

<b>Ticker:</b> NXE CN	<b>Net cash:</b> C\$225m	<b>Project:</b> Rook I (Arrow)
<b>Market cap:</b> C\$3,787 m	<b>Price:</b> C\$7.95/sh	<b>Country:</b> Canada (Sask)
RECOMMENDATION (unc): BUY	TARGET (+0.40): C\$11.00/sh	RISK RATING: HIGH

Armed with a cycle-proof industry leading asset, we are encouraged to see NexGen continue to advance Rook I toward production through the appointment of Hatch as EPCM for the FEED Study (targeted for 3Q22 completion). Stepping back, the knock on the Athabasca has typically been that long lead times would render the undeniably world class assets unable to participate in the next price cycle. A combination of a longer downturn than expected, and high conviction project advancement, even in the downturn, has NexGen poised to complete permitting, project design, and contracting within the current cycle, which offers investors the best of both worlds in our view: i) a best-in-class cycle-proof asset and ii) ability to take advantage of what we believe will be a long lived and acute bull market driven by an exceptionally long downturn. On key metrics including margin, payback period, in-situ value and exploration upside, we believe Rook I/Arrow is arguably the best undeveloped hard rock resource project in the world. Recall the key parameters from the DFS: a ~30Mlb per year project amenable to conventional stoping methods and environmentally friendly underground tailings deposition, producing at C1 cash costs <US\$6.00/lb generating <2-year capex payback and >C\$1bn FCF per year at steady state. **We reiterate our BUY rating, and increase our target price to C\$11.00/sh from C\$10.60/sh with unchanged estimates for Rook I, but marking to market NexGen's 49% stake in IsoEnergy. Our target multiple is unchanged at 1.2xNAV<sub>8%</sub>-60/lb.**

## Rook 1 Project continues making headway with FEED stage EPCM contract awarded to Hatch

NexGen announced it has awarded Hatch Ltd. the engineering, procurement, and construction management (EPCM) contract for the Front-End Engineering Design (FEED) stage of the Rook I Project. The FEED stage, scheduled for completion in 3Q22, will progress engineering works to the 40-45% level in preparation for upcoming construction stages. Engagement, Environmental Assessment, and Licensing activities are all scheduled to take place along side the FEED stage as the project advances. Other pre-FEED activities related to the 2021 Site Investigation Program have been ongoing. Initial results have allowed for FS validity of geological/geo-technical design to date. Additional work from this and the ongoing exploration program will be reported by the company before YE21.

## 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. H2-2021: EIS submission
2. H2 2021: Licensing Submission
3. SCPe 2021-2022: Potential EA approval

## Research

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<b>Ticker:</b> NXE CN	<b>Price / mkt cap:</b> C\$7.95/sh, C\$3,787m	<b>Market P/NAV:</b> 0.88x	<b>Assets:</b> Arrow
<b>Chan / B Gaspar / E Magdzinski</b>	<b>Rec / PT:</b> BUY / C\$11.00	<b>1xNAV<sub>2020</sub> FD:</b> C\$9.02/sh	<b>Country:</b> Canada (Sask)

Group-level SOTP valuation					Share data				
	3Q21	4Q21							
	C\$m	O/ship	NAVx	C\$/sh					
Arrow NPV 4Q21	3,366	100%	1.0x	6.48	Basic shares (m): 476.3	FD + options (m): 519.7	FD + FF	541.8	
Central SG&A & fin costs 4Q21	(71)	--	1.0x	(0.14)	<b>Commodity price</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>
Lbs outside mine plan (\$6.00/lb)	742	100%	1.0x	1.43	Uranium price (US\$/lb)	60.0	60.0	60.0	60.0
IsoEnergy stake	312		1.0x	0.60	<b>Ratio analysis</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>
Cash and restr. cash 3Q21	228	--	1.0x	0.44	FD shares out (m)	519.7	519.7	524.9	536.1
Debt 3Q21 excl convert	(3)	--	1.0x	(0.01)	EPS (C\$/sh)	(0.090)	(0.147)	(0.209)	1.626
ITM options	112	--	1.0x	0.22	CFPS before w/c (C\$/sh)	(0.00)	(0.00)	(0.01)	2.25
					FCFPS pre growth (C\$/sh)	(0.09)	(0.15)	(0.21)	1.68
					FCF/sh (C\$/sh)	(0.45)	(1.25)	(1.24)	1.68

<b>1xNAV8% US\$60/lb</b>	<b>4,686</b>			<b>9.02</b>	FCF yield - pre growth (%)	(1%)	(2%)	(3%)	21%
Assumed full equity issuance	323			0.60	FCF yield (%)	(6%)	(16%)	(16%)	21%
<b>1xNAV fully funded8% US\$60/lb</b>	<b>5,009</b>			<b>9.24</b>	EBITDA margin (%)	--	--	--	73%
P/NAV (x):					FCF margin (%)	--	--	--	42%

Target multiples	Multiple	C\$/sh
<b>Target P/NAV Multiple</b>	<b>1.20x</b>	<b>11.00</b>
<b>Target price</b>		<b>11.00</b>

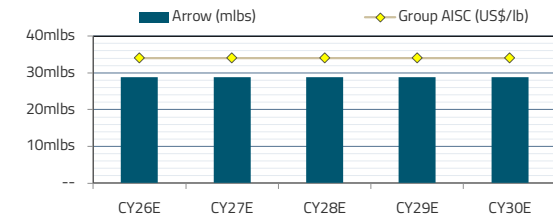
Sources	Uses
PFS capex C\$1247m	SCPe 3Q20 cash + ITM options C\$177m
SCPe contingency C\$119m	Mine debt @ 60% gearing C\$995m
SCPe G&A + fin. cost to first Au C\$313m	Build Equity C\$323m
SCPe working capital C\$157m	Offtake C\$340m
Total uses C\$1835m	Total proceeds C\$1835m

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	1,440	2,101	2,762	3,424	4,085
9% discount	1,608	2,328	3,048	3,768	4,488
8% discount	1,796	2,581	<b>3,366</b>	4,150	4,935
7% discount	2,006	2,863	3,719	4,576	5,433
6% discount	2,240	3,177	4,114	5,051	5,988
5% discount	2,503	3,529	4,556	5,582	6,608
Valuation (C\$/sh)	\$40/lb	\$50/lb	\$60/lb	\$70/lb	\$80/lb
1.00xNAV	6.00	7.60	9.20	10.80	12.60
1.10xNAV	6.60	8.40	10.20	12.00	13.80
1.20xNAV	7.20	9.20	<b>11.00</b>	13.00	15.00
1.30xNAV	7.80	9.80	12.00	14.20	16.40
1.40xNAV	8.40	10.60	13.00	15.20	17.60

Valuation over time	1Q21E	1Q22E	1Q23E	1Q24E	1Q25E
Mines NPV (C\$m)	3,656	3,971	4,310	4,855	5,862
Cntrl G&A & fin costs (C\$m)	(86)	(68)	(48)	(1)	81
Net cash at 1Q (C\$m)	206	684	469	(166)	(809)
Other Assets + Options	425	425	425	425	425
1xNAV (C\$m)	4,201	5,010	5,156	5,112	5,559
P/NAV (x):	1.0x	0.8x	0.8x	0.8x	0.8x
1xNAV share px FD (C\$/sh)	8.08	9.64	9.92	9.84	10.59
ROI to equity holder (% pa)	2%	10%	8%	5%	6%

Resource / Reserve	kt	% U308	Mlbs	EV/lb U308
Measured, ind. & inf. - Arrow	8,152	1.88%	338.4	8.27
Reserves (2P)	4,576	2.37%	239.5	11.68
SCPe Mine inventory - Arrow	4,576	2.37%	239.5	11.68

Production (100%)	CY26E	CY27E	CY28E	CY29E	CY30E
Arrow (000mlbs U308)	28.8	28.8	28.8	28.8	28.8
Arrow cash cost (US\$/lb)	4.59	4.59	4.59	4.59	4.59
Arrow AISC (US\$/lb)	17.04	17.04	17.04	17.04	17.04



	CY23E	CY24E	CY25E	CY26E	CY27E
<b>Income statement</b>					
Revenue (C\$m)	--	--	--	2,150	2,150
COGS (C\$m)	--	--	--	(571)	(571)
<b>Gross profit (C\$m)</b>	--	--	--	<b>1,580</b>	<b>1,580</b>
G&A & central	(10)	(10)	(10)	(10)	(10)
Depreciation	--	--	--	(221)	(221)
Impairment & other (C\$m)	--	--	--	--	--
Net finance costs (C\$m)	(37)	(66)	(100)	(111)	(43)
Tax (C\$m)	--	--	--	(367)	(367)
Minority interest (C\$m)	--	--	--	--	--
<b>Net income attr. (C\$m)</b>	<b>(47)</b>	<b>(76)</b>	<b>(110)</b>	<b>872</b>	<b>940</b>
EBITDA	(10)	(10)	(10)	1,570	1,570
<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)	(47)	(76)	(110)	872	940
Add non-cash items (C\$m)	46	76	105	333	273
Less wkg cap / other (C\$m)	--	--	--	(157)	0
<b>Cash flow ops (C\$m)</b>	<b>(1)</b>	<b>(0)</b>	<b>(4)</b>	<b>1,048</b>	<b>1,213</b>
PP&E (C\$m)	(185)	(573)	(541)	(33)	(33)
Other (C\$m)	--	--	--	--	--
<b>Cash flow inv. (C\$m)</b>	<b>(185)</b>	<b>(573)</b>	<b>(541)</b>	<b>(33)</b>	<b>(33)</b>
Debt draw (repayment) (C\$m)	249	249	249	(124)	(875)
Equity issuance (C\$m)	18	14	8	58	--
Other (C\$m)	(46)	(76)	(105)	(148)	(88)
<b>Cash flow fin. (C\$m)</b>	<b>220</b>	<b>187</b>	<b>151</b>	<b>(214)</b>	<b>(963)</b>
Net change post forex (C\$m)	34	(387)	(394)	801	217
FCF (C\$m)	(232)	(650)	(651)	903	1,127
<b>Balance sheet</b>	<b>CY23E</b>	<b>CY24E</b>	<b>CY25E</b>	<b>CY26E</b>	<b>CY27E</b>
Cash (C\$m)	971	584	190	991	1,208
Accounts receivable (C\$m)	--	--	--	82	82
Inventories (C\$m)	--	--	--	143	143
PPE & exploration (C\$m)	508	1,081	1,622	1,435	1,247
Other (C\$m)	1	1	1	1	1
<b>Total assets (C\$m)</b>	<b>1,479</b>	<b>1,666</b>	<b>1,813</b>	<b>2,651</b>	<b>2,681</b>
Debt (C\$m)	502	750	999	875	--
Other liabilities (C\$m)	359	359	341	371	334
Shareholders equity (C\$m)	839	853	880	938	938
Retained earnings (C\$m)	(246)	(322)	(432)	440	1,379
Minority int. & other (C\$m)	25	25	25	25	25
<b>Liabilities+equity (C\$m)</b>	<b>1,479</b>	<b>1,666</b>	<b>1,813</b>	<b>2,649</b>	<b>2,676</b>
Net Cash	469	(166)	(809)	116	1,208
Net Debt to NTM EBITDA (x)	nmf	nmf	0.5x	(0.1)	(0.8)

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Summary of Recommendations as of November 2021	
BUY:	48
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	48

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