BELL POTTER

Speculative

See key risks on page 5 and early stage company risk warning on page 7. Speculative securities may not be suitable for retail clients

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Deep Yellow Ltd (DYL)

Tumas Uranium Project one step closer

Recommendation
Buy (unchanged)
Price
$0.81
Valuation
$1.04 (previously $1.05)
Risk
Speculative

GICS Sector

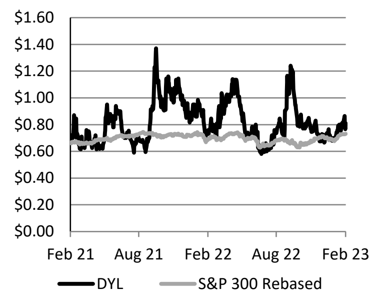
Materials

Expected Return	
Capital growth	**28.4%**
Dividend yield	**0%**
Total expected return	**28.4%**
Company Data & Ratios	
Enterprise value	**$545m**
Market cap	**$610m**
Issued capital	**754m**
Free float	**97%**
Avg. daily val. (52wk)	**$2.26m**
12 month price range	**$0.55-$1.25**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.70	0.82	0.75
Absolute (%)	15.7	-1.2	8.0
Rel market (%)	8.9	-11.8	0.9

Absolute Price



SOURCE: IRESS

Tumas Uranium Project Definitive Feasibility Study

DYL have released the Definitive Feasibility Study (DFS) conducted on its Tumas Uranium Project (TUP), moving the project one step closer to a final investment decision and development. Higher capital and operating costs were offset by an 11% increase in throughput (4.15Mtpa vs 3.75Mtpa) and a 26% increase in average production (3.6Mlb vs 3Mlb over life of mine ~22 years). Capital costs increased by 26% (US$372m Vs US$295m) and operating costs were revised 25% higher (C1 US$34.68/lb Vs US$28.39/lb). We have flowed through the changes into our model for TUP, which has resulted in a reduction of our discounted cashflow valuation (DCF) of 6%.

1H23 earnings outlook

We have revised our 1H23 earnings outlook. We have incorporated a moderately higher cash burn over the next two years, accounting for increased expenditure at TUP and the Mulga Rock Project (MRP). EPS changes in this report include; 1H23 -33%, FY23 -24% and FY24 -8%.

Investment thesis: Speculative Buy, Valuation A$1.04/sh

We maintain a Speculative Buy rating on DYL and reduce our valuation to $1.04/sh (previously $1.05/sh). Uranium prices continue to build on 2022's rally, as limited near-term supply spurs the spot market whilst the global path to decarbonisation shapes the role of nuclear over the longer-term. Following the merger with VMY (Vimy – de-listed), DYL has a Mineral Resource Estimate (MRE) of 392mlbs U_3O_8, and an Ore Reserve of 110mlbs. DYL has several projects currently being developed, providing a steady stream of newsflow.

Earnings Forecast

Year end 30 June	2022a	2023e	2024e	2025e
Sales (A$m)	-	-	-	-
EBITDA (A$m)	(7)	(8)	(8)	(44)
NPAT (reported) (A$m)	(7)	(8)	(28)	(81)
NPAT (adjusted) (A$m)	(7)	(8)	(28)	(81)
EPS (adjusted) (¢ps)	(1.8)	(1.0)	(2.0)	(3.7)
EPS growth (%)	nm	nm	nm	nm
PER (x)	0.0 x	0.0 x	0.0 x	0.0 x
FCF Yield (%)	-4%	-5%	7%	-20%
EV/EBITDA (x)	-78.8 x	-70.3 x	-68.9 x	-21.9 x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-12%	-7%	-12%	-14%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Tumas Uranium Project DFS

Overview

DYL have released the Definitive Feasibility Study (DFS) conducted on its Tumas Uranium Project (TUP). The DFS follows a pre-feasibility study (PFS) released on 10 February 2021 and an updated PFS, accounting for an increase in the Ore Reserve at TUP, on 5 October 2021. In their 2Q23 report, DYL had guided the market to expect higher capital and operating costs in the DFS given the current inflationary environment. With that in mind, DYL sought to optimize TUP to offset the higher costs.

Higher capital and operating costs were offset by an 11% increase in throughput (4.15Mtpa vs 3.75Mtpa) and a 26% increase in average production (3.6Mlb vs 3Mlb over life of mine ~22 years). Capital costs increased by 26% (US$372m Vs US$295m) and operating costs were revised 25% higher (C1 US$34.68/lb Vs US$28.39/lb).

Valuation changes

The increased capital and operating costs have been incorporated into our model, as has the increased mill throughput and production rates. The resulting impact has reduced our risked NPV$^{10\%}$ for TUP by 6%. We have marked to market our exploration and shares on issue, which in aggregate has resulted in a 1% reduction in our DYL valuation.

Table 1 - DYL sum-of-the-parts DCF valuation

	Current valuation		Prior valuation		Variance
Ordinary Shares (basic)	m	753	m	732	3%
Options in the money	m	1	m	1	0%
Diluted	m	754	m	732	3%
Sum-of-the-parts	**A$m**	**A$/sh**	**A$m**	**A$/sh**	**%**
Tumas (NPV 10%)	420	0.56	428	0.59	-6%
Mulga Rock (NPV 10%)	287	0.38	287	0.39	-2%
Other exploration	131	0.17	111	0.15	16%
Corporate overheads	(118)	(0.16)	(125)	(0.17)	-8%
Subtotal	720	0.96	702	0.96	0%
Equity Investments	0	0.00	0	0.00	0%
Net cash (debt)	65	0.09	65	0.09	-4%
Total undiluted	**785**	**1.04**	**767**	**1.05**	**-1%**
Cash from options	0	0.00	0	0.00	0%
Total diluted	**785**	**1.04**	**767**	**1.05**	**-1%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Business catalysts

- Completion of Tumas DFS – End CY 2022 ☑
  1. Final investment decision BPe Mar 2024
  2. Project offtake
  3. Project financing
- Commencement of Mulga Rock DFS
- Exploration program – Alligator rivers & Omahola (ongoing)
- M&A activity - ongoing

1H23 Earnings outlook

Changes to earnings

With the benefit of the 2Q23 report we have tweaked our earnings estimates heading into 1H23 results. Our 1H23 EBITDA loss has increased slightly to A$(4.3)m. We estimate cash burn over the half at around A$3.2m for operating cashflow and A$16m for investing cashflow. The resulting changes to our EPS forecasts in this report are; 1H23 -33%, FY23 -24% and FY24 -8%.

Figure 1 - Bell Potter earnings adjustments

	Units	Old - 20/01/2022			New - 02/02/2023			Absolute Change		
		1H23E	FY23E	FY24E	1H23E	FY23E	FY24E	1H23E	FY23E	FY24E
Uranium spot price	US$/lb	42	43	48	44	45	54	1	2	6
Production	Mlb	-	-	-	-	-	-	-	-	-
Revenue	A$m	-	-	-	-	-	-	-	-	-
COGS	A$m	-	-	-	-	-	-	-	-	-
Ebitda	A$m	(3.5)	(7.0)	(7.0)	(4.5)	(8.3)	(7.6)	(1.0)	(1.3)	(0.6)
Ebit	A$m	(3.7)	(7.4)	(7.4)	(4.7)	(8.7)	(8.0)	(1.0)	(1.3)	(0.6)
NPAT	A$m	(3.1)	(6.1)	(26.5)	(4.1)	(7.6)	(27.9)	(1.0)	(1.5)	(1.3)
EPS	A cps	(0.42)	(0.84)	(1.86)	(0.55)	(1.04)	(2.01)	(0.1)	(0.2)	(0.2)

SOURCE: BELL POTTER SECURITIES ESTIMATES

DYL company overview

DYL is a uranium development and exploration company with two advanced projects, in Namibia and Western Australia. In addition to this, the business is also developing several early-stage uranium exploration assets including Omahola and Alligator Rivers.

Tumas (100%) overview

The Tumas Uranium Project (TUP) is a uranium development located in Namibia and 100% owned by DYL. Since 2016, DYL has quadrupled the Mineral Reserve to 68.4 mlbs. DYL recently released the definitive feasibility study (DFS) on TUP, building on the preliminary feasibility study (PFS) conducted in Feb-21. TUP sits along the TUP River Paleochannel, roughly 30kms west of Paladin Energy Ltds (PDN Buy, speculative $1.05/sh) existing Langer Heinrich Mine. DYL estimate that only 60% of the predicted 125kms of strike length along the paleochannel has been tested to date, providing scope for further resource expansion and development.

Mulga Rock (100%) overview

The Mulga Rock project (MRP) was acquired through the Merger of DYL and VMY in Aug-22. MRP comprises of a 71.2 Mt Mineral Resource grading at 570ppm U_3O_8 for a total of 90.1mlbs (M+I+I) and a 22.7 Mt Ore Reserve Estimate (ORE) grading at 845ppm U_3O_8 for a total of 42.3Mlbs. In 2018, VMY published a definitive feasibility study (DFS) for the MRP which was subsequently refreshed in 2020. The 2020 DFS refresh saw a 20% reduction in the capital estimate and an 8% reduction in life of mine (LOM) operating costs. We have used the refreshed DFS in guiding our assessment for MRP. DYL plan to review the DFS work conducted by VMY, specifically in relation to base metal potential.

Investment risks

Risks include, but are not limited to:

- **Commodity price and exchange rate fluctuations**. The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.

Deep Yellow Ltd
as at 2 February 2023

Recommendation	Buy, Speculative
Price	$0.81
Valuation	$1.04

Table 2 - Financial summary

ASSUMPTIONS

Year Ending June	Unit	FY21A	FY22A	FY23E	FY24E	FY25E
COMMODITY PRICE						
Uranium Spot Price	US$/lb	31	43	45	54	60
Uranium Term Price	US$/lb	34	42	45	65	72
Uranium Spot Price	A$/lb	43	59	62	73	81
Uranium Term Price	A$/lb	47	58	62	88	97
AUD/USD	A$/US$	0.73	0.73	0.73	0.74	0.74
PRODUCTION & COST						
Production U3O8	Mlbs	0.0	0.0	0.0	0.0	0.0
Sales U3O8	Mlbs	0.0	0.0	0.0	0.0	0.0
C1 Cash Cost	US$/lb	0.0	0.0	0.0	0.0	0.0

PROFIT AND LOSS

Year Ending June	Unit	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	A$m	0	0	0	0	0
Expense	A$m	(5)	(7)	(8)	(8)	(44)
EBITDA	**A$m**	(5)	(7)	(8)	(8)	(44)
Depreciation	A$m	(0)	(0)	(0)	(0)	(0)
EBIT	A$m	(5)	(7)	(9)	(8)	(44)
Net interest expense	A$m	(0)	(0)	0	(5)	(33)
Unrealised gains (Impairments)	A$m	0	0	0	0	0
Other	A$m	0	0	1	(15)	(3)
PBT	**A$m**	(5)	(7)	(8)	(28)	(81)
Tax expense	A$m	0	0	0	0	0
NPAT (reported)	**A$m**	(5)	(7)	(8)	(28)	(81)
NPAT (underlying)	A$m	(5)	(7)	(8)	(28)	(81)

CASH FLOW

Year Ending June	Unit	FY21A	FY22A	FY23E	FY24E	FY25E
OPERATING CASHFLOW						
Receipts	A$m	0	0	1	0	0
Payments	A$m	(3)	(2)	(8)	(7)	(50)
Tax	A$m	0	0	0	0	0
Net interest	A$m	0	0	1	(5)	(23)
Other	A$m	0	(2)	0	0	0
Operating cash flow	**A$m**	(2)	(4)	(7)	(12)	(73)
INVESTING CASHFLOW						
Property, plant and equipment	A$m	(0)	(1)	(11)	(182)	(588)
Mine development	A$m	0	0	0	0	0
Other	A$m	(4)	(8)	(19)	(18)	(18)
Investing cash flow	**A$m**	(4)	(9)	(30)	(200)	(606)
Free Cash Flow	**A$m**	(6)	(12)	(37)	(212)	(680)
FINANCING CASHFLOW						
Share issues/(buy-backs)	A$m	49	25	0	289	249
Debt proceeds	A$m	0	0	0	290	250
Debt repayments	A$m	0	0	0	0	0
Dividends	A$m	0	0	0	0	0
Other	A$m	(2)	(0)	0	(15)	(13)
Financing cash flow	**A$m**	46	25	0	564	486
Change in cash	A$m	40	13	(37)	352	(194)

BALANCE SHEET

Year Ending June	Unit	FY21A	FY22A	FY23E	FY24E	FY25E
ASSETS						
Cash & short term investments	A$m	52	65	28	379	186
Accounts receivable	A$m	1	1	0	0	0
Property, plant & equipment	A$m	1	1	12	194	781
Mine development expenditure	A$m	0	0	0	0	0
Exploration & evaluation	A$m	43	50	69	87	106
Other	A$m	1	5	5	5	11
Total assets	**A$m**	98	121	113	665	1,083
LIABILITIES						
Accounts payable	A$m	1	2	2	2	2
Income tax payable	A$m	0	0	0	0	0
Borrowings	A$m	0	0	0	290	540
Other	A$m	1	4	4	4	4
Total liabilities	**A$m**	2	6	6	296	546
Net Assets	A$m	96	115	108	369	538
SHAREHOLDER'S EQUITY						
Share capital	A$m	296	322	322	611	860
Reserves	A$m	(2)	(2)	(2)	(2)	(2)
Retained earnings	A$m	(198)	(205)	(212)	(240)	(321)
Total equity	**A$m**	96	115	108	369	538
Weighted average shares	m	276	370	1,093	1,845	2,493

FINANCIAL RATIOS

Year Ending June	Unit	FY21A	FY22A	FY23E	FY24E	FY25E
VALUATION						
NPAT	A$m	(5)	(7)	(8)	(28)	(81)
Reported EPS	Ac/sh	(1.7)	(1.8)	(1.0)	(2.0)	(3.7)
Adjusted EPS	Ac/sh	(1.7)	(1.8)	(1.0)	(2.0)	(3.7)
EPS growth	%	nm	nm	nm	nm	nm
PER	x	0.0 x	0.0 x	0.0 x	0.0 x	0.0 x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	-	(3.36)	(3.92)	5.31	(15.87)
P/FCFPS	x	0.0 x	-24.1 x	-20.7 x	15.3 x	-5.1 x
EV/EBITDA	x	0.0 x	-78.8 x	-70.3 x	-68.9 x	-21.9 x
EBITDA margin	%	-8541%	-13423%	0%	0%	0%
EBIT margin	%	-8944%	-14115%	0%	0%	0%
Return on assets	%	-10%	-11%	-7%	-7%	-7%
Return on equity	%	-10%	-12%	-7%	-12%	-14%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	(52)	(65)	(28)	(89)	354
ND / E	%	-54%	-56%	-26%	-24%	66%
ND / (ND + E)	%	-120%	-129%	-35%	-32%	40%
EBITDA / Interest	x	-210.1 x	-673.0 x	0.0 x	-1.5 x	-1.3 x

ORE RESERVES AND MINERAL RESOURCES

Deep Yellow - Mineral Resource & Ore Reserve Estimate	Mt	% ppm	Mlb
Mineral Resources			
Measured	71.5	262	41.3
Indicated	280.7	268	165.9
Inferred	290.8	289	185.2
Total	**643.0**	**277**	**392.4**
Ore Reserves			
Proven	5.3	1,055	12.33
Probable	107.2	416	98.33
Total	**112.5**	**446**	**110.7**

VALUATION

Ordinary shares (m)	753
Options in the money (m)	0
Diluted m	**753**

			+ 12 months		+ 24 months	
Sum-of-the-parts valuation	**$m**	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Tumas (NPV 10%)	421	0.56	463	0.61	647	0.86
Mulga Rock (NPV 10%)	287	0.38	316	0.42	347	0.46
Other exploration	131	0.17	131	0.17	131	0.17
Corporate overheads	(118)	(0)	(118)	(0)	(118)	(0)
Subtotal	721	0.96	792	1.05	1,007	1.34
Equity Investments	-	-	-	-	-	-
Net cash (debt)	65	0.09	65	0.09	89	0.12
Total (undiluted)	**786**	**1.04**	**857**	**1.14**	**1,096**	**1.46**
Add SARs in the money (m)	1		1		1	
Add cash	-	-	-	-	-	-
Total (diluted)	**786**	**1.04**	**857**	**1.14**	**1,096**	**1.46**

CAPITAL STRUCTURE

	Unit	
Shares on issue	m	753
Escrow shares / other	m	-
Total shares on issue	**m**	**753**
Share price	**A$/sh**	**0.81**
Market capitalisation	A$m	610
Net cash	A$m	65
Enterprise value (undiluted)	**A$m**	**545**
SARs outstanding (m)	m	-
SARs in the money (m)	m	-
Issued shares (diluted for options)	m	753
Market capitalisation (diluted)	m	610
Net cash + options	A$m	65
Enterprise value (diluted)	**A$m**	**545**

MAJOR SHAREHOLDERS

Shareholder	%	m
Paradice Investment Management	7%	51.1
Mirae Asset Management	4%	32.7
Collines Investments	4%	28.9
Andrew MacMillan	3%	19.0
	17%	**131.7**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

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Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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