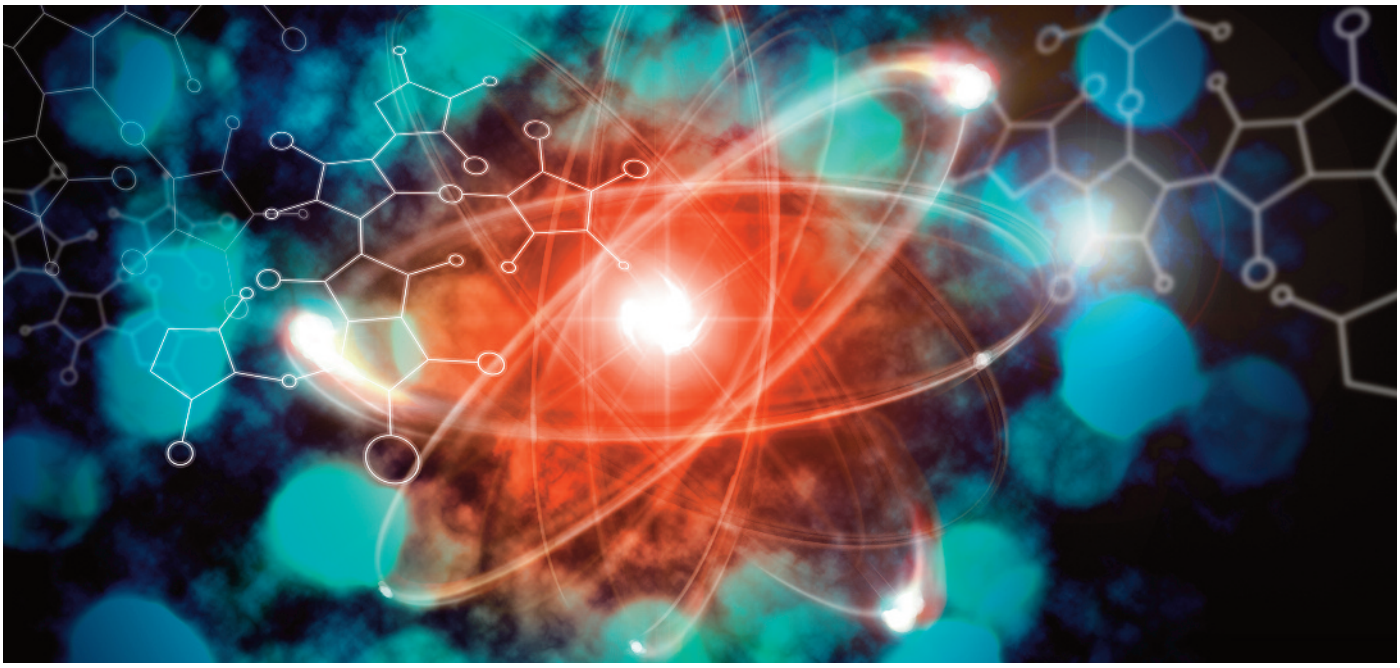
New Recommendations

BACK TO CONTENTS

Click here for more recommendations online at **GrowthCompany.co.uk**



Berkeley Energia's nuclear options

Worldwide, the nuclear power industry is expanding, and uranium mining business Berkeley Energia is set to benefit from future price rises in the radioactive material

The business

We have tended to avoid the mining sector given the carnage over the past few years. Although it hit a decisive bottom at the beginning of this year, we still want to set a high bar when considering new investments in the industry. Berkeley Energia comfortably passes our key tests. It plans to mine an attractive commodity at very low cost in a good location. It is also well funded, having just completed an important round of financing.

Berkeley is developing the Salamanca project in Spain, which will be Western Europe's only uranium mine. Uranium prices have been depressed since the Fukushima nuclear accident in 2011. Most trade in the metal is carried out under long-term contracts, but the spot uranium price has been languishing around the $20 per pound level. Its peak in 2007 was well over $100. Prices then fell sharply after the financial crisis but were recovering to above $70 at the time of Fukushima. Contract prices are currently in the $40 region, which is a good premium to spot, but creates little incentive for producers to increase supply and build new mines.

However, the demand picture looks quite interesting. There was a lot of soul searching in the aftermath of Fukushima, with Germany moving to close down its nuclear power stations. Elsewhere, though, the industry is expanding. All told there are 447 operating reactors at the moment and 59 under construction, an increase of 13 per cent. A further 168 are planned and twice that number are at the proposal stage. China leads the way with six to eight new builds each year and wants 10 per cent of its energy to come from nuclear. Rising demand and lack of new mine capacity should tighten the uranium market over time, so this looks like an opportunity to invest at the bottom of the price cycle.

The big attraction of the Salamanca project is its cost profile. The initial capital cost of $95.7 million is low for a mine of its size. This is helped by the general drop in equipment and contractor costs given the recession in the industry and by its favourable location in Spain, with good-quality existing infrastructure and proximity to the port of Santander. Construction is expected to be straightforward with no obvious risks that might cause delays. There's strong local support for the project given high regional unemployment.

New Recommendations

BACK TO CONTENTS

Click here for more recommendations online at **GrowthCompany.co.uk**

Operating cash costs are expected to be around $15 per pound, which is right at the bottom of the uranium industry's curve, which has an average of over $30. The Salamanca ore grades are high and, being close to the surface, are easy to mine in an open pit. Recovery rates are expected to be very high despite using a low-cost heap leaching process. As well as low operating costs due to needing less power than a milling and tank leaching approach, this process is also less capital intensive.

There are three ore bodies in the project, two of which are close together. One of these, Retortillo, should start production in the second half of 2018. Phase two is Zona 7, which is the most profitable ore body and should be on stream around a year later. Production will then concentrate on Zona 7 to maximise cash flow early in the project's life and generate the funds to develop the third body, Alameda, which is 35 km distant.

Spanish uranium should be attractive to buyers since, apart from Canada and Australia, the most significant producers are the less predictable territories of Kazakhstan, Russia and Niger. And with 4.4 million pounds per annum, Salamanca will be in the top dozen or so of world producers. This should help Berkeley build a book of offtake contracts in the run-up to initial production. A first letter of intent has been signed with a trading house indicating a $41 price. Therefore, even at what looks like the low point of the cycle for uranium, this project should be a winner.

Financials and management

Paul Atherley is MD and is a mining engineer with over 25 years of operating experience. The general manager of operations is Francisco Bellon, who has more than 20 years' experience in project management and mining development, including building new mines in Spain.

Obtaining and structuring the finance for the project is a vital component of the story. The initial infrastructure work is already underway, with the main period of construction being 12 months from the middle of next year. Berkeley has just raised $30 million in a placing at 45p, which was the prevailing share price. This adds to the $10 million it had in the bank at the end of October and will cover the crushing circuit at the processing plant. However, a further $80 million will be needed to complete the project and move into production.

One potentially attractive route would be to sell a minority stake in the company to a strategic investor. That would likely realise higher value for the equity than a further stock market fundraising and is something the company is likely to pursue. There will also be debt-related options and production royalties to consider. Given the quality of the project and the leeway afforded by the recent equity issue, it is unlikely that funding will be a problem.

Outlook and valuation

The upside potential for the uranium price has been discussed earlier and stands to add a lot of value to Berkeley if it comes about. Broker Peel Hunt assumes in its forecasts that the long-run price rises modestly and stays well below its peaks of the previous cycle. Using conservative funding assumptions it then derives a net asset value of 102p. As well as the uranium price, there's also upside potential to this valuation from revisions to the size of the ore body. Drilling around Zona 7 suggests the mine's life could be extended beyond the current 14-year estimate. ■

BERKELEY ENERGIA ▶ READ MORE

berkeleyenergia.com

GCI Recommendation – **BUY**

Ticker: AIM:BKY
Sector: Mining
Mid-price: 44.75p

Spread: 44.5p-45p
12-month high/low: 54.25p/21p
Market cap: £106m

RESULTS	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	DPS (p)	p/e	Yield (%)
Jun 2016 (A)	-	-16.6	-9.1	-	-	-
Jun 2017 (A)	-	-18.5	-9.3	-	-	-
Jun 2018 (E)	-	-18.8	-9.5	-	-	-
Jun 2019 (E)	143.7	46.7	23.5	-	3.3	-

SECTOR PEERS	Ticker	Market cap (£m)	Pre-tax profit	p/e
Geiger Counter	GCL	14	-£0.2m	-
Uranium Resources	URA	2	-$15.5m	-
BHP Billiton	BLT	28,331	-$7,259m	-