

# ENERGY FUELS INC.

## Q3/16 financials miss but production higher than expected

### EVENT

Energy Fuels announced Q3 financials for the quarter ended September 30, 2016.

### BOTTOM LINE

**Negative** - The difficult Q3/16 uranium environment was reflected in Energy Fuels' financials as the company reported revenue and earnings figures that missed our estimates. While the low price environment continues, the company has implemented positive cash management measures including changes to management compensation as well as bringing forward future uranium contract deliveries at modest discounts. We continue to view Energy Fuels as a strong uranium price leverage play with the production capability to be the dominant U.S. domestic producer. We are maintain our Buy recommendation and are lowering the target price to C\$5.65/share, or by 15%, to reflect the impact of bringing 2017 sales into 2016.

### FOCUS POINTS

- **Lighter sales than expected** – Total sales during the quarter were lighter than expected. 150,000 lbs were delivered into contracts at an average realized price of US\$58.00/lb. The contract deliveries were better than our expectation of 125,000 lbs at US\$57.55/lb however we were also expecting spot sales of 93,781 lbs U<sub>3</sub>O<sub>8</sub> as well.
- **Production tops estimate** – Production from all sources came in at 350,000 lbs U<sub>3</sub>O<sub>8</sub>, which was higher than our estimate of 218,781 lbs.
- **2017 Sales brought forward** - 300,000 lbs. of contract deliveries scheduled for 2017 has been shifted to Q4/16. As such, the company is now expected to deliver 850,000lbs in FY/16 and 320,000 lbs of long term contract deliveries during FY/17.

### Recommendation:

### BUY

Symbol/Exchange: EFR-TSX/UUUU-NYSE  
Sector: Metals & Mining  
*All dollar values in US\$ unless otherwise noted.*  
Current price: C\$1.78/ \$1.34  
One-year target: C\$5.65↓  
Target return: 219%  
Cash on hand \$17.5M

### Financial summary

Shares O/S (M)	66.2	52-week range	\$1.80 - \$4.10	
Market cap (\$M)	\$117.2	Avg. weekly vol. (000)	0.121	
Market float (\$M)	\$107.8	Fiscal year-end	31-Dec	
	2014A	2015A	2016E	2017E
Uranium Production (lbs)	825,000	741,090	1,056,452	799,900
Revenue (\$M)	61.4	61.4	56.3	32.9
Operating Cost (\$M)	(79.9)	(79.9)	(22.9)	(25.7)
Cash Cost net of credits (US\$/lb)	\$36.16	\$33.68	\$16.97	\$19.43
EBITDA (\$M)	(3.9)	(5.4)	(3.0)	0.0
EPS	-\$4.41	-\$1.77	-\$0.34	-\$0.39

Source: Company Reports and Cantor Fitzgerald Estimates



**Company profile:** Energy Fuels is an integrated uranium and vanadium mining company focusing on production exclusively in the U.S.

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See disclosure and a description of our recommendation structure at the end of this report.

## TOUGH URANIUM MARKET IMPACTS Q3 RESULTS

Energy Fuels announced quarterly revenues of US\$8.7M along with an adjusted EPS loss of US\$0.12. These figures were below our forecasts of US\$9.8M and -US\$0.10, respectively. This variance can be partially attributed to the lack of spot sales which we had built into our model. As such, total sales during the quarter were lighter than expected. 150,000 lbs were delivered into contracts at an average realized price of US\$58.00/lb. The contract deliveries were better than our expectation of 125,000 lbs at US\$57.55/lb however we were also expecting spot sales of 93,781 lbs U<sub>3</sub>O<sub>8</sub> as well.

While the lack of spot sales was a miss to our forecast, we recognize that it may not have been ideal to sell material at a declining U<sub>3</sub>O<sub>8</sub> price that averaged US\$25.54/lb in the quarter. The average cost per pound for the quarter came in at US\$28.94/lb, which was lower than our estimate of US\$39.58/lb. The variance to our estimate stems from the source of the production, which is the stockpiled ore from the high grade Pinenut mine. These are low cost pounds due to the mine's high grade.

The net loss of US\$8.2M included a US\$1.4M impairment of inventory charge and US\$6.3M charge for development, permitting, and land holding costs primarily related to wellfield construction at the Nichols Ranch ISR Project and continued shaft-sinking and evaluation at the Canyon Project. We have adjusted out the impact of the impairment of inventory charge to arrive at an adjusted earnings figure of -US\$6.8M or -US\$0.12/share.

## PRODUCTION HIGHER THAN EXPECTED

Production from conventional sources (stockpile & alternative feed) amounted to 260,000 lbs which topped our forecast of 144,000 lbs, while production from the ISR Nichols ranch property amounted to 90,000 lbs, topping our forecast of 74,613 lbs. Note that at September 30, 2016, the Nichols Ranch wellfields had eight header houses extracting uranium. Energy Fuels plans to complete a ninth header house by the end of 2016.

Energy Fuels expects to recover approximately 700,000 lbs. of U<sub>3</sub>O<sub>8</sub> during FY/16 at the White Mesa Mill. For FY/17, the company expects to produce 450,000 lbs. U<sub>3</sub>O<sub>8</sub>, which includes approximately 300,000 lbs. of U<sub>3</sub>O<sub>8</sub> from dissolved uranium not recovered from previous processing in the mill tailings management system and approximately 150,000 lbs. of U<sub>3</sub>O<sub>8</sub> from alternate feed sources. Production from Nichols Ranch is expected to total 335,000 lbs. U<sub>3</sub>O<sub>8</sub> for FY/16 and 350,000 lbs. in FY/17.

## SALES TIMING CHANGE

There was a notable change to the delivery schedule. 300,000 lbs. of contract deliveries previously scheduled for 2017 has been shifted to November 15, 2016. As such, the company is now expected to complete 850,000lbs of contract deliveries during FY/16 and 320,000 lbs of long term contract deliveries during FY/17. As consideration for moving the delivery forward, EFR will deliver additional uranium to the customer at a small discount to the published October month-end spot uranium price.

A spot contract was announced whereby the company will sell 200,000 lbs of uranium on December 1, 2016. The pricing for this sale will be based on a weekly average of the published spot uranium prices for the five weeks prior to the delivery.

### **DEVELOPMENTS AND PERMITTING GOING AHEAD**

Permitting of the Jane Dough property, which is adjacent to Nichols Ranch, is continuing and is expected to be completed in advance of the need to begin wellfield construction. Additionally, the Hank project is fully permitted to be constructed as a satellite facility to the Nichols Ranch Plant. Energy Fuels intends to defer development of the tenth header house at its Nichols Ranch project and to keep the Alta Mesa project on care and maintenance. The company is selectively advancing certain permits at other of its major conventional uranium projects. The plans are to continue licensing and permitting of the Roca Honda Project, a large, high-grade conventional project in New Mexico and maintain the required permits at the conventional standby projects including the La Sal project, and the Daneros project. Permitting work will continue on the Sheep Mountain project in Wyoming, the Daneros project expansion, and the La Sal project expansion.

Lastly, in light of the continued uranium market weakness, Energy Fuels continues to pursue cost cutting initiatives, including a reduction in scope of certain development initiatives, the sale or abandonment of certain non-core properties and the sale of excess mining equipment and other assets. At its meeting on November 3, 2016, the Board of Directors decided to reduce their total compensation by 20% and receive one-third of their compensation in cash and two-thirds in restricted share units, thereby resulting in a 33% total reduction in cash compensation.

### **RECOMMENDATION**

We are maintaining our Buy recommendation and are reducing our price target to \$5.65 per share based on 1.0X NAV of C\$5.63 per share.

Our NAV has decreased from \$6.66 per share primarily due to the bringing forward of 2017 contract sales into 2016. Our NAV is based on cash flows beginning in 2017.

**Exhibit 3. Net Asset Value**

Projects	Energy Fuels		Comment
	NAV \$000s	Per Share	
White Mesa Mill and EFR's Uranium Mines/Projects	279,586	\$4.22	2017 DCF @ 10% Discount Rate
Virginia Energy (VUI-TSXV) 16.5%	257	\$0.004	80% of the market value for conservatism
Mega Uranium (MGA-TSX)	170	\$0.003	80% of the market value for conservatism
enCore Energy (EU-TSXV)	216	\$0.003	80% of the market value for conservatism
Cash	17,530	\$0.26	Q3/16 Cash
Working Capital (Net of Cash)	-15,457	-\$0.23	As of most recent quarter
<b>USD Total</b>	<b>282,302</b>	<b>\$4.26</b>	
<b>CAD Total</b>	<b>372,637</b>	<b>\$5.63</b>	USD/CAD 0.76

Source: Cantor Fitzgerald Canada

**Exhibit 4. Uranium Price History and Forecast**

	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E
U3O8 Price	\$38.17	\$33.21	\$36.55	\$27.09	\$28.63	\$45.00	\$66.25	\$80.00

Source: Cantor Fitzgerald Canada Research, TradeTech

**APPENDIX****Exhibit 5. Comparable Valuation**

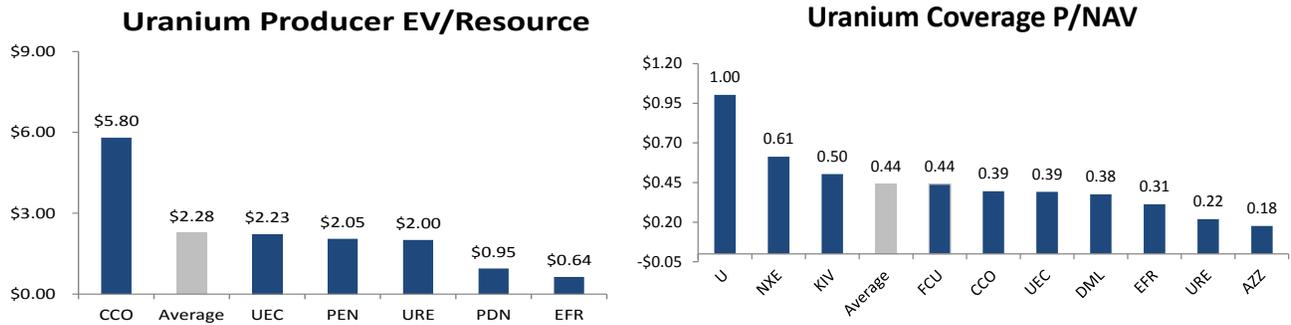
Uranium Producer Company Name	Stage	Stock Price (Local \$)	Market Cap (\$'000)	Enterprise Value (\$'000)	NI43-101 Resources/JORC (M lbs)				MKT / LB	EV / LB	
					Avg Grade	P&P	M&I	Inferred			Total
Cameco Corporation (TSX:CCO)	Production	11.32	4,480,371.3	5,801,117.3	7.576%	465.1	245.9	288.8	999.8	\$4.48	\$5.80
Energy Fuels Inc. (TSX:EFR)	Production	1.78	117,845.2	109,699.3	0.076%	0.0	110.3	61.9	172.2	\$0.68	\$0.64
Paladin Energy Ltd (ASX:PDN)*	Production	0.15	255,885.4	496,551.0	0.079%	174.3	193.6	153.8	521.7	\$0.49	\$0.95
Peninsula Energy Ltd. (ASX:PEN)*	Production	0.52	95,483.5	97,428.7	0.050%	0.0	17.2	30.2	47.4	\$2.01	\$2.06
Uranium Energy Corp. (NYSE:UEC)*	Production	0.87	137,109.0	153,277.2	0.062%	0.0	32.4	36.3	68.7	\$1.99	\$2.23
UR-Energy Inc. (TSX:URE)	Production	0.60	86,163.3	89,982.3	0.080%	0.0	34.5	10.3	44.9	\$1.92	\$2.00
<b>Producer Average</b>			<b>\$862,143.0</b>	<b>\$1,124,676.0</b>		<b>106.6</b>	<b>105.7</b>	<b>96.9</b>	<b>309.1</b>	<b>\$1.93</b>	<b>\$2.28</b>

\*Market Cap and Enterprise value for Paladin Energy, Peninsula Energy and Uranium Energy Corp. has been converted to \$CAD at the prevailing \$AUD/\$CAD or \$USD/\$CAD market exchange rates

Uranium Explorer/Developer Company Name	Stage	Stock Price (\$Local)	Market Cap (C\$'000)	Enterprise Value (C\$'000)	NI43-101 Resources (M lbs)				MKT / LB	EV / LB
					Avg Grade	M&I	Inferred	Total		
Hathor Exploration (Acquired)	Exploration	4.70	654,240.0	581,240.0	8.63%	17.2	40.7	57.9	\$11.29	\$10.03
Denison Mines (TSX:DML)	Exploration	0.50	266,709.5	181,043.6	2.29%	102.0	97.6	199.7	\$1.34	\$0.91
Fission Uranium Corp. (TSX:FCU)	Exploration	0.50	242,012.3	170,022.7	1.51%	79.6	25.9	105.5	\$2.29	\$1.61
NexGen Energy (TSX:NXE)	Exploration	1.45	440,658.6	407,337.2	2.63%	0.0	201.9	201.9	\$2.18	\$2.02
Kivalliq Energy Corp. (TSX:KIV)	Exploration	0.08	17,665.7	16,875.1	0.69%	0.0	43.3	43.3	\$0.41	\$0.39
UEX Corp. (TSX:UEX)	Exploration	0.17	48,928.9	39,490.3	0.84%	68.2	16.5	84.7	\$0.58	\$0.47
Azarga Uranium (TSX:AZZ)	Development	0.19	14,059.8	13,824.7	0.17%	18.1	5.7	23.8	\$0.59	\$0.58
<b>Average</b>			<b>\$240,610.7</b>	<b>\$201,404.8</b>		<b>40.7</b>	<b>61.7</b>	<b>102.4</b>	<b>\$2.67</b>	<b>\$2.29</b>

Source: Cantor Fitzgerald Canada

**Exhibit 6. Comparable Valuation**



Source: Cantor Fitzgerald Canada

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The analysts responsible for this research report *have*, either directly or indirectly, a long or short position in the shares or options of Energy Fuels Inc.

The analyst responsible for this report *has* visited the material operations of Energy Fuels Inc. including: White Mesa Mill, Pinenut Mine, Canyon Mine, Daneros Mine, Pandora Mine, Energy Queen Mine, Henry Mountains Mine, Nichols Ranch, Hank, and Jane Dough. No payment or reimbursement was received for the related travel costs.

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**SELL:** The stock is overpriced relative to the company’s fundamentals, and we expect it to decline from the current price over the next 6 to 12 months.

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