investors CHRONICLE

16 December 2016

AIM: MINING

BERKELEY ENERGIA (BKY)

BUY

# Take the nuclear option with Berkeley

**Bull points**

- Huge discount to risked NPV
- Encouraging offtake agreements
- Growing global demand for uranium
- Potential for further deposits

**Bear points**

- Uranium price volatility
- Project development and funding risk

Berkeley Energia's (BKY) description of its Salamanca project in western Spain as the world's "only major new uranium mine" under development should not light up investor eyes, per se. After all, uranium only adds extreme political and price volatility to the roll call of risks inherent to any natural resources investment. But we're prepared to make the argument for Berkeley, because its key project has a strong answer for almost any question one can throw at it.

**IC TIP RATING**

**Tip style:** SPECULATIVE
**Risk rating:** HIGH
**Timescale:** LONG TERM

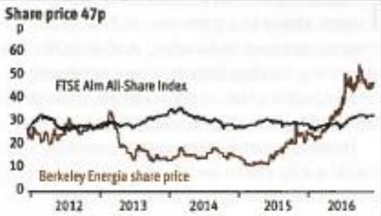
Manageable capital and operating costs? Possibly the lowest anywhere, and profitable even at today's historically weak uranium prices. A stable permitting regime? Yes, with huge local and national backing further cemented by the European Union's desire for secure, homegrown sources of nuclear material. Capital market support for the miner's funding needs? Affirmative, if November's oversubscribed $30m (£23.9m) placing at 45p a share is any indication.

Still, like any Aim-traded resources group yet to begin production, Berkeley faces risks.

At present, the biggest variable is funding, around $100m of which is needed to complete the mine and support working capital. According to both the company and analysts, this is likely to involve either a debt provider or strategic partner buying into Berkeley's wholly owned project. Based on recent M&A activity, broker WH Ireland believes that, even with uranium prices at current depressed levels, a 25 per cent stake could fetch $60m, putting a value of 60p a share on Berkeley's retained interest. Investors should have little doubt that Berkeley is on the radar of big fish in the natural resources world. Buyers of shares from the placing included fund giants BlackRock and Fidelity, while FTSE 250 engineering company Amec Foster Wheeler's (AMFW) role in the front-end design of Salamanca only serves to underline the project's credentials.

A few numbers justify that interest. The first is $17.30, the initial operating cost to mine a pound of triuranium octoxide (U3O8), the yellowcake compound preferred by reactor operators. That's less than half the average fixed price recently agreed in a five-year offtake deal with Interalloys, and an even lower fraction once the uranium market rebalances and prices head back towards levels that will encourage future production. And there are good reasons to believe this will spike at some point in the next few years; in a nutshell: between now and 2020, dwindling stockpiles and growing Chinese and Indian reliance on nuclear power generation are projected to lead to a 40 per cent increase in demand. Consequently, one could easily argue that this year's average spot price of $25/lb might mark the bottom of the long drop in uranium prices sparked by 2011's post-Fukushima panic.

Either way, Salamanca should be around for a long time. July's definitive feasibility study was based on a 14-year life-of-mine concept, but managing director Paul Atherley has high confidence that inferred resources below the Zona 7 deposit could in time be converted into mineable ore. This, and 11 other near-surface exploration targets, all bode well for further upgrades to WH Ireland's $891m net present valuation for Salamanca. Even if long-term uranium prices stabilise at a mere $40/lb, the broker estimates the present value of a 70 per cent stake in the mine to be $572m. That's equivalent to 80p a share, 70 per cent above the current share price. Buy. *AN*




**Berkeley Energia**

**Ord Price:** 47p **Market Value:** £111m
**Touch:** 46-48p **12-Month High:** 57p **Low:** 21p
**Forward Dividend Yield:** nil **Forward PE Ratio:** 11
**Net Asset Value:** 11¢* **Net Cash:** A$11.3m*
*Excludes US$30m raised in November

| Year to 30 Jun | Turnover (A$m) | Pre-tax profit (A$m) | Earnings per share (¢) | Dividend per share (¢) |
|---|---|---|---|---|
| 2014 | 1.2 | -7.6 | -4.2 | nil |
| 2015 | 0.6 | -7.9 | -4.4 | nil |
| 2016 | 0.2 | -13.6 | -7.5 | nil |
| 2017** | 3.8 | 41.6 | 13.2 | nil |
| 2018** | 91.1 | 11.3 | 6.9 | nil |
| % change | +2297 | -73 | -48 | – |

Normal market size: 3,000 Market makers: 10 Beta: 0.54
**WH Ireland forecasts £1=A$1.69 Last IC view: None