

**Ticker:** NXE CN

**Net cash:** C\$225m

**Project:** Rook I (Arrow)

**Market cap:** C\$2,324 m

**Price:** C\$4.98/sh

**Country:** Canada (Sask)

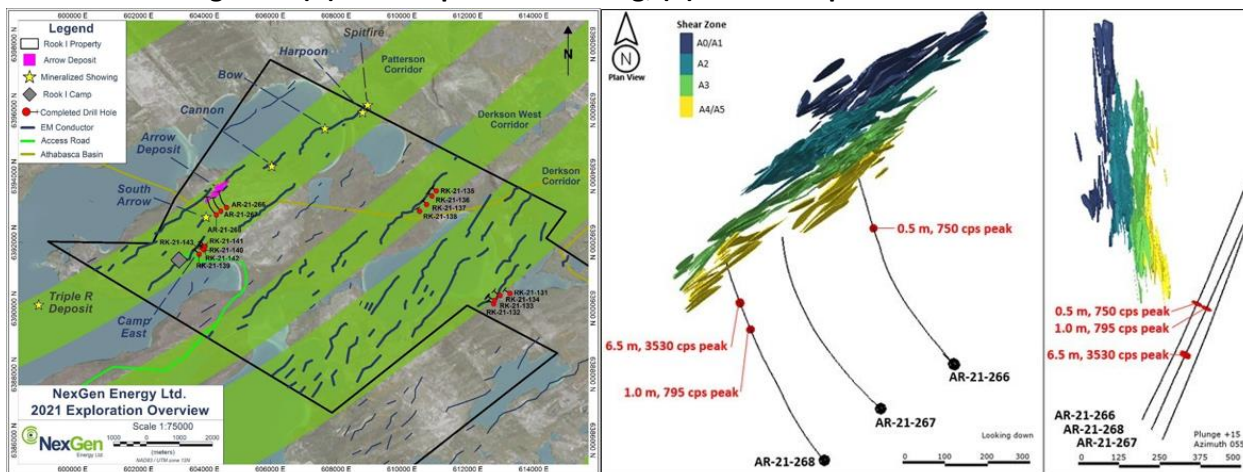
**RECOMMENDATION (unc):** BUY

**TARGET (+0.40):** C\$11.40/sh

**RISK RATING:** HIGH

We see three takeaways from today’s release. First, finding high grade thick mineralization below 230m below Arrow’s current mineralized footprint reaffirms that Arrow remains open in most directions with potential for significant expansion. The existing resource (338Mlbs) and reserve (240Mlbs) so large that new discoveries are backdated in a DCF, but resource expansion potential is highly relevant for utilities seeking long-term suppliers. Second, the regional exploration hits highlight that there is discovery potential for another Arrow or PLS on NexGen’s regional holdings. Both PLS and Arrow were found in quick succession of each other and drilling quickly shifted to resource expansion away from new target drilling. We think both NexGen and Fission are sitting on significant exploration upside that the market is not attributing value to. Third, the geotech drilling to support the feed was highly positive, showing competent unaltered rock and no new structures. This supports and de-risks the underground mine plan and also highlights NexGen’s high quality and thorough approach to project development. This gives confidence to investors, stakeholders, utilities and potential M&A suitors alike. **Rolling forward our estimates, we reiterate our BUY rating, and lift our price target to C\$11.40 (+0.40/sh) based on an unchanged target multiple of 1.2xNAV<sub>8%-60/lb</sub>.** NexGen has a special project, in our view the best undeveloped uranium asset in the world, and we think at 0.52x SCPe NAV<sub>8%-60/lb</sub> it offers excellent risk adjusted upside at this price.

**Figure 1: (A) Plan map of 2021 drilling; (B) Holes completed below Arrow**



Source: NexGen Energy

**Arrow extension 230m below current mineralization, regional exploration, positive geotech**

NexGen announced highlights from winter 2021 exploration and site activities at Rook I.

**Exploration:** 18 holes were completed for 10,849m including 6,400m targeting other conductors and 4,449m at Arrow. The highlights were 8.5m of total mineralization including 6.5m @ up to 3,530cps from 1129m DH, located SE and 230m below the current mineralized domains at Arrow. Regional highlights included 1m @ up to 1,380cps from 166m DH on the Camp East Target SW of Arrow along the Patterson Corridor, and 0.5m @ up to 3,100cps on the Derkson West Target along the Derkson Corridor which is a parallel corridor east of the Patterson Corridor that hosts Arrow and PLS. These targets will be followed up in 2022.

**Geotechnical drilling and infrastructure confirmation work:** Seven HQ geotechnical diamond drill holes were drilled to test the planned UG infrastructure and found competent rock, largely unaltered and with no new structures. Hydraulic conductivity was measured and confirmed to be low. 18 sonic drill holes and 93 test pits were completed to confirm subsurface conditions beneath proposed surface installations and evaluate borrow source materials.

## Why we like NexGen Energy

1. Best undeveloped uranium asset – largest and lowest cost
2. Most advanced permitting process of the Athabasca developers
3. Still undervalued relative to world class development projects in other commodities
4. Permitting catalysts including EIS submission in H2 and potential EA approval in SCPe next 12-18 months provide upside beyond leverage to the uranium price

## Catalysts

1. 3Q22: FEED study completion
2. 2022: EIS and Licensing submissions
3. 2023-2024: EA approval

## Research

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<b>Ticker:</b> NXE CN	<b>Price / mkt cap:</b> C\$4.88/sh, C\$2,324m	<b>Market P/NAV:</b> 0.52x	<b>Assets:</b> Arrow
<b>Chan / B Gaspar / E Magdzinski</b>	<b>Rec / PT:</b> BUY / C\$1.140	<b>1xNAV<sub>2020</sub> FD:</b> C\$9.31/sh	<b>Country:</b> Canada (Sask)

Group-level SOTP valuation					Share data					
	3Q21	4Q21								
	C\$m	O/ship	NAVx	C\$/sh	Basic shares (m):	FD + options (m):	511.0	FD + FF	534.3	
Arrow NPV 4Q21	3,710	100%	1.0x	7.26	<b>Commodity price</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>	<b>CY27E</b>
Central SG&A & fin costs 4Q21	(141)	--	1.0x	(0.28)	Uranium price (US\$/lb)	60.0	60.0	60.0	60.0	60.0
Lbs outside mine plan (\$6.00/lb)	742	100%	1.0x	1.45	<b>Ratio analysis</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>	<b>CY27E</b>
IsoEnergy stake	165		1.0x	0.32	FD shares out (m)	511.0	516.1	526.4	532.9	533.2
Cash and restr. cash 3Q21	228	--	1.0x	0.45	EPS (C\$/sh)	(0.047)	(0.089)	(0.141)	(0.200)	1.618
Debt 3Q21 excl convert	(3)	--	1.0x	(0.01)	CFPS before w/c (C\$/sh)	(0.02)	(0.00)	(0.00)	(0.01)	2.24
ITM options	57	--	1.0x	0.11	CFPS pre growth (C\$/sh)	(0.05)	(0.09)	(0.14)	(0.20)	1.68

<b>1xNAV8% US\$60/lb</b>	<b>4,758</b>			<b>9.31</b>	FCF/sh (C\$/sh)	(0.09)	(0.45)	(1.23)	(1.22)	1.68
Assumed full equity issuance	303			0.57	FCF yield - pre growth (%)	(1%)	(2%)	(3%)	neg	34%
<b>1xNAV fully funded8% US\$60/lb</b>	<b>5,060</b>			<b>9.47</b>	FCF yield (%)	(2%)	(9%)	(25%)	neg	34%
P/NAV (x):				<b>0.52x</b>	EBITDA margin (%)	--	--	--	--	73%

Target multiples	Multiple	C\$/sh
<b>Target P/NAV Multiple</b>	<b>1.20x</b>	<b>11.40</b>
<b>Target price</b>		<b>11.40</b>

Sources	Uses
PFS capex C\$1247m	SCPe 3Q21 cash + ITM options C\$228m
SCPe contingency C\$77m	Mine debt @ 60% gearing C\$964m
SCPe G&A + fin. cost to first Au C\$204m	Build Equity C\$153m
SCPe working capital C\$157m	Offtake C\$340m
Total uses C\$1685m	Total proceeds C\$1685m

Income statement	CY23E	CY24E	CY25E	CY26E	CY27E
Revenue (C\$m)	--	--	--	--	2,150
COGS (C\$m)	--	--	--	--	(570)
<b>Gross profit (C\$m)</b>	--	--	--	--	<b>1,580</b>

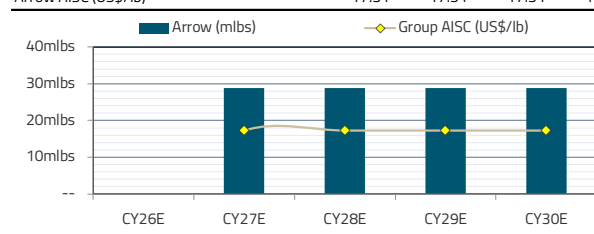
1xNAV sensitivity to gold price and discount / NAV multiple					
1xNAV Arrow (C\$m)	\$40/lb	\$50/lb	\$60/lb	\$70/lb	\$80/lb
10% discount	1,643	2,375	3,108	3,841	4,574
9% discount	1,815	2,604	3,394	4,184	4,974
8% discount	2,004	2,857	<b>3,710</b>	4,562	5,415
7% discount	2,214	3,136	4,057	4,979	5,901
6% discount	2,447	3,444	4,442	5,440	6,437
5% discount	2,705	3,786	4,868	5,949	7,030

Valuation (C\$/sh)	\$40/lb	\$50/lb	\$60/lb	\$70/lb	\$80/lb
1.00xNAV	5.80	7.60	9.40	11.20	13.00
1.10xNAV	6.40	8.40	10.40	12.40	14.40
1.20xNAV	7.00	9.20	<b>11.40</b>	13.60	15.60
1.30xNAV	7.60	10.00	12.40	14.60	17.00
1.40xNAV	8.20	10.80	13.20	15.80	18.40

Valuation over time	1Q21E	1Q22E	1Q23E	1Q24E	1Q25E
Mines NPV (C\$m)	3,393	3,686	4,003	4,345	4,892
Cntrl G&A & fin costs (C\$m)	(153)	(141)	(142)	(128)	(88)
Net cash at 1Q (C\$m)	206	185	652	435	(205)
Other Assets + Options	223	223	223	223	223
1xNAV (C\$m)	3,668	3,953	4,735	4,875	4,822
P/NAV (x):	0.7x	0.6x	0.5x	0.5x	0.5x
1xNAV share px FD (C\$/sh)	7.18	7.74	9.27	9.44	9.16
ROI to equity holder (% pa)	47%	26%	24%	18%	13%

Resource / Reserve	kt	% U308	Mlbs	EV/lb U308
Measured, ind. & inf. - Arrow	8,152	1.88%	338.4	4.79
Reserves (2P)	4,576	2.37%	239.5	6.77
SCPe Mine inventory - Arrow	4,576	2.37%	239.5	6.77

Production (100%)	CY26E	CY27E	CY28E	CY29E	CY30E
Arrow (000mlbs U308)	--	28.8	28.8	28.8	28.8
Arrow cash cost (US\$/lb)	--	4.59	4.59	4.59	4.59
Arrow AISC (US\$/lb)	--	17.31	17.31	17.31	17.31



EV (C\$m)	1,288	1,580	2,259	2,930	2,072
PER (x)	(101.0)	(54.9)	(34.7)	(24.4)	3.0x
P/CF (x)	nmf	nmf	nmf	nmf	1.7x
EV/EBITDA (x)	nmf	nmf	nmf	nmf	1.3x

Net income attr. (C\$m)	(24)	(46)	(74)	(107)	863
EBITDA	(10)	(10)	(10)	(10)	1,560
<b>Cash flow</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>	<b>CY27E</b>
Profit/(loss) after tax (C\$m)	(24)	(46)	(74)	(107)	863
Add non-cash items (C\$m)	16	45	73	102	332
Less wkg cap / other (C\$m)	--	--	--	--	(157)
<b>Cash flow ops (C\$m)</b>	<b>(8)</b>	<b>(1)</b>	<b>(1)</b>	<b>(5)</b>	<b>1,038</b>

Net change post forex (C\$m)	708	24	(398)	(404)	738
FCF (C\$m)	(44)	(231)	(647)	(648)	896
<b>Balance sheet</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>	<b>CY27E</b>
Cash (C\$m)	897	921	523	119	857
Accounts receivable (C\$m)	--	--	--	--	82
Inventories (C\$m)	--	--	--	--	143
PPE & exploration (C\$m)	342	528	1,101	1,642	1,452
Other (C\$m)	1	1	1	1	1
<b>Total assets (C\$m)</b>	<b>1,240</b>	<b>1,450</b>	<b>1,624</b>	<b>1,762</b>	<b>2,535</b>

Debt (C\$m)	245	486	727	968	848
Other liabilities (C\$m)	359	359	341	341	371
Shareholders equity (C\$m)	819	833	860	863	863
Retained earnings (C\$m)	(208)	(254)	(328)	(435)	428
Minority int. & other (C\$m)	25	25	25	25	25
<b>Liabilities+equity (C\$m)</b>	<b>1,240</b>	<b>1,450</b>	<b>1,624</b>	<b>1,762</b>	<b>2,535</b>
Net Cash	652	435	(205)	(849)	9
Net Debt to NTM EBITDA (x)	nmf	nmf	nmf	0.5x	(0.0)

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SELL:	0
UNDER REVIEW:	0
TENDER:	1
NOT RATED:	0
TOTAL	51

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