

An Enriched Outlook: GLE Accelerates

SLX.ASX | SILEX SYSTEMS LIMITED

PRICE
A\$ 4.05

TARGET PRICE
A\$ 6.00
(FROM A\$ 5.90)

RECOMMENDATION
SPECULATIVE BUY
(FROM SPECULATIVE BUY)

ANALYST
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Event

SLX has announced the completion of a A\$120m institutional placement. A Share Purchase Plan to raise up to a maximum of A\$25m opens on the 13th of March. Funds raised will supplement a prior cash balance of A\$34m in funding the SILEX technology commercial-scale pilot demonstration project, GLE commercialisation program and non-core laser isotope enrichment projects leveraging variants of the SILEX technology.

Impact

SLX and Cameco agree to expedite CY23 commercialisation program. The commercial-scale pilot demonstration project is now guided to be completed as early as mid-CY24 on updated timelines (prev. CY25), while guidance on the commencement of PLEF I commercial operations has remained unchanged for CY27 at the earliest. GLE has adjacently engaged a third-party contractor to commence FEED for PLEF I. Expenditure required for the accelerated completion of the pilot demonstration project of A\$80m (GLE 100% basis) is consistent with our prior model assumptions, although we model SLX's share of GLE expenditure pro-rating down to 25% (from 51% currently) in H2 CY23 on the assumption that Cameco exercises its option to acquire a further 26% equity interest in GLE from SLX. We assume this option is exercised at a notional fair market value of A\$300m, which on our estimates, would see SLX fully funded to meet an assumed 25% share of GLE expenditure requirements through to initial production from PLEF I in CY27.

Minimum revenue royalty of 7% on GLE revenue is key. SLX reached a peak market capitalisation of A\$1.7bn in 2007, at which point in time SLX's exposure to the commercialisation of the SILEX technology was limited to the minimum 7% revenue royalty on GLE revenue with no equity stake in GLE. Our valuation assumes GLE establishes SWU capacity of 4m SWU/yr, comprising 2m SWU/yr from both PLEF I & II, with SLX deriving a revenue royalty at the minimum 7% rate on 100% of GLE enrichment revenue. Noting the scale of Cameco's UF₆ conversion capacity, our PLEF II SWU capacity assumption of 2m SWU/yr may ultimately prove conservative, and if so, there is tangible potential for SLX's revenue royalty to increase toward the maximum 12% royalty rate as additional SWU capacity is brought online. On our LT SWU price assumption of US\$150/SWU (current LT SWU contract price: US\$137/SWU), the potential uplift in annual revenue royalties payable to SLX at a higher royalty rate and/or greater SWU capacity than we currently assume is compelling (Fig. 7).

Action

Speculative Buy rating maintained, Price Target increased to A\$6.00/sh at 1.13x NAV (prev. A\$5.90/sh). Subsequent to our last published note, we have i) revised our valuation for SLX's updated capital structure, assuming A\$25m of SPP proceeds, and ii) reduced our PLEF I model risk weighting by 5% in recognition of reduced dilution risk.

Catalysts

The issuance of Requests for Proposals (RFPs) under the US DOE's US\$700m HALEU Availability Program is expected imminently. There is a limited pool of western enrichers vying for funding under the HALEU Availability Program (consisting only of European enrichers Urenco and Orano ex-GLE), which both employ comparatively more capital-intensive and less efficient centrifuge enrichment technologies. Cameco's option to acquire a further 26% equity interest in GLE from SLX is now exercisable; we reiterate our view that Cameco has every incentive to exercise this option should it seek to 'fill the gap' in its nuclear fuel cycle exposure following the Westinghouse acquisition.

Silex Systems Ltd

Share Price	4.05	A\$/sh
Price Target	6.00	A\$/sh
Valuation	5.32	A\$/sh

Issued Capital (PF)

Ordinary Fully Paid	241.1	m
Options & Perf. Rights	4.7	m
Dil. FP Ordinary	245.8	m

Market Capitalisation	977	A\$m
Enterprise Value	798	A\$m
Cash (Feb'23e)	179	A\$m
Debt (Feb'23)	Nil	A\$m

Directors

Craig Roy	Chair
Michael Goldsworthy	MD
Christopher Wilks	NED
Helen Cook	NED

Substantial Shareholders

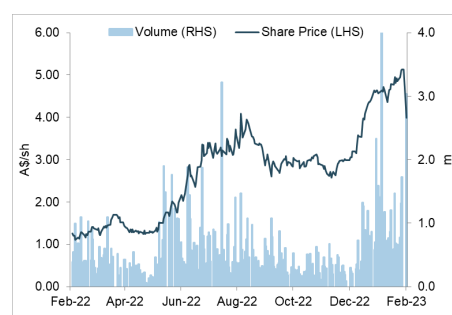
Jardvan Pty Ltd*	14.5%
Board & Management*	5.0%

* Pre-equity offer

Company Details

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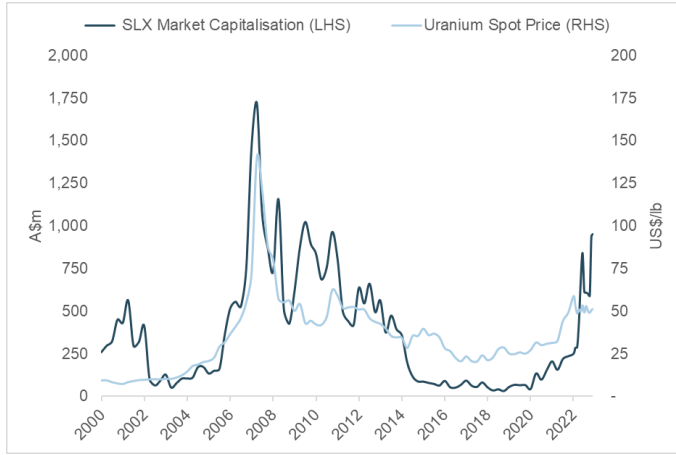
Performance



Source: IRESS

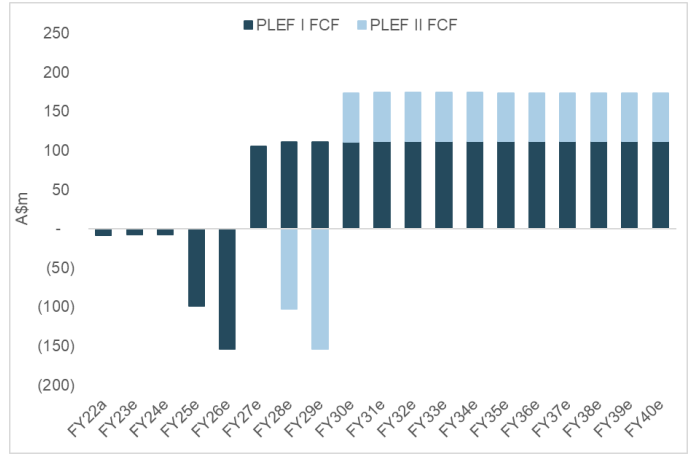
Summary

Figure 1: SLX has previously carried a market cap of >A\$1.7bn



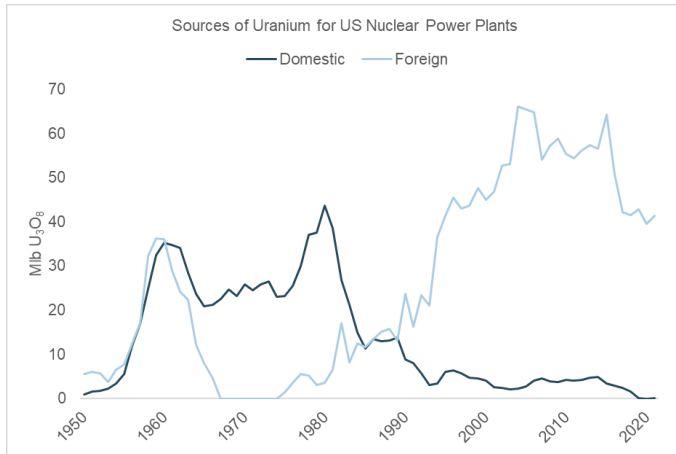
Source: Bloomberg, IRESS

Figure 2: PLEF I & II FCF forecasts (SLX attributable basis)



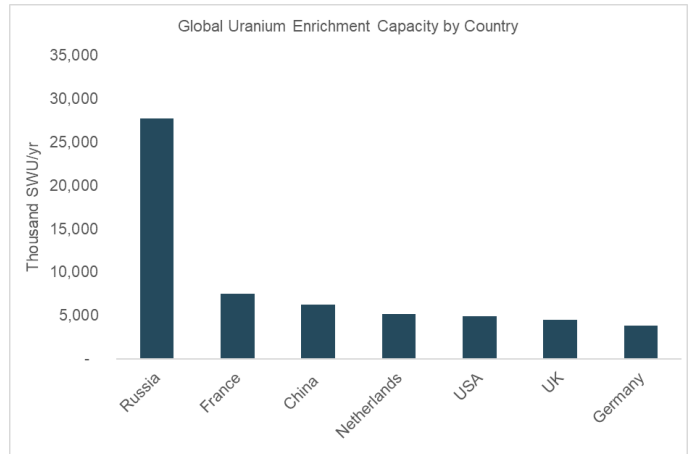
Source: Euroz Hartleys estimates

Figure 3: US nuclear power plants are heavily reliant on foreign-origin U₃O₈; Paducah UF₆ tails hold significant strategic value



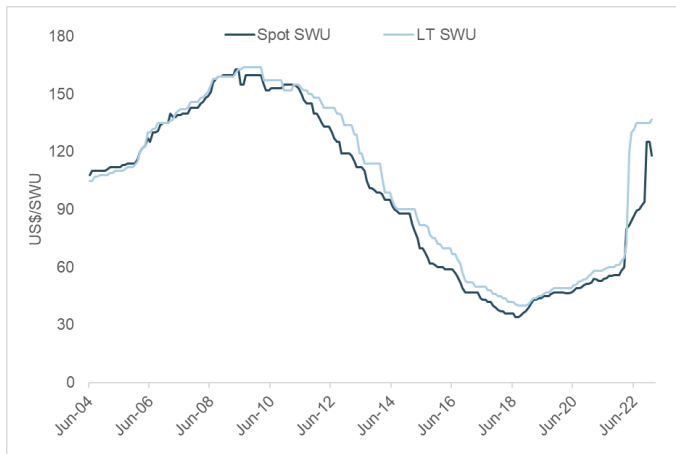
Source: US EIA

Figure 4: Russia accounts for ~43% of global enrichment capacity, domestic US capacity of ~5m SWU/yr = ~1/3 of annual demand



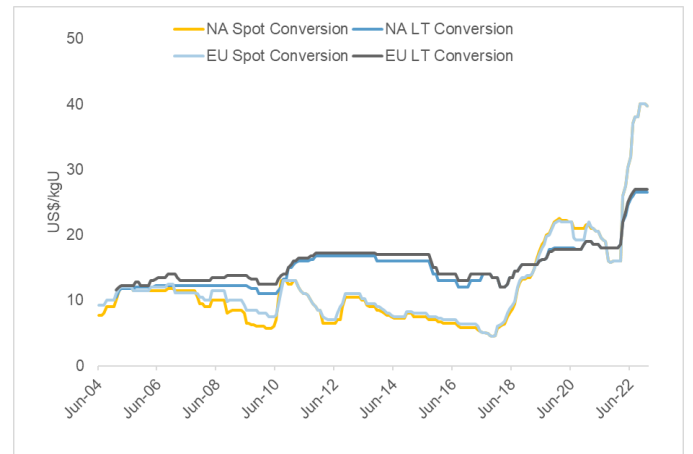
Source: WNA, Urenco

Figure 5: Enrichment (SWU) prices are currently at decade highs, largely necessitated by the Russia-Ukraine conflict



Source: UxC, LLC (adapted from SLX)

Figure 6: Uranium conversion prices are also at decade highs; the Paducah UF₆ tails capture the value of dormant U₃O₈ conversion



Source: UxC, LLC (adapted from SLX)

Figure 7: Sensitivity of annual SLX royalty revenue to SWU capacity and royalty rate (EHe LT SWU price: US\$150/SWU)

A\$m		GLE SWU Capacity (SWU/yr)					
		2.0	4.0	6.0	8.0	10.0	12.0
SLX Revenue Royalty Rate (%)	7.0%	33	74	103	132	161	189
	8.0%	38	85	118	151	184	217
	9.0%	43	96	133	170	207	244
	10.0%	48	106	147	188	230	271
	11.0%	52	117	162	207	252	298
	12.0%	57	128	177	226	275	325

Source: Euroz Hartleys estimates

Figure 8: Sensitivity of SLX SOTP valuation to LT SWU price and royalty rate, holding EHe SWU capacity of 4m SWU/yr constant

A\$/sh		LT SWU Price (US\$/SWU)					
		100	125	150	175	200	225
SLX Revenue Royalty Rate (%)	7.0%	4.90	5.11	5.32	5.53	5.74	5.95
	8.0%	5.03	5.25	5.47	5.68	5.90	6.12
	9.0%	5.16	5.38	5.61	5.84	6.06	6.29
	10.0%	5.29	5.52	5.76	5.99	6.22	6.46
	11.0%	5.42	5.66	5.90	6.14	6.38	6.63
	12.0%	5.55	5.80	6.05	6.30	6.54	6.79

Source: Euroz Hartleys estimates

Valuation

Our valuation of the Paducah UF₆ Tails Project reflects total SWU capacity of 4m SWU/yr (combined PLEF I & II capacity) and LT U₃O₈ conversion and SWU prices of US\$80/lb, US\$30/kgU and US\$150/SWU respectively. We continue to conservatively ascribe no value to the HALEU opportunity at Paducah via a third-stage facility (PLEF III), although we look to ascribe value on the potential award of US DOE funding to establish HALEU production capacity.

Figure 9: PLEF I Valuation Assumptions

Variable	Rationale	Units	EH Assumptions
Annual natural uranium production	U.S. DOE production cap	MTU in the form of UF ₆	2,000
Natural uranium production	1kg U in UF ₆ = 2.61285 lbs U ₃ O ₈	Mlb U ₃ O ₈	5.2
Avg. U ₃ O ₈ contract price	EH Price Deck (LT)	US\$/lb	80
Avg. uranium conversion price	EH Price Deck (LT)	US\$/kgU as UF ₆	30
SLX revenue royalty	Lower end of 7% - 12% range (i.e. minimum)	%	7%
Initial capex	~0.5x centrifuge plant capex	US\$m	750
Cameco option fair market value	EH valuation	A\$m	300
Unit operating costs (equivalency in lbs)	Published cost guidance	US\$/lb	25

Source: Euroz Hartleys estimates

Our nominal PLEF II valuation assumes annual SWU capacity of 2m SWU/yr and an avg. product assay of ~5% U²³⁵, reflective of the view that longer-dated domestic US LEU requirements will more than underpin the second-stage opportunity at Paducah.

Figure 10: PLEF II Valuation Assumptions

Variable	Rationale	Units	EH Assumptions
Annual SWU capacity (ex-Stage 1)	Urenco SWU calculator (refer below)	SWU/yr	2,000,000
Avg. SWU contract price	EH price deck, current term price: US\$135/SWU	US\$/SWU	150
SLX revenue royalty	Lower end of 7% - 12% range (i.e. minimum)	%	7%
Initial capex	US\$750m per 2m SWU capacity, aligned with PLEF I	US\$m	750
EBITDA margins	Aligned with Urenco EBITDA margins (Fig. 10)	%	60%
Steady state revenue	100% basis	US\$m	300
Steady state EBITDA	100% basis	US\$m	180

Source: Euroz Hartleys estimates

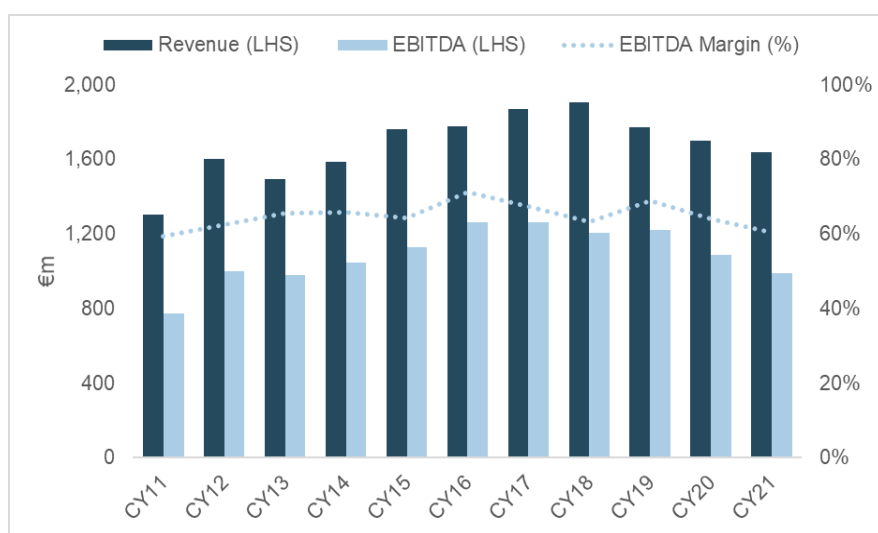
Figure 11: PLEF II SWU Capacity Assumptions

Variable	Rationale	Units	EH Assumptions
Plant Feed	U.S. DOE production cap	MTU in the form of UF ₆	2,000
Tails assay	EH estimate	% U ²³⁵	0.18
Feed assay	Natural grade	% U ²³⁵	0.71
Product assay	Upper end of LEU grade required for PWRs/BWRs	% U ²³⁵	5.00
EUP quantity	Urenco SWU calculator	kgU	220,337
Implied SWU capacity	Urenco SWU calculator	SWU	2,050,017

Source: Euroz Hartleys estimates

Although the existing uranium enrichment market is highly concentrated and opaque, the annual reports of Urenco provide a reference point for margins achieved on current gas centrifuge enrichment technologies. Urenco operates four uranium enrichment facilities located in Germany, Netherlands, UK and New Mexico with a global enrichment capacity of ~18m SWU/yr as at CY21 (global capacity: ~66m SWU/yr, *WNA*). Urenco has achieved stable EBITDA margins from its enrichment business over the last decade (avg. ~65%, Fig. 12), which we highlight employs relatively less cost-effective second-generation gas centrifuge enrichment technologies.

Figure 12: Urenco Enrichment Segment EBITDA Margins



Source: Urenco

SLX still trades below historical market capitalisations previously seen prior to SLX's acquisition of a 51% equity stake in GLE (Fig. 1), at which point in time SLX's exposure to the commercialisation of the SILEX technology was limited to a 7-12% revenue royalty stream, albeit without any exposure to technology commercialisation funding requirements. Further to which, GLE obtained the exclusive right to access the Paducah UF₆ tails in CY16, which we consider to carry significant strategic value given the Paducah Project is akin to a Tier 1 uranium resource capable of producing >5mlb U₃O₈ pa over a 30-year project life at avg. all-in costs of <US\$25/lb.

Our revised DCF-backed SOTP valuation is detailed below:

Figure 13: SOTP Valuation

	Risk-weighting	A\$m	A\$/sh
Paducah Laser Enrichment Facility - Stage 1	85%	624	2.59
Paducah Laser Enrichment Facility - Stage 2	80%	192	0.80
Cameco Option (26% stake sell-down)		300	1.24
Zero-Spin Silicon Project		25	0.10
Overheads		(46)	(0.19)
Listed Investments		6	0.02
Cash (Feb'23e)		179	0.74
ITM Options		3	0.01
Total		1,283	5.32
Price Target		1.13x NAV, Rounded	6.00

Source: Euroz Hartleys estimates

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