



Deep Yellow Ltd (DYL.ASX)

Emerging uranium developer in the right place

Event:

- We initiate coverage on Deep Yellow Ltd (DYL).

Investment Highlights:

- DYL is a uranium explorer and developer with projects in Namibia.** The country is the world's fourth largest producer of uranium with established infrastructure and supportive regulatory environment. The company's stated strategic intent is twofold – 1) To organically grow its Namibian resource base and 2) Participate in M&A to develop a project pipeline and diversification.
- DYL's equity share of JORC Resources is 153Mlb uranium oxide (U₃O₈).** Mineralisation is mostly calcrete hosted in palaeochannels, similar to Paladin Energy's (PDN) Langer Heinrich mine. We believe that DYL's resource size places it in the top ten of listed explorers and developers globally.
- The Reptile project (DYL 100%) is the company's most advanced, with mineralisation across 125km of palaeochannel and 92.5Mlbs of JORC Resource at 348ppm identified across 65km tested to date.** The company has an exploration target of 120-150Mlbs for calcrete at Reptile.
- A Scoping Study on Reptile's Tumas was released yesterday, with the company citing encouraging results.** No financial metrics were disclosed due to it being based mostly on Inferred Resources. DYL has commenced a PFS which it is targeting to complete by end 4QCY2020.
- DYL's Board and management possess significant uranium industry experience, including development and construction of uranium mines in Namibia.** CEO John Borshoff was previously founder and CEO of PDN.
- While the uranium market suffered post the Fukushima disaster, we see a positive outlook emerging over the next few years, predicated on five key drivers:** 1) Disciplined production growth from large miners; 2) Major mines approaching end of life; 3) Growth in energy sources with low CO₂ emissions; 4) Growth in electricity demand and electric vehicles; and 5) Increase in utilities uncovered (non-contracted) demand.
- Over 50% of economic studies published by listed companies on exploration and development projects that we have analysed are unprofitable at the spot uranium price of US\$24.85/lb.** This highlights upside risk to the uranium price as new production needs to be incentivised to meet future demand.

Earnings and Valuation:

- Given the absence of economic studies, we do not forecast earnings for DYL.**
- We value DYL at \$0.45/share, by applying the peer EV/JORC Resource contained U₃O₈ multiple.** We believe DYL has four attractive attributes: 1) Location in proven uranium jurisdiction; 2) Experienced Board and management 3) Sizeable resource; and 4) Acceptable grade.

Recommendation:

- We initiate with a Speculative Buy recommendation with a 12-month price target of \$0.45/share, based on our valuation.**
- Catalysts for the share price include:** 1) PFS results for Tumas; 2) Resource upgrades; 3) M&A activity; 4) Improving uranium market.

Disclosures

The analyst does not own DYL securities.

Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) do not own DYL securities.

Cranport Pty Ltd does not own DYL securities.

Refer details end of report.

Foster Stockbroking provides equity capital markets and corporate advice to DYL for which it may receive fees.

Recommendation	Speculative Buy
Previous	n/a
Risk	Very High
Price Target	\$0.45
Previous	n/a
Share price (A\$)	\$ 0.270
ASX code	DYL
52 week low-high	0.26-0.53
Valuation (A\$/share)	\$ 0.45
Methodology	EV/JORC Resource multiple
Capital structure	
Shares on Issue (M)	238
Market cap (A\$M)	64
Net cash (debt) (A\$M)	16
EV (A\$M)	49
Ave daily volume ('000)	132

Board

Rudolf Brunovs	Non-Executive Chairman
John Borshoff	CEO and Managing Director
Gillian Swaby	Executive Director
Mervyn Greene	Non-Executive Director
Christophe Urtel	Non-Executive Director
Justin Reid	Non-Executive Director

Substantial shareholders

Sprott	12.2%
Collines Investment	8.5%
Paradice Investment Management	7.7%

Share price graph



Analyst: Mark Fichera
mark.fichera@fostock.com.au

+612 9993 8162