8	492	3.0
Villar	Inferred	5.0	446	4.9
Alameda Nth Zone 2	Inferred	1.2	472	1.3
Alameda Nth Zone 19	Inferred	1.1	492	1.2
Alameda Nth Zone 21	Inferred	1.8	531	2.1
Total Alameda Satellites	Total	9.1	472	9.5
Gambuta	Inferred	12.7	394	11.1
Salamanca project Total	Measured	9.3	597	12.3
	Indicated	41.8	516	47.5
	Inferred	31.5	395	29.6
	Total (*)	82.6	514	89.3

(*) All figures are rounded to reflect appropriate levels of confidence. Apparent differences occur due to rounding. The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves

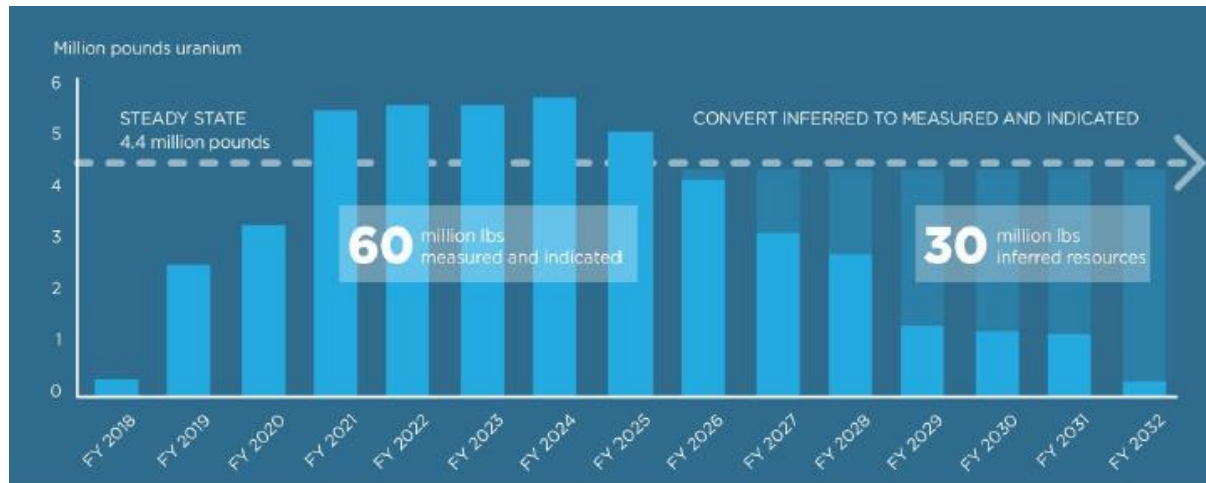
Source: Berkley Energia, July 2016

OPERATIONS – PRODUCTION & COST

The shallow, long orebodies of the Salamanca Project are amenable to conventional open cut mining operations, ore is then intended to be transported to the processing plant, where it will be treated via a heap leach process. All of the mining and processing techniques to be employed by Berkeley Energia are established and well-understood, thus we see relatively little technical risk in delivery of the project.

Berkeley are targeting a ~15-20 year operation, with steady state annual production of 4.4mlbs of U_3O_8 (the main uranium bearing mineral). The development of each orebody is expected to be phased, thus delaying some of the upfront capital spend, with first production expected in H2 2018.

Ramping up to 4.4Mlbs of steady state production



Source: Berkeley Energia, July 2017

One of the key factors which sets the Salamanca project apart, is the very low operating cost expected. It is expected that the average operating cost over the life of mine should be ~US\$15/lb U_3O_8 . We understand that these costs are similar to the in-situ leaching operations located in Kazakhstan, which are broadly considered the lowest cost uranium operations in the world.

A very low cost operation

Description	Cost (US\$/lb U_3O_8)		
	Zona 7	Retortillo	Alameda
Mining	3.5	9.9	7.4
Processing (including ripios backfill)	5.5	10.7	11.1
G&A	0.9	0.9	0.9
Subtotal by Area	9.9	21.5	19.5
Total Average Operating Costs	15.4		

Source: Berkeley Energia, July 2016

Underpinning the low cost base are the shallow depth, high grade and soft nature of the orebodies. The soft and shallow nature of the ore, both decreases mining costs and the supports the high recovery rate expected from the leach dumps (~88%).

CAPEX

The project benefits significantly from a number of factors which combine to result in a relatively low upfront capex requirement, namely:

- Shallow orebodies, reducing pre-stripping requirements.
- Well-established infrastructure in the area
- Use of the heap leach process with relatively little grinding required.
- Continuous backfilling removes the need for a tailings dam

Furthermore, the feasibility studies have outlined ability for the company to phase the capex requirements progressively for each orebody, thus delaying capital spend, and allowing for the company to begin cashflow generation, thus defraying some of the financing requirements.

Upfront capex costs are expected to be US\$93.8m (principally on the Processing Plant and Retortillo deposit), followed by second year capex spend on Zona 7 of ~US\$60m, and 3rd year capex (principally on Alameda) of ~US\$80m. While this represents a total phased capex bill of ~US\$234m (which still make the project one of the lowest capex intensity uranium projects globally), we expect total financing required to be in the region of only ~US\$120-130m given the progressive cashflows being generated from the project as it ramp up (which has been).

SALES

We note that Berkeley Energia has already been able to sign a 2.75mlb of offtake agreement, with additional optional volumes of 1.25mlbs. The Company's average fixed price per pound of contracted and optional volumes is above US\$42/lb. This compares favourably with current spot prices of ~US\$20/lb. Furthermore, the recent financing agreements with Oman also includes the right to match future uranium off-take transactions on similar commercial terms (subject to certain limitations on volume), thus creating additional competitive tension for future offtake bids.

We would expect the company to continue to sign offtake agreements above the US\$40/lb level.

ASSET VALUE AND FINANCIALS

Based upon the proposed production levels, capex and operating costs (and a 20 year mine-life), we have calculated the approximate Salamanca asset level NPV, based on a 10% discount rate, at a range of average uranium prices (run flat over the life of mine). Our analysis suggests that the asset valuation has a sensitivity of ~US\$25m for each US\$1/lb change in the average uranium price received.

We again flag that currently the company has signed offtake at prices averaging over US\$42/lb.

Asset values strong, but sensitive to Uranium Prices

Flat U3O8 Price Assumption (US\$/lb)	Asset NPV @ 10% (US\$)	Steady State Asset FCF Yield
30	176,244,489	31%
35	303,124,263	42%
40	430,004,037	52%
45	556,883,811	62%
50	683,763,585	73%

NB: Asset FCF yield is asset level post-tax cash flow (i.e. before financing costs, corporate overheads & exploration), divided by current market cap of the company. It should not be taken as a forecast of the FCF Yield to equity, but an indicator of the cashflow potential of the Salamanca asset.

Source: Capital Network Analysis, July 2017

These numbers clearly appear impressive in the context of the Berkeley Energia's ~US\$170m market capitalisation (before any funding dilution). Furthermore, once the initial build phase is complete, and the company reaches steady state production levels, with the majority of capex already spent (likely by year 4 of operations), the asset will likely be generating significant cash. At this stage we note that management have expressed a desire to return excess cash to shareholders, thus the dividend potential for potential investors in Berkeley Energia is material.

FINANCING

The recent announcement of the agreement with the Sultanate of Oman Sovereign wealth fund suggests Berkeley Energia should be fully funded for development of Salamanca. It is also worth noting the funding package was agreed at material premiums to the prevailing share price at the time; with the convertible loan portion being convertible at 50pps (versus 45.25pps closing price, the day before the announcement); and the option tranches at a weighted average strike of 85pps. The premiums translate to a maximum dilution of only 37% for normal equity holders; a strong outcome, when the company has potentially raised around 70% of the prevailing market cap of the company.

We note that prior to the funding announcement, company had a healthy cash balance of US\$26.3m, with no other debt.

MANAGEMENT

Berkeley Energia is led by Managing Director, Paul Atherley, who possesses a long background within the mining industry across technical, financial and executive roles. Mr Atherley is supported by executive management team which consists of individuals with a strong and diverse set of backgrounds, across technical and financial disciplines. The management team has collectively financed and developed seven mines around the world, including three in Spain. Vtally, the company has Chief Operating Officer (Fancisco Bellon) and Chief Administration Officer (Javier Colilla), with extensive experience developing and operating mining assets in Spain. This 'in-country' experience is often vital in mining project development, to minimise any permitting or regulatory disruptions during the evaluation, construction and ramp-up process.

ENERGY/URANIUM MARKET

While we do not explicitly make forecasts of commodity prices (including uranium); it is important to note that global initiatives to decarbonise the global energy system, along with relatively little investment into uranium capacity in recent years (following the Fukushima reactor issues in 2011) means this is a market in which new supply sources should be highly sought after, in coming years.

The uranium market also tends to operate with significant volumes changing hands in both the spot price and long term contract markets. In recent years, many utilities have been slow to re-sign contracts as they have taken advantage of weakness in the spot price. In fact, we understand that (if we don't see meaningful new contract agreements signed in the interim) within a 5 year period both US and EU utility 'coverage' (i.e. contracted uranium supply) could fall to around 20% of total requirements. With Japanese nuclear plant restarts gathering pace, and a large number of reactors being constructed in developing economies like China, we would envisage that many US and EU utilities will begin to grow increasingly nervous about their relatively high 'uncovered' uranium supply. Accordingly, we would anticipate that in the coming few years, as the market begins to tighten again, that nuclear utilities will look to re-enter the market for long term supply agreements.

The Company's view is that whilst uranium prices may remain flat in the near term, from late 2018, when the Salamanca mine is scheduled to come into production, the market is expected to be dominated by US utilities looking to re-contract who will at the same time be competing with Chinese new reactor demand, which may lead to higher spot and term contract prices.

Furthermore, Currently over 75% of the world's uranium comes from politically unstable jurisdictions such as Niger, Russia and Kazakhstan, whereas 60% of the demand comes from OECD countries. The Salamanca project's location in an OECD country may make it popular with global utilities, many of whom are citing geographic security of supply as one of their primary concerns when looking to secure offtake contracts.

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