

## Paladin Energy Ltd (PDN)

### Pure Uranium Leverage

PORTFOLIOS	RISK
Energy	High
Speculative Portfolio	High
<b>Recommendation</b>	<b>BUY</b>
Price (A\$ cents)	17.5
ASX Code	PDN
Date	22 June 2018

MARKET PRICING	
Share Price (A\$)	0.175
Ord Shares	1715.8 m
<b>Market Cap undiluted (A\$)</b>	<b>300.3 m</b>
Options (likely to be exercised)	0.0 m
<b>Market Cap - diluted (A\$m)</b>	<b>300.3 m</b>
Est. Cash (post restructure facility) (A\$m)	60.0 m
Cash raised from option exercise (A\$m)	0.0 m
Total Debt (post restructure) (A\$m)	165.0 m
<b>Enterprise Value (A\$m)</b>	<b>405.3 m</b>

DIRECTORS & CEO	
Chairman (non-exec)	Rick Crabb
Director (non-exec)	David Reikie
Director (non-exec)	Daniel Harris
Director (non-exec)	John Hodder
CEO	Alexander Molyneux

Source: Company

SUBSTANTIAL SHAREHOLDERS	
Tembo 13.1%	13.10%
Burlington Loan Management (Davidson Kempner)	12.40%
Value Partners	11.80%
Deutsche Bank AG and its affiliates	10.20%
JPMorgan	9.90%
HOPU	7.00%
China Investment Corporation	5.60%

COMPANY DETAILS	
Address	Level 4, 502 Hay Street, Subiaco WA 6008
Phone	+61 (8) 9381 4366
Web	<a href="http://www.paladinenergy.com.au">www.paladinenergy.com.au</a>



Source: ASX

### Company Background

Paladin is an Australian-based global uranium leader with two fully built mines in Africa and a portfolio of development assets in Australia and North America.

The Company's main asset is the Langer Heinrich mine in Namibia which is in the top 10 global uranium mine producers with cash costs in the first quartile. It has a 20-year projected mine life and cumulative production to-date has been 42.4 M lb.

Paladin also owns the Kayelekera mine located in northern Malawi. The Company announced in February 2014 that processing would cease at Kayelekera and that the site would be placed on care and maintenance as consequence of the low uranium price prevailing at that time.

With the ongoing weak uranium prices and Paladin's high debt levels creating an unsustainable situation, the Company formulated a recapitalisation proposal which has been agreed with debtors and presented to shareholders late in 2017. This has involved a debt for equity swap, restructuring of the Board and final clarification of capital structure for investors.

The unknown issue has been the Company's approach to Langer Heinrich given the ongoing weak uranium prices resulting in ongoing operating losses.

### What's new?

The current global supply glut is being partly addressed with Paladin's decision to shutter its Langer Heinrich mine in Namibia and which removes at least 2 million pounds of supply from the market this year. While requirements from power stations steadily grow, contraction of global supply has boosted nuclear fuel prices which have gained approximately 8% during May although the price has remained relatively flat in June. However, the price increase in May has been the most since November last year.

*PDN represents a pure leverage play on the uranium price now that there is clarity on its capital structure and its care and maintenance approach to Langer Heinrich. Breakaway Research expects the PDN share price to react positively to upward movements in the uranium price and which appears to be a matter of 'when' rather than 'if'. Indeed, the downside appears limited so all the investment may require is patience!*

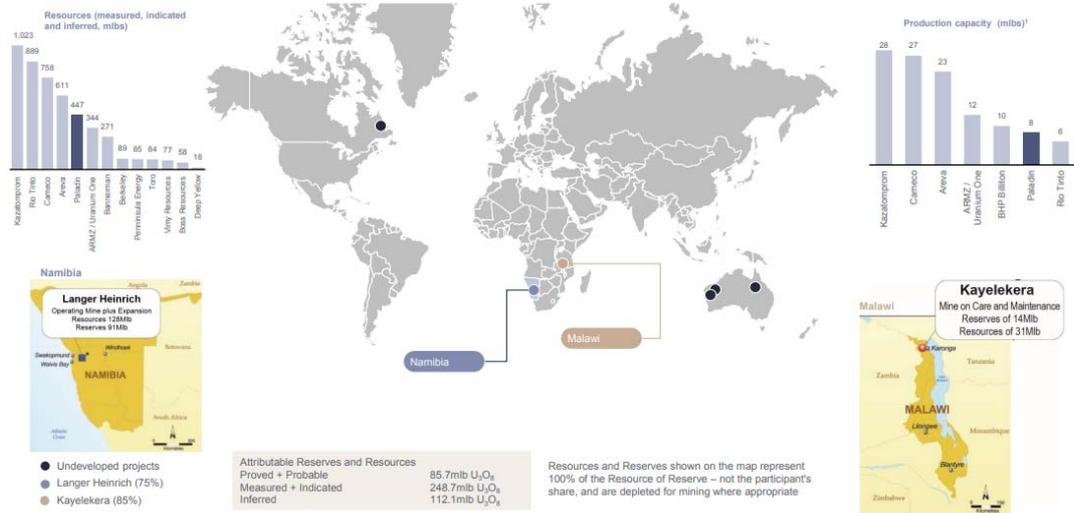
*Breakaway Research recommends Paladin at a Buy around 18 cents.*



## Background

Paladin is not a complicated company comprising two developed mines on care and maintenance. We have extracted five slides from a recent shareholder update which summarises the salient points.

## Mine Location



Source: Company

## Recapitalisation

Paladin has summarised its recent recapitalisation in the following slide.



### Key Elements of Recent Recapitalisation

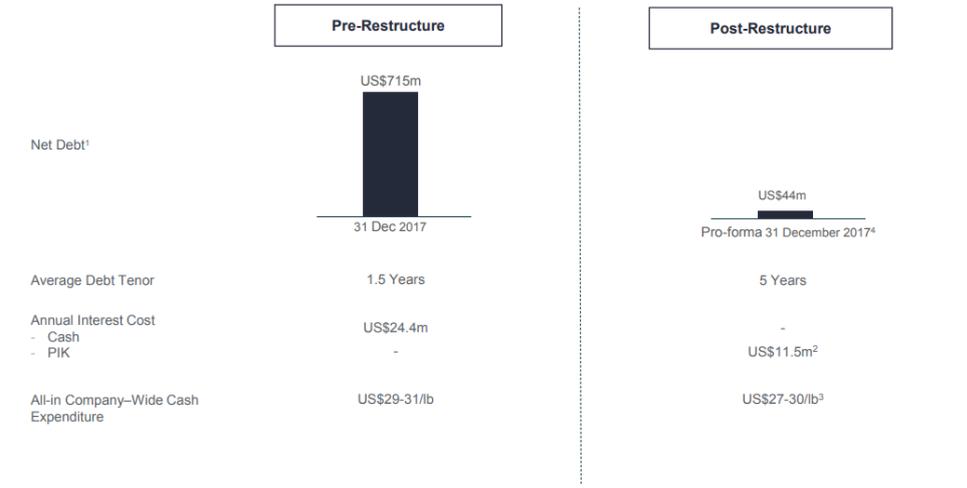
- **Debt for equity swap** – Previous bondholders and former EDF pre-payment debt (note: EDF's claims were acquired by Deutsche Bank during the restructuring) were transferred 70% of existing pre-restructure Paladin shares outstanding pro-rata to the value of their claims
- **New US\$115M bond issue (New Notes)** – New senior secured bond with 5-year term (bullet) and interest of 9.0% (note: interest can be paid at 10.0% PIK instead of cash interest). New Notes subscribers were transferred 25% of existing pre-restructure Paladin shares outstanding
- **Underwriter shares** – New Notes issue was fully underwritten prior to completion and underwriters received (via transfer) 3% of existing pre-restructure Paladin shares outstanding
- **Pre-restructure shareholders** – Kept the remaining 2% of existing pre-restructure Paladin shares outstanding
- **Paladin acquisition of LHM working capital facility** – Paladin acquired the US\$60M LHM working capital facility using some of the funds from the New Notes issue
- **Extinguishment of all "subordinated claims" against Paladin**
- **New board** – All directors new other than the ongoing Chairman (Rick Crabb)
- **No material change in underlying assets or business** – Paladin continues to own 75% of its 'flagship' operating Langer Heinrich Mine in Namibia, together with Kayelekera Mine (care and maintenance) and its suite of pre-development properties in Australia and Canada. Paladin remains listed on the ASX under the ticker PDN
- **Recapitalisation completed** – All relevant elements to the transaction completed on or before 1 February 2018

A summary of the key outcomes from the above proposal were presented by the Company as follows.



## Key Outcomes

Significant reduction in debt and debt servicing



The changing shareholder base with the restructure is presented below.



## Substantial Shareholders

Pre-Restructure	
■ HOPU	14.6%
■ GIC	7.0%
Post -Restructure	
■ Tembo	13.1%
■ Burlington Loan Management (Davidson Kempner)	12.4%
■ Value Partners	11.8%
■ Deutsche Bank AG and its affiliates	10.2%
■ JPMorgan	9.9%
■ HOPU	7.0%
■ China Investment Corporation	5.6%

*During the restructure, Deutsche Bank purchased the EDF's claim and largely brokered it to equity-minded investors – Paladin now enjoys a stronger institutional equity base*

*New cornerstone investors Tembo and HOPU have helped relieve any potential overhang and help broaden the equity base*

## Langer Heinrich Mine Status

The mine status is summarised below and highlights that the mine has been focused on reducing operating costs. It is important to note the 6 month lag to restarting operations so investment returns are likely to be delivered from increases in the uranium price rather than necessarily waiting for operational cash flows.



## Langer Heinrich Mine – Status

Located near the west coast of central Namibia, 85km northeast of Walvis Bay

- To reduce cash operating costs, LHM ceased physical mining in November 2016 maintaining processing feed from medium grade ore stockpiles
- C1 cash costs reduced from US\$25.27/lb to a record low of US\$16.25/lb (half to Dec 2016)
- LHM's current mining curtailment strategy relies on processing medium grade stockpiled ore
- Such stockpiles will be exhausted by mid-2019
- A decision needs to be made at least six months prior as to whether to restart physical mining, process low grade stockpiles or place LHM on care and maintenance
- Total resource of 128.9Mlb at 465ppm containing a total reserve of 91Mlb at 464ppm<sup>1</sup>



### Disclaimer

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