

# Uranium Energy Corp.

(UEC-US: US\$1.30)

May 9, 2017

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**BUY**

Target: US\$3.00 (from US\$2.70)

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## Acquisition of Fully Permitted Reno Creek ISR Project

We continue to recommend Uranium Energy as a BUY, and increase our 12-month share price target to US\$3.00 from US\$2.70 on the back of this acquisition. Our target is based on a 10% DCF model.

### FULLY PERMITTED, LONG LIFE, LOW COST ISR PROJECT ADDED TO PORTFOLIO

~\$18.8 MM acquisition cost via shares/warrants. UEC has purchased 100% interest in Reno Creek. For its 97.27% interest, Pacific Road Investment Fund will receive 14 MM shares of UEC; 11 MM warrants with a \$2.30 strike over 60 months, and will retain a 0.5% NPI royalty to be capped at \$2.5 MM. Bayswater Uranium (BYU-TSXV, Not Rated) owns 2.73% and will be paid in equal terms, pro-rata. The deal is expected to close by 31-Jul-17 and is subject to NRC approval.

- **Suggested acquisition price is \$0.82/lb.** This is in line with where developer peers trade on an EV/lb basis of (\$0.79/lb). Producers currently trade at US\$1.91/lb (including UEC at US\$2.31/lb). Explorers trade at US\$1.09/lb.
- **Accretive to our DCF model.** We model the existing PFS assumptions beginning in mid-CY20 (FY21). We forecast an NPV of \$108 MM for the project and our UEC NAV increases by \$0.31/sh.

**Always buying quality projects on the cheap.** Keeping to Uranium Energy's long term strategy of strengthening its low-risk, low-cost project pipeline in preparation for a turn in uranium prices, it has acquired another quick-to-production uranium project on the cheap. One might argue that an acquisition cost of \$0.82/lb U3O8 is the current going rate for development pounds. We'd argue that today's EV/lb trading metrics aren't indicative of expected uranium price appreciation over the next several years; nor does it reflect the quality and stage of the fully permitted and licensed Reno Creek Project, or that project in UEC's capable hands. About \$60 MM has been sunk on the project already. At almost 23 MM lbs of uranium, largely within M&I resources, there are few available projects of this size in the market, let alone something that is ready to deliver should spot prices exceed \$40/lb. With only 9% share dilution, this acquisition helps over double UEC's total ISR-amenable resource base during a time when many other companies are trying to keep the lights on using cash. UEC had US\$27.8 MM cash at 31-Jan-17. UEC's strategy of remaining totally un-hedged has meant it has not been wasting its resources. Another acquisition demonstrates quite the contrary...it could come out of this period of low uranium prices with all of its resources intact and ready to benefit shareholders.

**Reno Creek is ready-to-go.** Wyoming is a good uranium mining jurisdiction. A central ISR plant is fully permitted to 2 MM lbs U3O8. The project is large, modest grade and high quality being largely M&I. It boasts relatively low initial capital, low costs and long life potential. We expect this acquisition to be met positively by many investors. This acquisition comes on the back of the news that the US Department of Energy will decrease uranium transfers over the next two years by roughly 40%. Our expectations of a positive impact on uranium mining (but not necessarily nuclear power) by Trump's Administration ([see note](#)), appears to be shared by many, including UEC. Low cost ISR production suggests that uranium mining in the USA may be kick started sooner than other projects world-wide.

**PFS complete.** A 2014 study suggests an NPV (8%) of \$150 MM after-tax (we estimate ~\$108 MM at a 10% discount rate) and 32.2% IRR. The study contemplates 20.1 MM lbs production over 14.9 years, with annual production to 1.5 MM lbs pa. Recovery is anticipated to be 74.3%. Capex is \$78 MM initially and \$225 MM LOM during development of 16 mine units. Opex is estimated at \$18.84/lb cash costs and \$33.87/lb all-in. Resources total 27.47 MM tons 0.041% U3O8 for 21.98 MM lbs M&I at a grade-thickness (GT) cutoff of 0.20 within five deposits. There is an additional 0.3 MM lbs inferred.

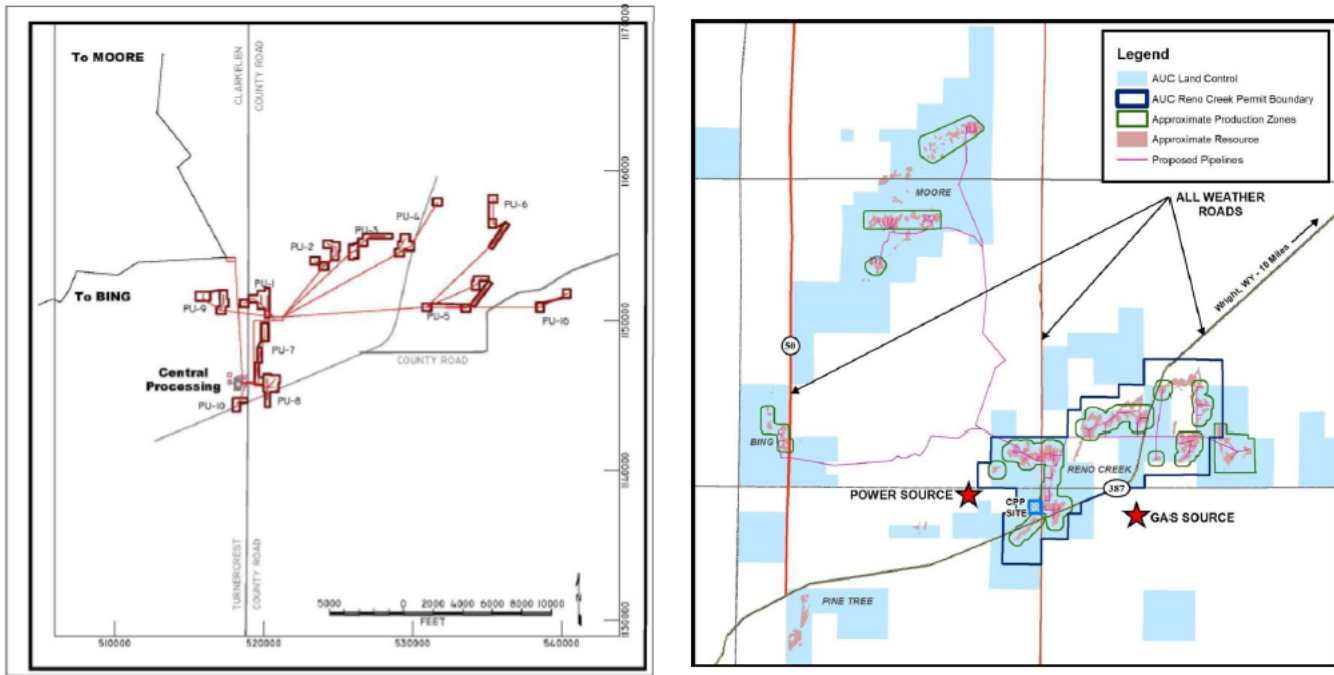
**Plenty of development opportunities.** It appears that UEC can start to mimic its own successful hub-and-spoke strategy of its flagship South Texas operations. A property boundary agreement with Energy Fuels' (EFR-T, BUY, C\$6.00 target) Reno Creek North provides the ability to develop the necessary ISR infrastructure on this neighbouring property. And while a stand-alone operation appears doable at higher uranium prices (like many studies, the PFS was completed at US\$65/lb U3O8 and in line with our long term target prices), toll milling is also an option. With its foot in the door in WY, we wouldn't be surprised if UEC begins to consolidate parts of the Powder River Basin.

**Consolidation/optimization potential.** We believe this acquisition is just the start given UEC's entry into the Power River

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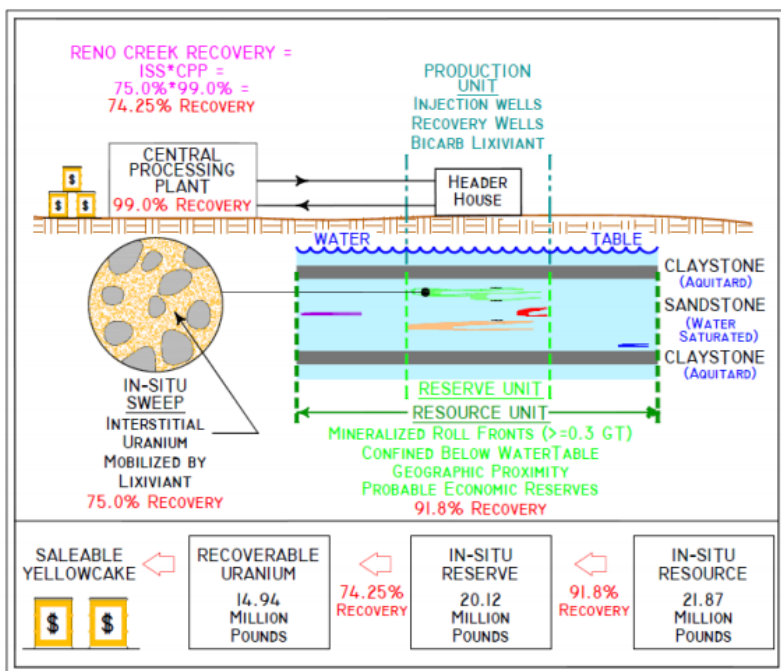
Basin, the busiest uranium district in the USA. The adjacent Reno Creek North hosts 4.3 MM lbs M&I and 0.14 MM lbs inferred and grades 0.056% and 0.04%, respectively. Many of the five roll front uranium deposits (with up to five mineralized horizons each) continue directly onto Reno Creek. It makes sense for a single operator to mine the area. We also expect UEC's years of ISR experience might allow project optimization. We would assume that both capital and operating costs would be targeted. We could also see a modification to the production scenario that would either 1) start with a smaller mine and scale upwards; and/or 2) work to maximize all of the 2 MM lb mill license capacity. We do not currently model this upside potential in our DCF model.

**Figure 1: Plan map showing the location of the Reno Creek Property, deposits and ISR plant site.**



Source: Company Reports

**Figure 2: Schematic diagram illustrating the pathway and volume of uranium from the wellfield, through the ISR plant and to market.**



Source: Reno Creek Pre-Feasibility Study (2014)

Uranium Energy Corp. (UEC-A)					
Rating	BUY	US\$ Target	\$3.00	Shares O/S (MM)	135.2
		US\$ Close	\$1.30	Fully Diluted Shares (MM)	169.1
David A. Talbot, Director, Mining Research		12-month return	132%	Basic Mkt. Capitalization (\$MM)	US\$ 162.24
<a href="mailto:dtalbot@eightcapital.com">dtalbot@eightcapital.com</a>				Enterprise Value (\$MM)	US\$ 153.42

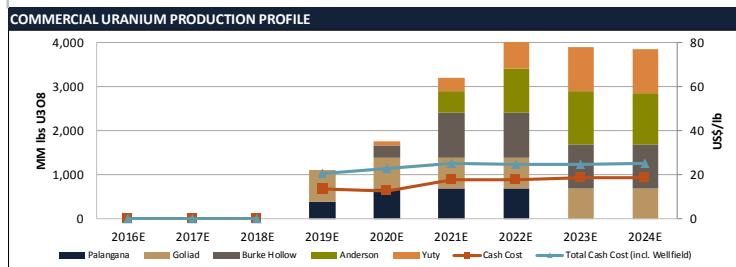
PRODUCTION ESTIMATES (000 lbs)					
Year-end July	2016A	2017E	2018E	2019E	2020E
Palangana	0	0	0	400	700
Goliad	0	0	0	700	700
Burke Hollow	0	0	0	257	0
Anderson	0	0	0	0	0
Yuty	0	0	0	0	100
<b>TOTAL</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,100</b>	<b>1,757</b>

TOTAL CASH COST ESTIMATES (excl. non-cash, incl. wellfield expenditures) (US\$/lb)					
Year-end July	2016A	2017E	2018E	2019E	2020E
Palangana	0.0	0.0	0.0	17.7	18.2
Goliad	0.0	0.0	0.0	22.5	28.9
Burke Hollow	0.0	0.0	0.0	0.0	21.1
Anderson	0.0	0.0	0.0	0.0	0.0
Yuty	0.0	0.0	0.0	0.0	16.9
<b>Wt. Avg. Total Cash Costs</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>20.7</b>	<b>22.8</b>

URANIUM RESERVES & RESOURCES					
	Ownership	Tonnes MM t	Grade % U3O8	Cont U3O8 (MM lbs) 100% Basis	UEC Share
<b>Proven and Probable Reserves</b>					
*The company has no current Mineral Reserves					
<b>Total Reserves</b>		<b>0.0</b>	<b>0%</b>	<b>0.0</b>	<b>0.0</b>
<b>Measured and Indicated Resources</b>					
Palangana	100%	0.39	0.14%	1.06	1.06
Goliad	100%	3.79	0.05%	5.48	5.48
Anderson	100%	26.85	0.03%	17.0	17.0
Yuty	100%	7.84	0.05%	8.91	8.91
<b>Total Measured and Indicated Resources</b>		<b>39</b>	<b>0.04%</b>	<b>32.4</b>	<b>32.4</b>
<b>Inferred Resources</b>					
Palangana	100%	0.33	0.18%	1.15	1.15
Goliad	100%	1.55	0.05%	1.50	1.50
Anderson	100%	14.30	0.04%	12.0	12.0
Yuty	100%	2.14	0.05%	2.23	2.23
Nichols	100%	0.90	0.07%	1.31	1.31
Segar Salvo	100%	1.10	0.09%	2.84	2.84
Burke Hollow	100%	2.90	0.09%	5.12	5.12
Slick Rock	100%	2.50	0.23%	11.60	11.60
Workman Creek	100%	3.22	0.09%	5.54	5.54
<b>Total Inferred Resources</b>		<b>29</b>	<b>0.07%</b>	<b>43.3</b>	<b>43.3</b>
<b>TOTAL RESOURCES</b>		<b>68</b>	<b>0.05%</b>	<b>75.7</b>	<b>75.7</b>
<b>Current Per Pound Metrics</b>					
	UEC	Producer Peers	Prem./Disc.	#DIV/0!	
EV/lb (US\$)	\$0.85	0.00			
Mkt Cap/lb (US\$)	\$2.14	1.49	44%		

NET ASSET VALUE (US\$) - 10%				NAV (\$ MM)	/Share	% NAV
Palangana (100%)			44.7	0.26	9%	
Goliad (100%)			69.3	0.40	13%	
Burke Hollow (100%)			124.1	0.72	24%	
Anderson (100%)			67.5	0.39	13%	
Yuty (100%)			71.9	0.42	14%	
Un-mined Resources			15.9	0.09	3%	
Exploration, G&A, and Other			113.5	0.66	22%	
<b>Balance Sheet Items:</b>						
Cash & Investments			29.2	0.17	6%	
Debt			(20.0)	(0.12)	-4%	
<b>Total</b>			<b>516</b>	<b>2.99</b>	<b>100%</b>	
<b>Eight Capital DCF Target Multiple</b>						
<b>Share Price Target</b>			<b>US\$</b>	<b>3.00</b>		

Long Term Uranium Price Assumption (US\$/lb)					
NAV (US\$/share)	40	50	60	70	80
0% Discount	1.17	3.11	4.96	6.82	8.67
5% Discount	0.75	2.07	3.33	4.60	5.87
10% Discount	0.49	1.45	2.36	3.27	4.18
15% Discount	0.34	1.05	1.74	2.43	3.11



BALANCE SHEET (US\$ MM)				
Year-end July	2015A	2016A	2017E	Q2/17
<b>Assets:</b>				
Cash & ST Investments	10.09	7.14	29.23	27.73
Other Current Assets	0.72	0.86	1.17	1.17
<b>Current Assets</b>	<b>10.81</b>	<b>8.00</b>	<b>30.40</b>	<b>28.91</b>
Mineral Properties	45.39	44.92	44.50	44.50
Other non-current Assets	1.71	3.26	3.26	3.26
<b>Total Assets</b>	<b>57.90</b>	<b>56.18</b>	<b>78.16</b>	<b>76.67</b>
<b>Liabilities:</b>				
Current Liabilities	4.56	1.82	2.35	2.35
Long-term Debt	18.09	19.20	20.00	19.80
Other non-current Liabilities	4.26	4.71	6.09	4.80
<b>Total Liabilities</b>	<b>26.91</b>	<b>25.73</b>	<b>28.44</b>	<b>26.95</b>
Capital Stock	223.01	239.82	267.67	267.67
Retained Earnings	(192.02)	(209.37)	(217.95)	(217.95)
<b>Total Shareholder Equity</b>	<b>30.99</b>	<b>30.45</b>	<b>49.72</b>	<b>49.72</b>

INCOME STATEMENT (US\$ MM)				
Year-end July	2015A	2016A	2017E	2018E
Total Revenue:	3.3	0.0	0.0	0.0
% Uranium	100%	0%	0%	0%
% Other	0%	100%	100%	100%
Operating Costs	2.4	0.0	0.0	0.0
G&A	13.2	9.3	4.5	0.0
Exploration	0.0	0.0	0.0	0.0
Depreciation	1.9	0.9	0.3	0.0
Other	5.9	4.2	2.6	2.3
<b>EBITDA</b>	<b>(18.3)</b>	<b>(13.5)</b>	<b>(7.1)</b>	<b>(2.3)</b>
<b>EBIT</b>	<b>(20.1)</b>	<b>(14.4)</b>	<b>(7.4)</b>	<b>(2.3)</b>
Interest Expense	(3.1)	(3.0)	(1.5)	0.0
<b>EBT</b>	<b>(23.2)</b>	<b>(17.4)</b>	<b>(8.9)</b>	<b>(2.3)</b>
Taxes	0.0	0.0	0.0	0.0
Equity Earnings	0.0	0.0	0.0	0.0
Other	0.00	-0.04	-0.01	0.00
<b>Net Income (Reported)</b>	<b>(23.2)</b>	<b>(17.4)</b>	<b>(8.9)</b>	<b>(2.3)</b>
<b>Net Income (Adjusted)</b>	<b>(23.2)</b>	<b>(17.4)</b>	<b>(8.9)</b>	<b>(2.3)</b>
<b>EPS (Reported) \$/sh</b>	<b>(0.25)</b>	<b>(0.17)</b>	<b>(0.07)</b>	<b>(0.01)</b>
<b>EPS (Adjusted) \$/sh</b>	<b>(0.25)</b>	<b>(0.17)</b>	<b>(0.07)</b>	<b>(0.01)</b>
Average Shares (MM)	91.9	103.5	122.4	172.9

CASH FLOW STATEMENT (US\$ MM)				
Year-end July	2015A	2016A	2017E	2018E
Net Income (Reported)	(23.2)	(17.4)	(8.9)	(2.3)
Depreciation	(1.9)	(0.9)	(0.3)	0.0
Working Capital Changes	1.6	(0.8)	0.2	(0.8)
Other	9.7	6.0	4.8	3.0
<b>Operating Cash Flow</b>	<b>(13.8)</b>	<b>(13.1)</b>	<b>(4.1)</b>	<b>(0.0)</b>
<b>Operating Cash Flow/sh (\$/sh)</b>	<b>(0.17)</b>	<b>(0.12)</b>	<b>(0.04)</b>	<b>0.00</b>
Capital Expenditures	5.7	4.1	2.3	2.3
Acquisitions	0.0	0.0	0.0	0.0
Other	(1.8)	(4.1)	(2.3)	(2.3)
<b>Investing Cash Flow</b>	<b>3.9</b>	<b>(0.0)</b>	<b>0.0</b>	<b>0.0</b>
Common Share Dividends	0.0	0.0	0.0	0.0
Equity financing	10.0	10.2	25.9	0.0
Debt Issue	0.0	0.0	0.0	0.0
Debt Repayment	0.0	0.0	0.0	0.0
Other	(0.3)	(0.0)	0.0	0.0
<b>Financing Cash Flow</b>	<b>9.7</b>	<b>10.2</b>	<b>25.9</b>	<b>0.0</b>
<b>Net Change in Cash</b>	<b>(0.2)</b>	<b>(2.9)</b>	<b>21.8</b>	<b>(0.0)</b>
<b>Cash Balance</b>	<b>8.6</b>	<b>5.7</b>	<b>27.5</b>	<b>27.5</b>
<b>Free Cash Flow</b>	<b>(13.8)</b>	<b>(13.1)</b>	<b>(4.1)</b>	<b>(0.0)</b>

VALUATION DATA				
Year-end July	2015A	2016A	2017E	2018E
P/E	--	--	--	--
P/CF	--	--	--	#DIV/0!
EV/EBITDA	--	--	--	--
FCF Yield	--	--	--	--

INPUT PRICES				
Year-end July	2015A	2016A	2017E	2018E
Eight Capital Spot Uranium (US\$/l)	35.2	33.2	27.0	44.5
Uranium Realized Price (US\$/lb)	38.1	0.0	0.0	0.0
Exchange (US\$/C\$)	0.84	0.75	0.78	0.79

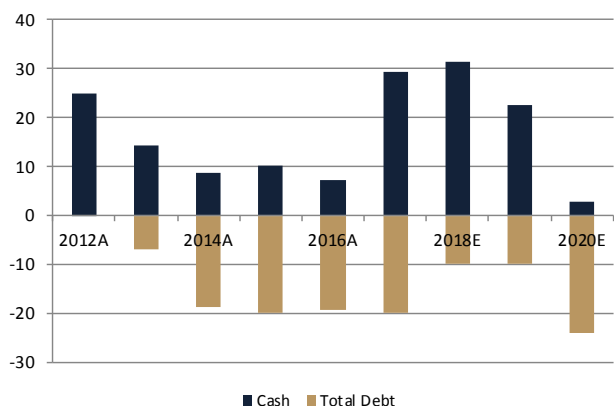
**Uranium Energy Corp.**

**Net Asset Valuation at Eight Capital Price Deck (US\$)**

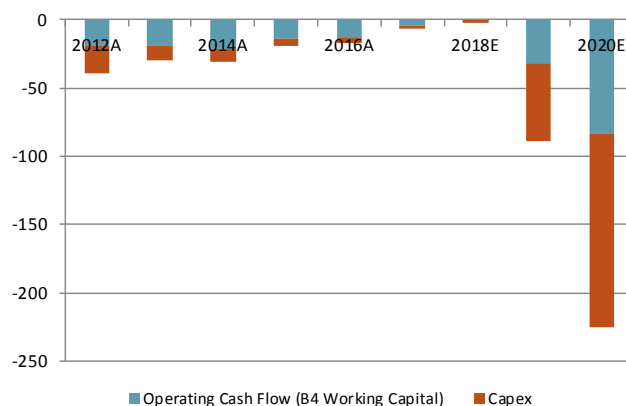
	Target Setting NAV			NAV at Various Discount Rates					
	Discount Rate	(\$MM)	(\$/Share)	0%		5%		15%	
				(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)
<b>Uranium Assets</b>									
Palangana (100%)	10%	45	0.26	58	0.34	51	0.29	40	0.23
Goliad (100%)	10%	69	0.40	106	0.61	85	0.49	58	0.33
Burke Hollow (100%)	10%	124	0.72	310	1.79	191	1.10	85	0.49
Anderson (100%)	10%	67	0.39	215	1.24	120	0.69	37	0.22
Yuty (100%)	10%	72	0.42	170	0.98	110	0.64	47	0.27
<b>Total Uranium Assets</b>		<b>378</b>	<b>2.18</b>	<b>859</b>	<b>4.97</b>	<b>557</b>	<b>3.22</b>	<b>266</b>	<b>1.54</b>
<b>Other Assets &amp; Expenses</b>									
Cash		29	0.17	29	0.17	29	0.17	29	0.17
Debt		(20)	(0.12)	(20)	(0.12)	(20)	(0.12)	(20)	(0.12)
Resources		16	0.09	16	0.09	16	0.09	16	0.09
Exploration, G&A, Other	10%	114	0.66	200	1.15	148	0.86	89	0.52
<b>Net Other Assets</b>		<b>139</b>	<b>0.80</b>	<b>225</b>	<b>1.30</b>	<b>173</b>	<b>1.00</b>	<b>115</b>	<b>0.66</b>
<b>Net Asset Value</b>		<b>516</b>	<b>2.99</b>	<b>1,084</b>	<b>6.27</b>	<b>730</b>	<b>4.22</b>	<b>381</b>	<b>2.20</b>
Share Price			1.30		1.30		1.30		1.30
P/NAV			0.43x		0.21x		0.31x		0.59x

**Financial Forecasts at Eight Capital Price Deck (MM US\$)**

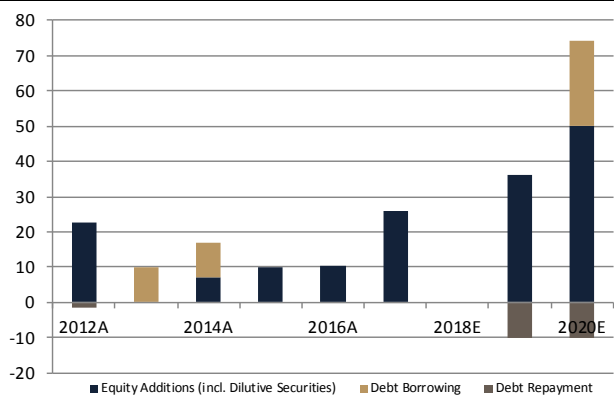
**Cash and Debt**



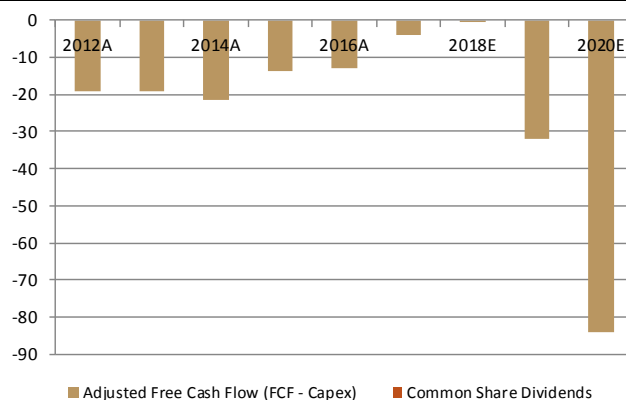
**Operating Cash Flow and Capital Spending**



**Changes in Debt and Equity**



**Free Cash Flow and Common Share Dividends**



Source: Company Reports, FactSet, Eight Capital

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### Explanation of Recommendations

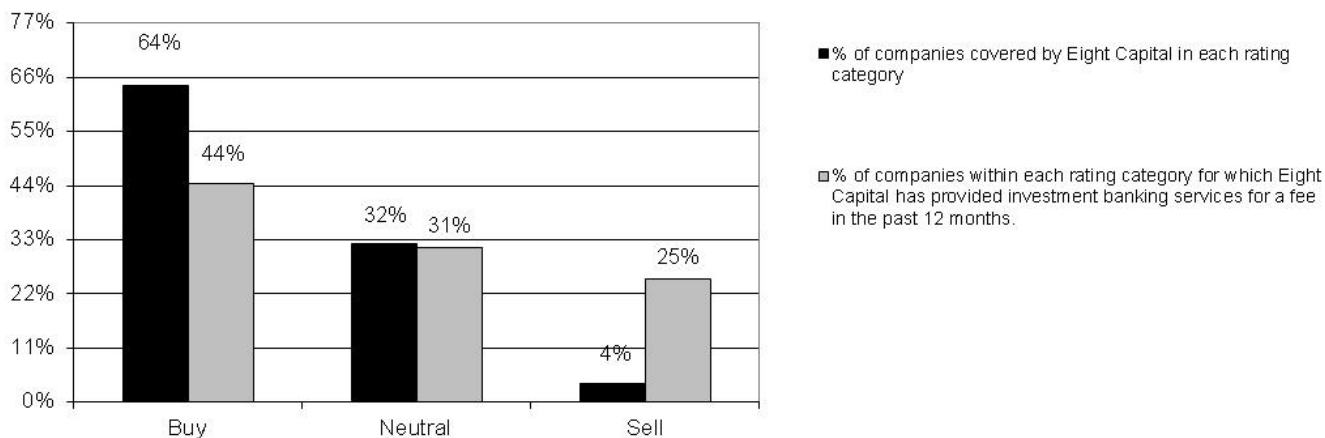
**Eight Capital target:** Represents the price target as required under IIROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Eight Capital

target N/A: a price target and/or NAV are not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

**Recommendations:** **BUY:** Total returns expected to be materially better than the overall market with higher return expectations needed for more risky securities. **NEUTRAL:** Total returns expected to be in line with the overall market. **SELL:** Total returns expected to be materially lower than the overall market. **TENDER:** The analyst recommends tendering shares to a formal tender offer. **UNDER REVIEW:** The analyst will place the rating and/or target price Under Review when there is a significant material event with further information pending; and/or when the analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**SECURITY ABBREVIATIONS:** NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

**Eight Capital Equity Research Ratings:**



*As at March 31, 2017*

*Source: Eight Capital*