

Nuclear Buzz

Vogtle Will Be Finished. But With A Caveat

By Andrea Jenetta, Publisher

Vogtle 3 and 4 is a go.

Southern subsidiary Georgia Power said yesterday in a filing with Georgia regulators that it wants to continue construction, together with its three co-owners, based on the results of a comprehensive schedule, cost-to-complete and cancellation assessment. The utility hopes to flip the switch at both reactors by the end of 2022.

Georgia's public service commission has to review and approve the revised cost and schedule estimates first and isn't expected to announce a decision until February.

The utility said in a press release on Aug. 31 that the total rate impact of the project remains less than the original estimate, after including anticipated customer benefits from federal production tax credits, interest savings from loan guarantees from the Energy Department and the fuel savings of nuclear energy.

Once the reactors are on line—six years later than planned—it should still be able to offer retail rates below the national average. So the price tag now stands at an estimated \$19 billion in total capital costs, based on the new assessments. Each project co-owner will fork over its pro-rata share.

More
Inside

BKY Lands Sweet \$120M Deal with Omanis to Fully Fund Salamanca

By Roger Murray, Global Correspondent

The hard work put in by Berkeley Energia managing director Paul Atherley in pursuing a strategic investment partner to secure the funds to build the Salamanca mine in Spain looks to have paid off big time.

In an Aug. 30 market update, Berkeley (AIM/ASX:BKY) announced it had entered into an agreement with Omani sovereign wealth fund State General Reserve Fund (SGRF) to invest up to \$120 million, "to fully fund the Salamanca mine into production" (*see related article, p. 5*).

The two components of the investment involve an interest-free and unsecured loan of \$65 million that can be converted into ordinary shares at 50 pence per share once the mine is commissioned, and three options exercisable at an average price of 85 pence per share contributing an additional \$55 million if exercised.

The fund will own around 37% of the company assuming conversion of the loan and options, and has the right to appoint a non-executive director and become an offtake partner by matching future uranium off-take agreements on similar commercial terms.

The firm said the investment would position SGRF as "a long-term strategic investor" in Berkeley "as well as a potential offtake partner." Stock market investors took to the deal immediately.

On AIM, the share price recorded a 12% gain on the day, rising by a further 4% on Aug. 31 to £0.52.5 (\$0.68). That valued the company at £134 million (\$173 million).

Matching Future Offtakers

Berkeley CCO Hugo Schumann told World Nuclear News (WNN) that the convertible loan fully finances construction at Retortillo, the first Salamanca deposit to go into production, while the options package would provide capital to fund later stages of development.

see BKY Lands Sweet \$120M Deal on page 5

Will U.S. Grid Study Help Nuclear?

See article on p. 3

continued from BKY Lands Sweet \$120M Deal on page 1

The agreement also gives SGRF the right to match future uranium offtake transactions. If Berkeley enters into a long-term contract, Oman will have the opportunity to match it, effectively doubling such sales, Schumann said.

“Ideally, they’ll place that material into the Middle East, to a high quality utility,” he explained.

The most likely customer at this stage is the four unit Barakah plant in the United Arab Emirates currently under construction by Korea Electric Power Corp.

Current measured and indicated resources at Salamanca total 59.8 million pounds (27,125 tonnes) U3O8, along with 29.6 million pounds (13,426 tonnes) inferred, which the company aims to upgrade through its exploration program.

According to the July 2016 Salamanca definitive feasibility study (DFS), the mine would produce an average of 4.4 million pounds (1,996 tonnes) U3O8 per year at a cash cost of \$13.30 per pound over an initial ten-year period.

The investment is binding on the parties and is subject to approval by Berkeley shareholders.

Many Brokers Give Thumbs Up

Proactive Investors commented on Aug. 30 that the rise in the share price indicated that the market is more than happy with Berkeley’s decision to bring in the Omanis as the key strategic investor.

It reported that after the deal’s confirmation Liberum Capital analysts commented: “Market will be happy that a deal has been done in such weak uranium market conditions and that the strike for note is not lower than the previous equity placing of \$30 million in November 2016.”

Numis, meanwhile, repeated a hold rating on the stock with a price target of £.060 (\$0.77). London brokers have always been keen on the Salamanca project, but interest has warmed this year following Kazakhstan’s decision to stop ramping up production and exports.

Broker Peel Hunt noted that Salamanca’s costs are similar to Kazakh ISR production, widely acknowledged as the lowest-cost uranium address at present.

What Is Oman’s State General Reserve Fund?

By Roger Murray

Supervised by the Ministry of Finance, SGRF was established in 1980 by royal decree. Its policy is set by decisions of the Financial Affairs and Energy Resources Council and represents the government’s main global investment arm, funded from Oman’s financial surplus.

This derives largely from the profits earned on the production and export of crude oil and gas. In 2016 Oman was ranked 19th in the global crude oil producer pecking order, with output of just over 1 million barrels per day, behind Algeria and ahead of the U.K.

According to its website, the fund aims to achieve the best possible long-term returns to support government efforts to diversify the country’s income resources and assets.

The strategy assumes “a cautious approach in adhering to high standards in managing risk.”

It is centered on a diversified pool of investment tools and assets, including a wide range of geographies and sectors, in addition to strategic investments in order to ensure sustainable long-term returns.

SGRF’s two main investment categories are public markets assets (tradable), including global equity, fixed income bonds and short-term assets, and private markets assets (non-tradable), comprising private investments in real estate, logistics, services, commercial and industrial projects.

Investments have been made in 46 countries, allowing the fund to diversify its investments, leading to lower risk exposure.

In line with its cautious approach, appropriate external investment managers are recruited for each specified sector and investment area.

SGRF has governance and transparency structures in place. As a member of the International Forum of Sovereign Wealth Funds, SGRF is signed up to the Santiago Principles on best practice in managing sovereign wealth funds.

The minister responsible for financial affairs, Darwish bin Ismail Al Balushi, is current chairman.

On the likely margins, cash flow in each of the first five years will be \$150 million, Peel Hunt noted.

Sales in 2018 First Half

Canadian broker Eight Capital tempered its enthusiasm for the wealth fund backing with some concerns about future sales.

In an Aug. 31 update, the firm recommended Berkeley as a BUY, while reducing its share price target from £1.10 (\$1.42) to £1.05 (\$1.35), given future equity conversion through loan conversion, based on a 0.9X multiple applied to a 10% discounted cash flow model.

Lead analyst David Talbot highlighted that “Berkeley is bucking the trend in the uranium sector.” He noted that if the option for additional funding of \$55 million are exercised, it would likely fund the high-grade Zona 7 phase 2 expansion.

Last year’s \$30 million equity funding financed initial construction works and equipment purchases. Construction of the rest of the \$85 million capex for the Retortillo plant can begin in September.

Assuming a 12-month construction lead time and six to nine months of commissioning, Eight Capital anticipates that uranium sales will start in the first half of the 2018 calendar year.

U3O8 Price Risk Looms

Although the Omani deal removed financing risk for “the time being,” Talbot cautioned that now “execution and U3O8 price risk take over.”

With both uranium prices and initial opex hovering at around \$20 per pound U3O8, another \$70 million in phase two capex is needed “before costs can be cut in half.”

Eight Capital noted Berkeley management believes the sooner the Retortillo plant is built, the sooner it can be expanded to handle higher grade Zona 7 ore, which would see production rise (3.6X) and costs drop 50% to \$10 per pound.

He added, “management reiterates that its (definitive feasibility study) schedule remains on track,” with Retortillo output of up to 1 million pounds starting in 2019, followed by Zona 7 in 2020 and Alameda in 2021.

Talbot also disclosed that Berkeley may arrange a revolving working capital facility for which discussion is underway with a number of banks.

This will not be needed until the mine starts producing yellowcake; in his view “up to \$25 million may be required” for the revolving facility.

Skepticism Over Sales Portfolio

But Talbot expressed some skepticism over the sales contract position for phase one. Margins of 50% are estimated which may increase when Zona 7 kicks in.

But “with only 1/3 of production covered, in absence of further contracts we don’t believe Zona 7 is ready for capacity if sales into the spot market are required.”

Further, in respect of the management’s intention to cover production with term contracts, initial Retortillo production is already sold (1.15 million pounds U3O8 per year to Interallloys and to an unidentified utility).

“When pointed out that these are higher cost pounds, management’s response was that spot may move over the next two years, and it will only tide it over until Zona 7 kicks in (3.6 million pounds U3O8 per year at \$10 per pound).”