

Tumas DFS and Site Visit

DYL.ASX | DEEP YELLOW LIMITED | ENERGY | URANIUM

PRICE
A\$ 0.69 /sh

TARGET PRICE
A\$ 1.00 /sh
(FROM A\$1.30 /sh)

RECOMMENDATION
SPECULATIVE BUY
(UNCHANGED)

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Event

We recently visited DYL's flagship Tumas Project following the release of the Tumas DFS in early Feb'23.

Summary

Tumas rejigged. The Tumas DFS contemplates higher throughput rates of 4.15mtpa (+11%, prev. 3.75mtpa) for a +20% uplift in U_3O_8 production capacity to 3.6mlb pa, resulting in a reduction in mine life to 22.5 years (prev. 26 years). Peak annual production of 3.6mlb pa is sustained over the first 10 years of the revised mine plan, after which annual production rates decline steadily on lower head grades. Initial capex has increased to US\$372m (+26%, prev. US\$295m), driven by a combination of cost escalation and upscaled plant capacity, while LOM C1 costs and AISC have both lifted +22% to US\$34.7/lb and US\$38.7/lb respectively. Despite the higher throughput rates outlined in the DFS, management continue to guide to a +30 year LOM on incorporation of 50mlb of inferred material into the mine plan, although we would expect prioritisation of maintaining the peak annual production rate of 3.6mlb pa beyond the first 10 years of the mine plan. Drilling remains focused on the area to the west of the Tumas 3 deposit, which we note carries a higher resource grade relative to the rest of the Tumas project. For now, we have revised our valuation to adopt DFS-aligned parameters and have pushed back initial production from Tumas and Mulga Rock to FY26 and FY28 respectively (Fig. 6).

Site Visit Takeaways

Namibia is an established uranium mining jurisdiction... Namibia accounts for ~11% of global mine supply of uranium (Fig. 1), which is set to grow with the approaching restart of production at the idled Langer Heinrich Mine (PDN.ASX). Drums of yellowcake have been exported from Namibia through the Walvis Bay deep-water port for more than 40 years, which is located ~80km west Tumas (Fig. 2). Noting water availability has traditionally been considered a key risk for greenfield development projects in Namibia, we highlight that Orano's Erongo Desalination Plant (Fig. 3) is currently operating well below annual plant capacity of 20mm³/yr (CY21: 12.7mm³), whilst the Namibian government is also investigating the construction of a second desalination plant.

...offering security of U_3O_8 supply to utilities. We highlight the operational challenges and sovereign risk recently encountered by peers in other uranium jurisdictions amidst elevated energy security concerns. Kazatomprom has cited continued delays and limited access to sulphuric acid and equipment impacting wellfield commissioning schedules in the course of issuing lower CY23 production guidance relative to CY22. More recently, a local court in Niger ordered the suspension of operations at Global Atomic Corp's (GLO.TSX) exploration permit area covering the Isakanen deposit in response to environmental opposition from local NGOs, approximately 6 months after the Niger government increased its ownership interest in the project to 20% (prev. 10%). Through the lens of utilities, the Tumas Project offers appeal as a de-risked source of U_3O_8 supply from a stable uranium mining jurisdiction.

Action

Speculative Buy rating maintained, Price Target decreased to \$1.00/sh (1.0x NAV, prev. \$1.30/sh) in line with our DCF-backed SOTP valuation. DYL remains a leveraged option for uranium exposure with a globally significant (and jurisdictionally diversified) resource base containing 389mlb U_3O_8 . Our Mulga Rock production and cost assumptions are subject to review pending a re-appraisal of the project by DYL management, under which the base metals and REE potential within the expanded uranium resource is currently being assessed. A revised DFS is guided for completion in mid-CY24.

Deep Yellow Ltd		
Share Price	0.69	A\$/sh
Price Target	1.00	A\$/sh
Valuation	0.98	A\$/sh

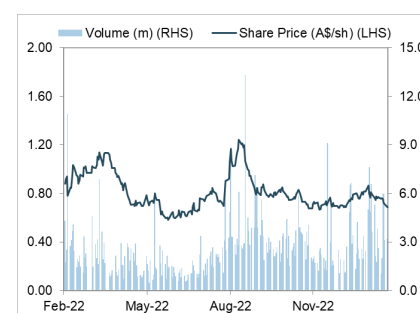
Capital structure		
FP Ordinary Shares	753.3	m
Options & Perf. Rights	0.9	m
Dil. FP Ordinary	754.1	m

Market Capitalisation	520	A\$m
Enterprise Value	464	A\$m
Cash (Dec'22)	56	A\$m
Debt (Dec'22)	Nil	A\$m

Directors		
Chris Salisbury		Chair
John Borshoff		MD
Gillian Swaby		ED
Victoria Jackson		ED
Mervyn Greene		NED
Greg Meyerowitz		NED

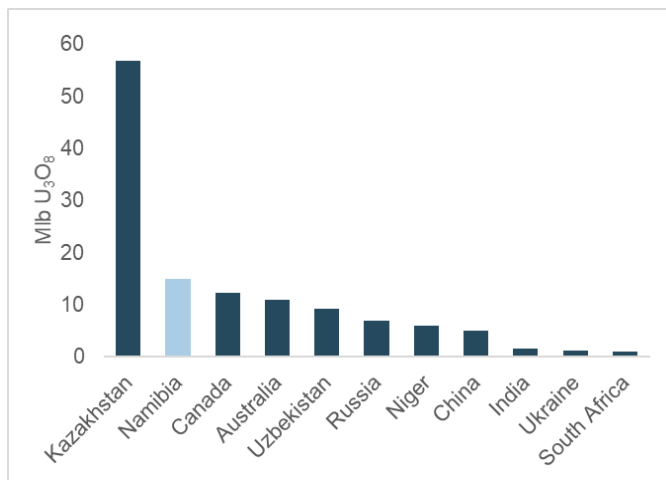
Substantial Shareholders		
Paradice		7.6%

Performance



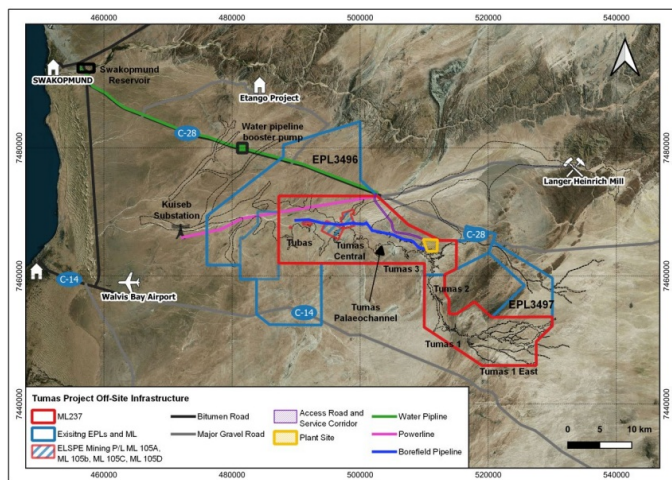
Source: IRESS

Figure 1: Namibia accounts for ~11% of global mine production



Source: WNA (CY21 data)

Figure 2: Tumas project location and existing infrastructure



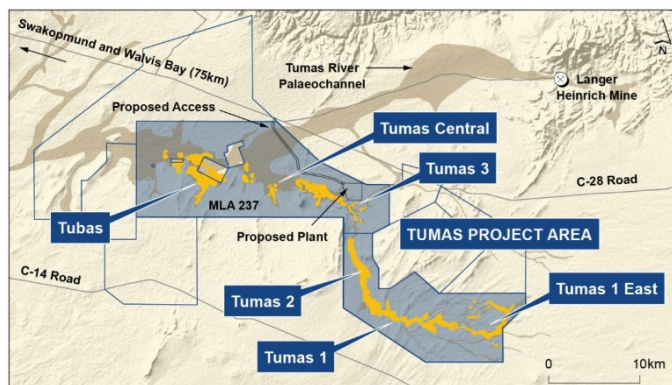
Source: Company Reports

Figure 3: Orano desalination plant



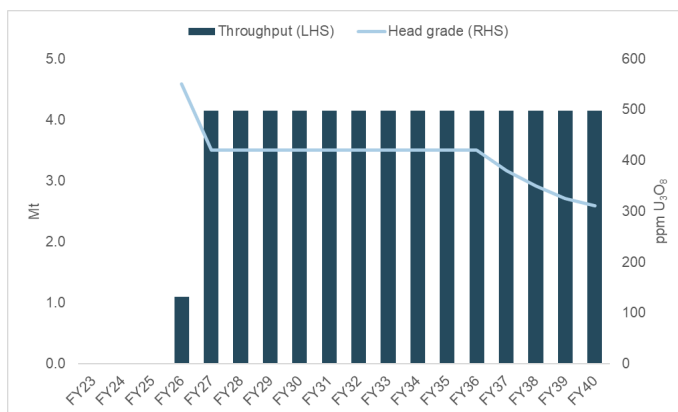
Source: Euroz Hartleys Research

Figure 4: Drilling is currently focused on the area west of Tumas 3



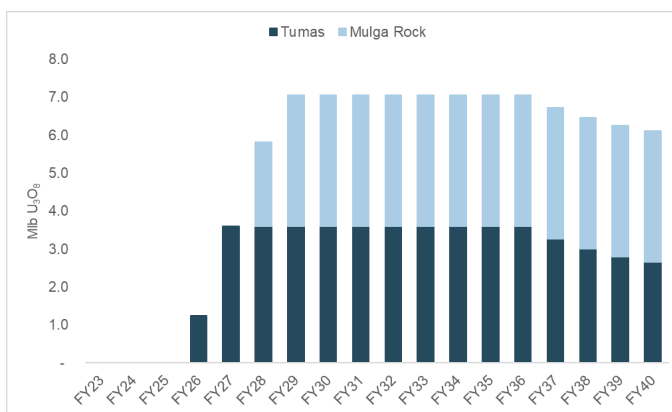
Source: Company Reports

Figure 5: EH Tumas processing assumptions



Source: Euroz Hartleys estimates

Figure 6: Consolidated production profile



Source: Euroz Hartleys estimates

Figure 7: Feb'23 DFS metrics vs Oct'21 PFS Update

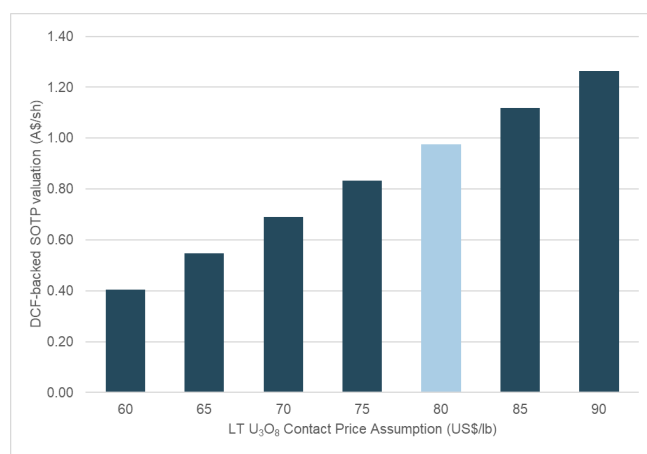
PARAMETERS	UNIT	DFS (Feb '23)	PFS Update (Oct '21)	Delta
Nameplate process throughput	Mtpa	4.15	3.75	+11%
Head Grade	ppm U ₃ O ₈	340	345	-1.5%
Initial LOM	Years	22.25	25.75	-14%
Total mineral resources	Mlbs	114	114	-
Total ore reserves	Mlbs	67.4	68.4	-1.5%
Annual production (U ₃ O ₈ max)	Mlbs pa	3.6	3.0	+20%
Annual production (V ₂ O ₅ max)	Mlbs pa	1.15	0.96	+20%
Initial CAPEX	US\$M	372	295	+26%
Capital cost per annual pound U ₃ O ₈	US\$	103	98	+5%
Capital estimate reference date		Q4 2022	Q3 2020	2.25y
Operating cost reference date		Q4 2022	Q3 2020	2.25y
Cash operating costs (CI)	US\$/lb U ₃ O ₈	34.68	28.39	+22%
LOM total operating costs (Real)	US\$/lb U ₃ O ₈	39.39	32.89	+20%
All-in Sustaining Costs (AISC)	US\$/lb U ₃ O ₈	38.72	31.76	+22%
NPV (ungeared) ²	US\$M	341	410	-17%
IRR (ungeared)	%	19.2	23.0	-16%

Source: Company Reports

Figure 8: Tumas project area facing south

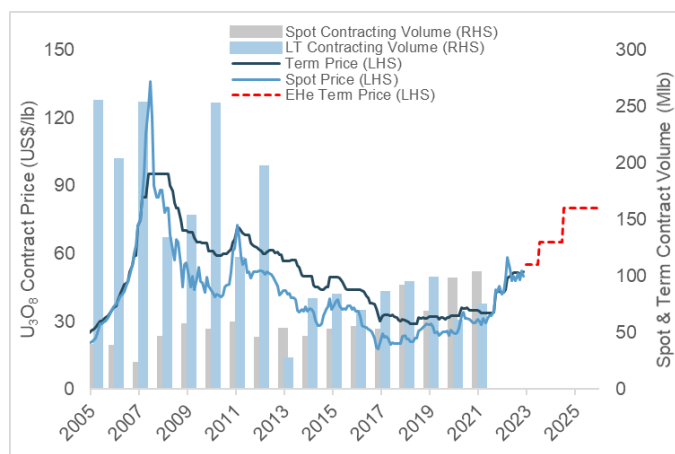


Source: Euroz Hartleys Research

Figure 9: Valuation sensitivity to LT U₃O₈ contract price

Source: Euroz Hartleys estimates

Figure 10: EH price deck (LT: US\$80/lb from FY25)



Source: IRESS, UxC, LLC, Euroz Hartleys estimates

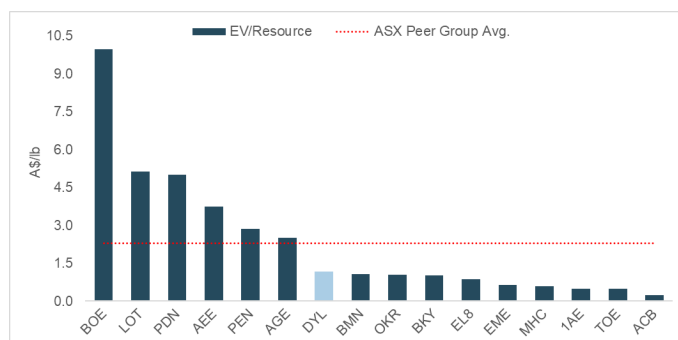
DYL Valuation

Figure 11: DCF-backed SOTP valuation

	A\$m	A\$/sh
Tumas (Risk Adjusted 70%)	304	0.40
Mulga Rock (Risk Adjusted 65%)	271	0.36
Namibian Resources	100	0.13
Alligator River	30	0.04
Corporate Overheads	(25)	(0.03)
Cash (Dec'22)	56	0.07
Debt (Dec'22)	-	-
Total	736	0.98
Price Target (1.0x NAV, rounded)		1.00

Source: Euroz Hartleys estimates

Figure 12: ASX-listed peer set EV/Resource multiples



Source: Company Reports, Euroz Hartleys estimates

Catalysts

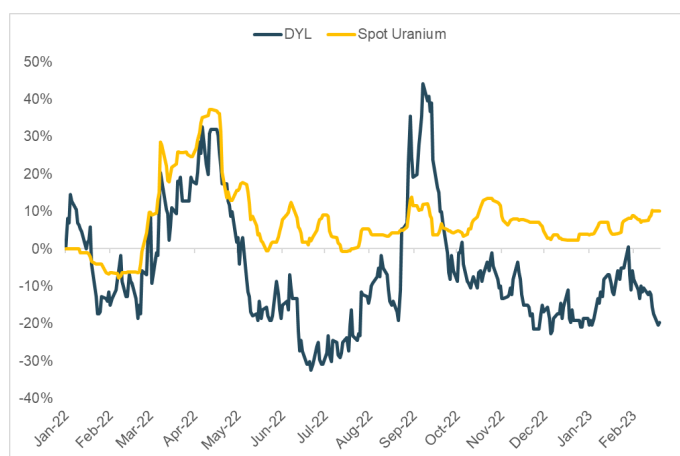
DYL is targeting a Final Investment Decision on Tumas by H1 CY24, with granting of the Mining License expected by mid-CY23 once the EIA is assessed and approved by Namibian authorities. For now, term contract prices remain below levels required for Tumas and Mulga Rock to be sanctioned. Despite this, we highlight that like its peers, DYL has underperformed against both spot and term uranium contract prices since the beginning of CY22 (Fig. 13), largely on broader weakness in equity markets, and despite a slew of encouraging uranium market developments over the corresponding period.

Beyond further fundamental developments with respect to uranium demand and supply, we specifically look to spot uranium price appreciation driven by spot market purchases by the Sprott Physical Uranium Trust (SPUT) as a key near-term catalyst for uranium equities (while acknowledging spot uranium prices are increasingly less relevant as a measure of underlying market activity due to the entrance of unconventional market participants).

Noting a premium of >1% over NAV is required to be sustained for SPUT to raise funds via its at-the-market equity facility, we highlight the recent return of SPUT to a premium to NAV. In the absence of deep discounts to NAV across CY23TD, SPUT has purchased 1.98mlb of U₃O₈ since the beginning of CY23, equivalent to ~81% of total spot market purchases across H2 CY22 (Fig. 15) during which deep discounts to NAV were sustained (Fig. 14).

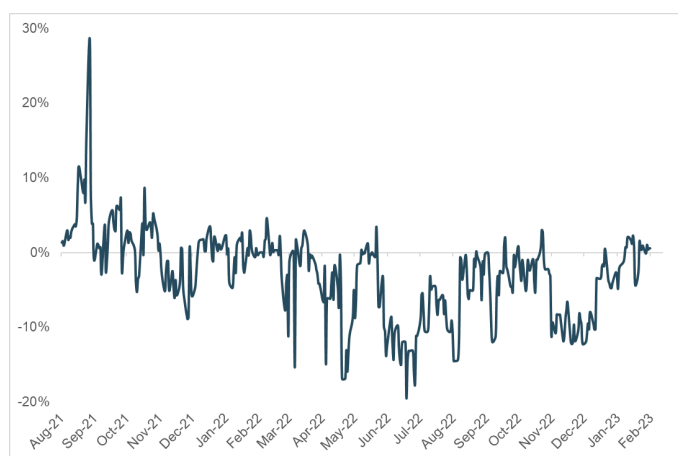
On the 15th of February 2023, Sprott updated its at-the-market equity program to issue up to an additional US\$1.3bn of trust units to the second amended and restated short-form base shelf prospectus. At the spot uranium price of ~US\$52/lb, the additional US\$1.3bn facility implies the capacity to purchase an additional 26mlb U₃O₈ in the spot market.

Figure 13: DYL has underperformed against spot uranium

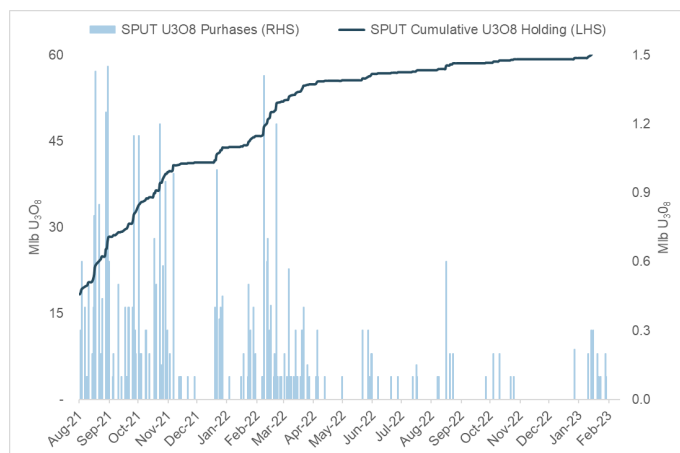


Source: IRESS, Euroz Hartleys estimates

Figure 14: SPUT premium/(discount) to NAV has tightened up

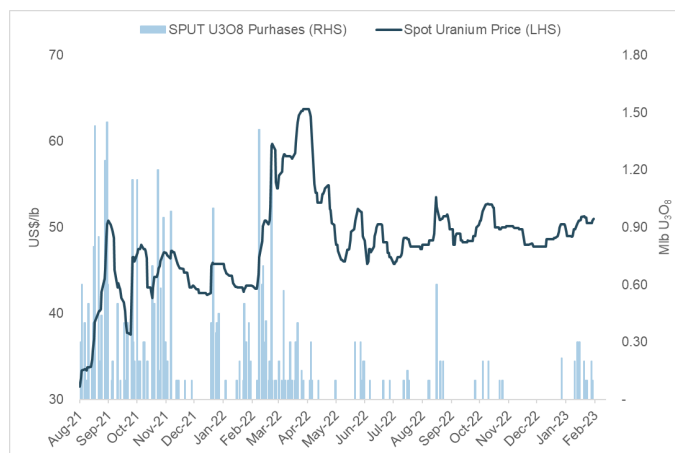


Source: Sprott Asset Management

Figure 15: H2 CY22 saw limited SPUT U_3O_8 purchases...

Source: Sprott Asset Management

Figure 16: ...and accordingly less spot price appreciation/volatility



Source: Sprott Asset Management

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