Boss Resources Ltd

(BOE $0.07) Speculative Buy

Analyst	Date	Price Target
Greg Chessell	12th January 2017	$0.175/sh

Uranium Price, Kazakhstan Cuts Supply

Investment case

Boss Resources' Honeymoon Uranium Project offers unique low cost and low risk optionality over an inevitable future uranium price rise. Honeymoon can be brought back into production at short notice on low start-up cost in the event of a sudden spike in U price. However the strategy is to develop a larger and lower cost project sustainable over the long run which is supported by the Expansion Study. Meanwhile holding and study costs are relatively low. Mark Hohnen has a track record for delivering shareholder value in uranium. Boss is inexpensive compared to peers, and should appreciate as exploration and PFS study progresses. We value Boss Resources at $0.175/sh.

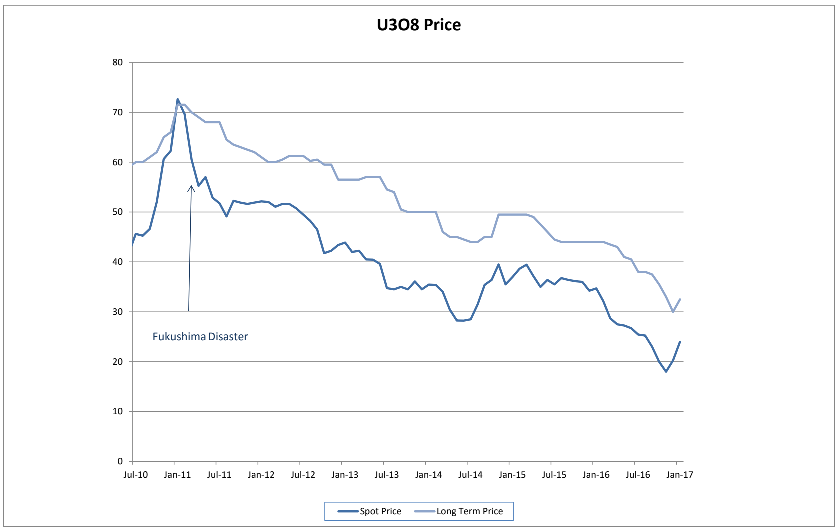
Key points

The Uranium spot price has lifted from cycle lows of US$18/lb to US$24/lb in recent days, coinciding with Kazakhstan cutting production. Several other issues also lend support to a more positive environment for Uranium.

We believe the Uranium price has now passed its nadir of this cycle and we expect the price to move back to more sustainable pricing. We see the spot price recovering to US$40/lb over the next 12 months, and a similar jump in the term contract market, currently also near cycle lows at US$35/lb.

Intuitively we believe a spot price in the order of US$40/lb, and a term contract price of US$55/lb is sustainable, in context of the global cost curve and relatively un-contracted position of both producers and utilities, relative to historical positions. The well documented long term expansion of nuclear electricity generation, especially in China, probably requires even higher pricing to incentivise new mine developments in our view.

Boss Resources (BOE) is our preferred emerging Uranium development company.



Source: Euroz Ltd, Cameco, Bloomberg

Boss Resources Ltd		Year End 30 June	
Share Price		**0.07**	**$/sh**
Issued Capital			
Fully Paid Ord		903	m
Options (m)	$0.02	10	m
Perf Rights	$0.075	10	m
Perf Rights	$0.085	3	m
Perf Rights**	milestone	27	m
Perf Rights	milestone	17	m
Total Diluted		**969**	

***- perf rights vesting on Ni discovery. Not expected to be exercised.*

Mkt Capital'n (dil)	68	$m
Enterprise Value	66	$m
Debt	0	$m
Cash	2	$m
Turnover	1.37 m sh/day	
12 mth Hi-Lo	6.8-1.3 cps	
Balance Date	June 30th	

Directors

M Hohnen	Chairman
E Cranston	Corp Dir
M Abzalov	Exec Dir
G Davey	NE Dir
P Williams	NE Dir
D Craib	CEO

Shareholders

Directors	14%
A Smit	7.4%
Kingslane	7.2%

Company Details

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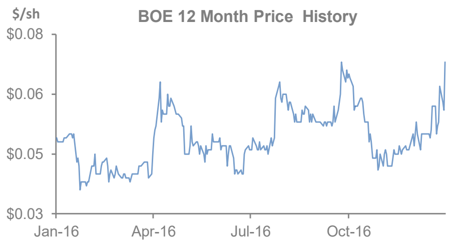
Share Price Chart



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This analyst declares that he has a beneficial interest in Boss Resources Ltd.

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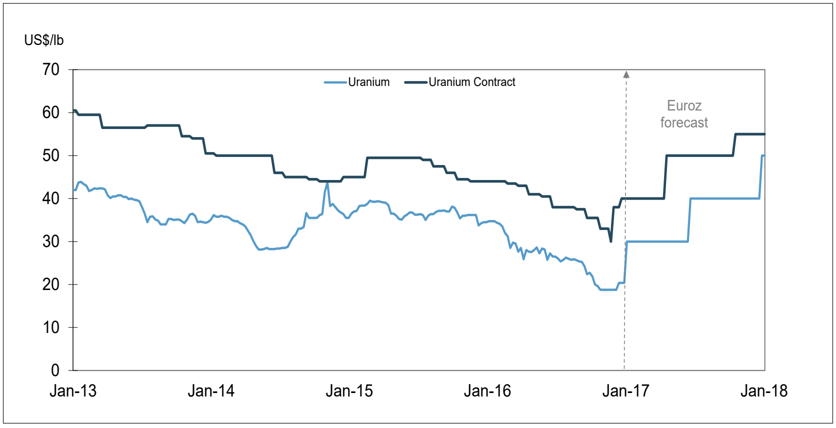

Source: Euroz Ltd, Cameco, Bloomberg

The Kazakhstan developments are significant because:

- It has the dominant global market share at 39% globally;
- It is now known to be price sensitive.

We have seen examples in other commodities where supply discipline from the leading producer(s) has resulted in a turning point in the commodity price. For example:

- Coking Coal – China restricted mine production, price jump from US$85/t to US$300/t;
- Iron Ore – BHP, RIO, Vale have all moderated net expansion plans, price jump from US$50/t to US$80/t;
- Zinc – Glencore cut 0.5mt Zn production in late 2015, and which remains offline today, with associated price recovery from US$0.65/lb to US$1.20/lb;
- Oil – OPEC agreement on production cuts, price recovery from US$40/bbl to US$52/bbl.

Kazatomprom, the state-owned Kazakh Uranium mining entity, has announced that Uranium production from the republic of Kazakhstan will be reduced by 10%, (equiv >2,000t U, or >5mlb U3O8), some 3% of global production. Kazatomprom had indicated in September 2016 that it may kerb its production growth, being satisfied with its market share position, but were not specific, nor mention cutting production.

Kazatomprom Chairman has stated "…..These strategic Kazakh mineral assets are far more valuable to our shareholders and stakeholders being left in the ground for the time being, rather than adding to the current oversupply situation. Their greater value will instead be realized when produced into improved markets in the coming years."

Kazakhstan production has grown incredibly from ~5mlbpa U3O8 in 2001 to ~60mlbpa U3O8 in 2015, becoming the largest producing country globally with 39% market share, and occupying the bottom of the cost curve.

Further, Kazatomprom established a Swiss based marketing arm in late 2016. This suggests a more disciplined and centralised approach to sales (and inventory management), away from spot market related sales by the individual producing entities. Kazatomprom had previously been restricted to spot market related sales to 3rd parties because of onerous transfer pricing laws in Kazakhstan.

Comments from Donald Trump have also been supportive to sentiment in respect of both nuclear power generation and also defence in the US. We don't expect material shift in real demand from either source from current levels, however the perceived overhang of secondary supply (inventory, reprocessing of weapons grade) is diminished. This also has positive implications on perceived overhang of Russian secondary supply.

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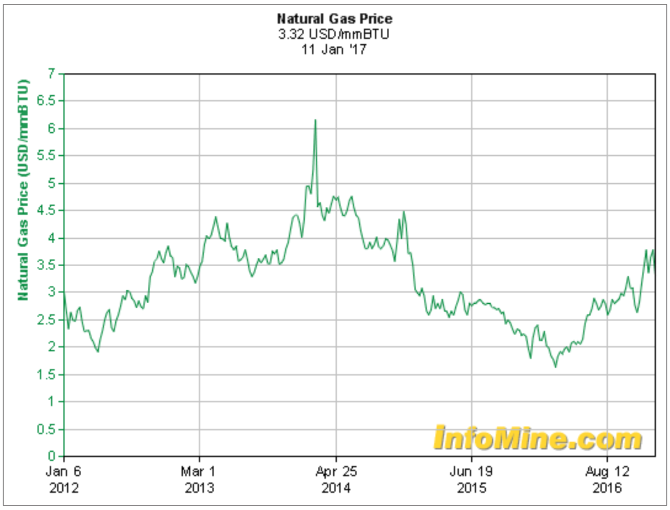
US Gas prices have recovered from the cycle low level of US$2.00/MMbtu in early 2015, currently at US$3.30/MMbtu. This trend relieves the pressure from competing fuel sources for US nuclear electricity generation. We expect US nuclear electricity generation should remain steady, supported by Trump policy and for economic reasons.



Source: http://www.infomine.com/investment/metal-prices/natural-gas/5-year/

We remind investors that Boss Resources is currently undertaking a Pre-feasibility Study on an expanded Honeymoon Uranium project which is expected for completion during June Q'17, leading to completion of a DFS by end 2017, and commencement of expanded production by mid 2019.

A 2016 scoping study determined attractive and competitive investment metrics in an expanded production scenario.

- Expansion of existing infrastructure to produce between 2.0 and 3.6mlbpa U3O8 (current capacity 0.88mlbpa);
- Investment capex of US$57m;
- Cash costs (AISC) of US$24/lb.

Exploration drilling undertaken in late 2016 on the Jason's deposit is expected to lead to a resource upgrade in early 2017. Results to date from the partially completed drilling program have been encouraging. Existing resources comprise 58mlb U3O8 (JORC M+I+I), at a relatively high grade 654ppm U3O8.

It should not be ignored that a low capex (US$7m) option to recommence production utilising existing capacity at Honeymoon is possible should the Uranium price allow. Honeymoon is understood to retain its permitting in good standing for this scenario.

Euroz Valuation - Boss Resources (BOE)		
	A$m	A$/sh
Honeymoon - DCF (80%)	121	0.12
Honeymoon - Expl'n	10	0.01
Honeymoon - C&M	-2	0.00
Honeymoon - Tax Losses	24	0.02
Honeymoon - Def'd Paym't	-12	-0.01
Honeymoon - Expansion	25	0.03
Other Expl'n	1	0.00
Working Capital	0	0.00
Unpaid Capital	0	0.00
Cash	2	0.00
Debt	0	0.00
Total	**169**	**0.174**

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