Paladin Energy Ltd (PDN)

Sector pull back creates entry point

Speculative

See key risks on page 4 and early stage company risk warning on page 6.
Speculative securities may not be suitable for retail clients

9 March 2022

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Recommendation
Buy (Previously Hold)
Price
$0.70
Valuation
$0.96 (unchanged)
Risk
Speculative

GICS Sector

Materials

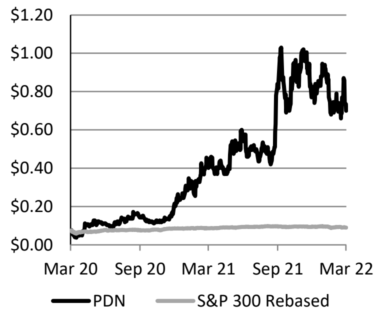
Expected Return	
Capital growth	37%
Dividend yield	0%
Total expected return	37%

Company Data & Ratios	
Enterprise value	$1,836m
Market cap	$1,875m
Issued capital	2,679m
Free float	90%
Avg. daily val. (52wk)	$20.6m
12 month price range	$0.37-$1.12

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.75	0.88	0.46
Absolute (%)	-6.0	-20.5	53.8
Rel market (%)	-4.4	-16.7	51.3

Absolute Price



SOURCE: IRESS

Ukrainian nuclear power scare facilitates opportunity

We maintain our thesis in the long-term viability of nuclear power following the events last Friday at the Zaporizhzhia nuclear power plant (ZNPP) and move our recommendation for PDN to a Buy (Speculative) maintaining our A$0.96/sh valuation. The broad sell-off in uranium equities that ensued following the Russian shelling was, in our view, an over-reaction and, at this point in time, does not impact our overall thesis for nuclear energy and uranium. The resulting outcome presents a value opportunity to gain exposure to uranium equities which have been heavily sold off.

Positive fundamentals for uranium

In our note on the 4th of March, we highlighted recent developments in the uranium space which firmly supports our thesis on uranium equities. The evidence supported a revival in the long term contracting market, a key catalyst for PDN, as engagement here will underpin a decision to re-start operations at the Langer Heinrich Mine (LHM). In addition to this, the ongoing concern of Europe relying heavily on Russian gas may present an opportunity for Nuclear to re-enter the future energy mix discussion, as has occurred in Germany. Should the integrity of the ZNPP and Ukraine's remaining reactors be maintained, this may further support the argument for nuclear as a safe and reliable low carbon source of base load power.

Investment thesis: Speculative Buy, Valuation A$0.96/sh

We have upgraded our recommendation for PDN to Speculative Buy (from Speculative Hold), maintaining our NPV-based valuation of A$0.96/sh. The Uranium price continues to recover from cyclical lows, as limited near-term supply spurs the spot market, whilst the global path to decarbonisation re-shapes the role of nuclear energy over the longer-term. PDN represents the largest and most liquid exposure to uranium on the ASX, with the pending restart decision at their flagship LHM. In our opinion, further upside may come from expansion of the resource base, extending the LHM mine life and/or materially higher uranium pricing.

Earnings Forecast

Year end 30 June	2021a	2022e	2023e	2024e
Sales (US$m)	3	-	-	169
EBITDA (US$m)	(10)	(3)	(22)	95
NPAT (reported) (US$m)	(58)	(29)	(35)	60
NPAT (adjusted) (US$m)	(58)	(29)	(35)	60
EPS (adjusted) (US¢ps)	(3)	(1)	(1)	2
EPS growth (%)	nm	nm	nm	nm
PER (x)	0.0 x	0.0 x	0.0 x	39.4 x
FCF Yield (%)	0%	-1%	-3%	1%
EV/EBITDA (x)	0.0 x	-569.4 x	-85.2 x	19.0 x
Dividend (US¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-36%	-11%	-13%	20%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Fortune favours the bold

Thesis remains unchanged

Our thesis on the inclusion of nuclear energy as a reliable source of low carbon base-load power remains intact and unchanged at this point in time. The recent incident at the Zaporizhzhia nuclear power plant (ZNPP) as devastating and concerning as it was, was in our opinion, blown out of proportion in equity markets, resulting in the systematic sell off of uranium stocks. We do not believe the incident impacts the long term viability of the overall sector at this point in time, and was merely a war-time tactic of severing access to power in Ukraine. The resulting impact thus presents an entry point for those looking to gain exposure to uranium.

Fact Vs Fiction

On Friday the 4th Russian forces shelled the area surrounding the ZNPP. Some of the facts that have filtered through in the days post the incident include:

- The shelling damaged a training centre within the site boundaries, causing a localised fire to break out which was subsequently extinguished.
- The integrity of the safety systems for the 6 reactors was not compromised during the fire and no radioactive material was released.
- The reactors themselves were only partially operational, in the International Atomic Energy Agency (IAEA)'s 13th announcement on the 5th of March, their status was:
    - Unit 1 remained in planned maintenance;
    - Unit 2's operating power had increased to 760MWe (~76% capacity);
    - Unit 3 was disconnected from the grid in low power mode;
    - Unit 4 was operating at 960MWe (~96% capacity); and
    - Units 5 & 6 were shutdown.
- The ZNNP facility is inherently much safer than the Chernobyl facility which suffered a catastrophic meltdown in the early 80's. A review done by the World Nuclear Industry status report in 2020 highlighted a US$1.6 billion safety upgrade program across all reactors in Ukraine post the Fukushima disaster.
- According to Dr Mark Wenman, a senior lecturer at the Imperial College of London who specialises in nuclear engineering, the reactor is in a steel-reinforced building that can "withstand extreme external events both natural and man-made such as an aircraft crash or explosions".
- The risk now is unencumbered access to the facility for staff members, spare parts and communications, and most importantly, access to a continuous power supply to facilitate a safe cooldown.
- More recently the IAEA has highlighted communication disruptions as their main area of concern since the Russian capture of ZNPP.

Valuation and recommendation

Valuation and recommendation

We upgrade our recommendation to a **Speculative Buy** (previously Speculative Hold), and maintain **our valuation of A$0.96/sh**. Our valuation is achieved via a sum-of-the-parts methodology to arrive at a present value per share in Australian dollar terms. In our assessment we valued the estimated free cash flow of the Langer Heinrich asset, including associated tax losses attributable to the asset, and corporate overheads using an 8% discount rate, the extension of the Langer Heinrich resource base was assessed on a risked basis, as were exploration assets in Australia and Canada.

Table 1 - Sum-of-the-parts Valuation

	Prior Valuation – Feb 18th		Current Valuation		Variance
Sum-of-the-parts	**A$m**	**A$/sh**	**A$m**	**A$/sh**	**%**
Langer Heinrich (NPV 8%)	1,128	0.42	1,381	0.51	22%
Additional LH resource	547	0.20	547	0.20	0%
Other exploration	729	0.27	729	0.27	0%
Corporate overheads	(100)	(0.04)	(99)	(0.04)	-1%
Subtotal	2,303	0.85	2,558	0.94	11%
Equity Investments	22	0.01	0	0.00	-100%
Net cash (debt)	40	0.01	39	0.01	-4%
Total undiluted	**2,366**	**0.88**	**2,606**	**0.96**	**9%**
Cash from options	1	0.00	1	0.00	0%
Total diluted	**2,366**	**0.88**	**2,606**	**0.96**	**9%**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Company overview:

Paladin Energy Ltd (PDN) is an Australian listed uranium project developer. The company's strategic focus is the development of its 75% owned Langer Heinrich Mine (LHM) located in Namibia. LHM was placed into care and maintenance in 2018 following a prolonged period of depressed uranium prices, prior to this LHM produced 43Mlb U_3O_8 at a C1 cash cost of US$26/lb. More recently, the business has progressed through a recapitalisation, paying down debt and strengthening the balance sheet under the new leadership of CEO Ian Purdy. PDN is now looking to capitalise on a positive uranium outlook with the pending re-start of operations at LHM.

Investment risks

Risks include, but are not limited to:

- **Commodity price and exchange rate fluctuations**. The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.

Paladin Energy Ltd
as at 9 March 2022

Recommendation	Buy, Speculative
Price	$0.70
Valuation	$0.96

Table 2 - Financial summary

ASSUMPTIONS

Year Ending June	Unit	FY20A	FY21A	FY22E	FY23E	FY24E
COMMODITY PRICE						
Uranium Spot Price	US$/lb	27	31	43	43	48
Uranium Term Price	US$/lb	33	34	46	52	58
Uranium Spot Price	A$/lb	36	43	59	59	65
Uranium Term Price	A$/lb	44	47	63	71	78
AUD/USD	A$/US$	0.75	0.73	0.73	0.73	0.74
PRODUCTION & COST						
Production U3O8	Mlbs	0.0	0.0	0.0	0.0	2.8
Sales U3O8	Mlbs	0.0	0.0	0.0	0.0	2.8
C1 Cash Cost	USS$/lb	0.0	0.0	0.0	0.0	16.7

PROFIT AND LOSS

Year Ending June	Unit	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	US$m	0	3	0	0	169
Expense	US$m	(0)	(13)	(3)	(22)	(74)
EBITDA	**US$m**	(0)	(10)	(3)	(22)	95
Depreciation	US$m	(21)	(15)	(15)	(15)	(18)
EBIT	US$m	(21)	(26)	(18)	(37)	77
Net interest expense	US$m	(18)	(15)	0	0	0
Unrealised gains (Impairments)	US$m	0	0	0	0	0
Other	US$m	(7)	(17)	(11)	2	1
PBT	**US$m**	(46)	(58)	(29)	(35)	78
Tax expense	US$m	0	(0)	0	0	19
NPAT (reported)	**US$m**	(46)	(58)	(29)	(35)	60
NPAT (underlying)	US$m	(92)	(58)	(29)	(35)	60

CASH FLOW

Year Ending June	Unit	FY20A	FY21A	FY22E	FY23E	FY24E
OPERATING CASHFLOW						
Receipts	US$m	0	3	0	0	143
Payments	US$m	(14)	(10)	(7)	(9)	(79)
Tax	US$m	0	(0)	(0)	0	0
Net interest	US$m	0	0	0	2	1
Other	US$m	2	1	(6)	(14)	0
Operating cash flow	**US$m**	(11)	(6)	(12)	(21)	65
INVESTING CASHFLOW						
Property, plant and equipment	US$m	(0)	(0)	(20)	(46)	(6)
Mine development	US$m	0	0	0	0	0
Other	US$m	(0)	(2)	12	0	0
Investing cash flow	**US$m**	(0)	(2)	(8)	(46)	(6)
Free Cash Flow	**US$m**	(12)	(8)	(20)	(66)	60
FINANCING CASHFLOW						
Share issues/(buy-backs)	US$m	22	167	95	0	0
Debt proceeds	US$m	0	0	0	0	0
Debt repayments	US$m	0	(115)	0	0	0
Dividends	US$m	0	0	0	0	0
Other	US$m	(2)	(50)	(4)	0	0
Financing cash flow	**US$m**	20	1	90	0	0
Change in cash	US$m	8	(7)	70	(66)	60

BALANCE SHEET

Year Ending June	Unit	FY20A	FY21A	FY22E	FY23E	FY24E
ASSETS						
Cash & short term investments	US$m	35	32	100	34	93
Accounts receivable	US$m	1	2	3	3	24
Property, plant & equipment	US$m	191	178	184	215	202
Mine development expenditure	US$m	19	17	16	16	16
Exploration & evaluation	US$m	93	100	100	100	100
Other	US$m	25	33	19	19	29
Total assets	**US$m**	364	361	422	386	465
LIABILITIES						
Accounts payable	US$m	2	2	2	2	2
Income tax payable	US$m	0	0	0	0	19
Borrowings	US$m	237	69	73	73	73
Other	US$m	33	43	41	41	41
Total liabilities	**US$m**	271	114	116	116	135
Net Assets	US$m	93	247	305	270	330
SHAREHOLDER'S EQUITY						
Share capital	US$m	2,328	2,489	2,579	2,579	2,579
Reserves	US$m	(70)	(59)	(73)	(73)	(73)
Retained earnings	US$m	(2,104)	(2,147)	(2,152)	(2,179)	(2,134)
Total equity	**US$m**	153	283	353	327	372
Weighted average shares	m	2,028	2,202	3,013	3,013	3,013

FINANCIAL RATIOS

Year Ending June	Unit	FY20A	FY21A	FY22E	FY23E	FY24E
VALUATION						
NPAT	US$m	(46)	(58)	(29)	(35)	60
Reported EPS	USc/sh	(5)	(3)	(1)	(1)	2
Adjusted EPS	USc/sh	(2)	(3)	(1)	(1)	2
EPS growth	%	nm	nm	nm	nm	nm
PER	x	0.0 x	0.0 x	0.0 x	0.0 x	39.4 x
DPS	USc/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	USc/sh	-	-	(0)	(0)	0
P/FCFPS	x	0.0 x	0.0 x	-247.5 x	-35.7 x	95.1 x
EV/EBITDA	x	0.0 x	0.0 x	-569.4 x	-85.2 x	19.0 x
EBITDA margin	%	0%	-350%	0%	0%	56%
EBIT margin	%	0%	-861%	0%	0%	46%
Return on assets	%	-12%	-16%	-7%	-9%	14%
Return on equity	%	-113%	-36%	-11%	-13%	20%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	202	37	(27)	40	(20)
ND / E	%	217%	15%	-9%	15%	-6%
ND / (ND + E)	%	68%	13%	-10%	13%	-6%
EBITDA / Interest	x	0.0 x	-0.7 x	0.0 x	0.0 x	0.0 x

ORE RESERVES AND MINERAL RESOURCES

Langer Heinrich Mine (100% basis - PDN interest 75%)	Mt	% ppm	Mlb
Mineral Resources			
Measured	105.6	430	166.5
Indicated	122.8	683	184.9
Inferred	80.9	523	93.3
Total	**309.3**	**110.5**	**444.7**
Ore Reserves			
Proven	48.3	488	51.96
Probable	10	464	10.23
Total	**58**	**952**	**62**

VALUATION

Ordinary shares (m)	2,707
Options in the money (m)	4.2
Diluted m	**2,712**

	Current		+ 12 months		+ 24 months	
Sum-of-the-parts valuation	**$m**	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Langer Heinrich (NPV 8%)	1,381	0.51	1,432	0.53	1,592	0.59
Additional LH resource	547	0.20	547	0.20	547	0.20
Other exploration	729	0.27	729	0.27	729	0.27
Corporate overheads	(100)	(0)	(100)	(0)	(100)	(0)
Subtotal	2,303	0.85	2,607	0.96	2,767	1.02
Equity Investments	22	0.01	22	0.01	22	0.01
Net cash (debt)	40	0.01	27	0.01	20	0.01
Total (undiluted)	**2,366**	**0.87**	**2,656**	**0.98**	**2,809**	**1.04**
Add SARs in the money (m)	6		6		6	
Add cash	1	0.00	1	0.00	1	0.00
Total (diluted)	**2,597**	**0.96**	**2,656**	**0.98**	**2,810**	**1.04**

CAPITAL STRUCTURE

Shares on issue	m	2,707
Escrow shares / other	m	29
Total shares on issue	**m**	**2,736**
Share price	**A$/sh**	**0.78**
Market capitalisation	A$m	1,835
Net cash	A$m	39
Enterprise value (undiluted)	**A$m**	**2,100**
SARs outstanding (m)	m	4
SARs in the money (m)	m	4
Issued shares (diluted for options)	m	2,740
Market capitalisation (diluted)	m	1,832
Net cash + options	A$m	41
Enterprise value (diluted)	**A$m**	**1,791**

MAJOR SHAREHOLDERS

Shareholder	%	m
Tembo Capital Management	10%	261.6
Paradice Investment Management	9%	239.0
Mirae Asset Management	5%	132.3
Value Partners Hong Kong	4%	100.4
	27%	**733.3**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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https://bellpotter.com.au/research-independence-policy/

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