

Action Note

Equity Research

September 12, 2019

Metals & Minerals

NexGen Energy Ltd.

(NXE-T) C\$1.80

Corporate Update and Highlights from the WNA

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Event

Last week, we attended the World Nuclear Association (WNA) Symposium in London and hosted a Uranium Roundtable discussion, which included a presentation by Nexgen's CEO Leigh Curyer.

Impact: NEUTRAL

- **Sentiment among uranium producers at this year's WNA Symposium was improved, in our view, relative to the 2018 event.** Continued supply curtailments by Cameco and KazAtomProm, a gradual decline in utility inventories in both North America and Europe, the positive conclusion of the Section 232 investigation in the United States, significant producer purchasing still to be completed this year (>10-12 mmlbs by CCO), and the expectation that a utility contracting cycle is starting to emerge have all contributed to the more positive view towards the market. Please refer to our [bulletin](#) published today on the WNA Symposium for further highlights.
- **We have adjusted our uranium supply/demand balance to incorporate the 2019 WNA Nuclear Fuel Market outlook report findings.** All three of the supply/demand scenarios suggest a market that is fundamentally under-supplied, albeit in the near- to medium-term the supply gap is filled by "unspecified supply" - a combination of commercial inventories, idled capacity, reserve projects and capacity expansions. The report suggests that production restarts from currently idled primary production capacity will not resume until later in 2023. New and planned production capacity could start in the mid- to late-2020s when supply deficits become more significant, which dovetails well with our 2026-2027 ramp-up assumptions for Nexgen's Arrow project.
- **EIS submission targeted for H2/2020** - The Phase 1 drilling (51,000m) at Arrow in support of the feasibility study targeted for H1/2020 is now complete. The drill program is targeting the conversion of indicated to measured resources in the A2 and A3 high-grade domains. In parallel, the company is advancing its Environmental Assessment work, with an EIS planned for submission in H2/2020.

TD Investment Conclusion

We are maintaining our **SPECULATIVE BUY** rating and **\$4.25 target price**. We expect purchases by Cameco in the spot uranium market prior to year-end along with the potential for U.S utilities to re-enter the market over the next several months, which should result in upward pressure on uranium prices and Nexgen's share price, in our view.

Recommendation:	SPEC BUY
Risk:	SPECULATIVE
12-Month Target Price:	C\$4.25
12-Month Dividend (Est.):	C\$0.00
12-Month Total Return:	136.1%

Market Data (C\$)

Current Price	C\$1.80
52-Week Range	\$1.46 - \$3.31
Mkt Cap (f.d.) (\$mm)	\$662.8
EV (\$mm)	\$663.6
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,006,916

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	368.2
Float Shares (mm)	281.9
Net Debt (\$mm)	\$40.9
Net Debt/Total Cap	19.4%
NAVPS	\$4.13
Working Cap (\$mm)	\$79.7

*Share O/S (f.d.) represents fully diluted in-the-money share count.
All figures in C\$, unless otherwise specified



Company Profile

NexGen Energy Ltd. (NXE-T) is a Canadian uranium exploration company. Its flagship asset is the Rook I project located along the southwestern rim of the Athabasca Basin. Rook I is host to the Arrow deposit, one of the largest high-grade undeveloped uranium deposits in the world.

Outlook

2019 exploration program in support of feasibility study – In January, the company kicked off its planned 125,000m drill program focusing on three main objectives: 1) convert high-grade Indicated resources to the Measured category (71,000m); 2) convert Inferred resources (currently 92Mlbs in 4.84Mt) to Indicated (54,000m); and 3) complete geotechnical and hydrogeological work in support of potential mine development and the proposed underground tailings management facility (12,500m).

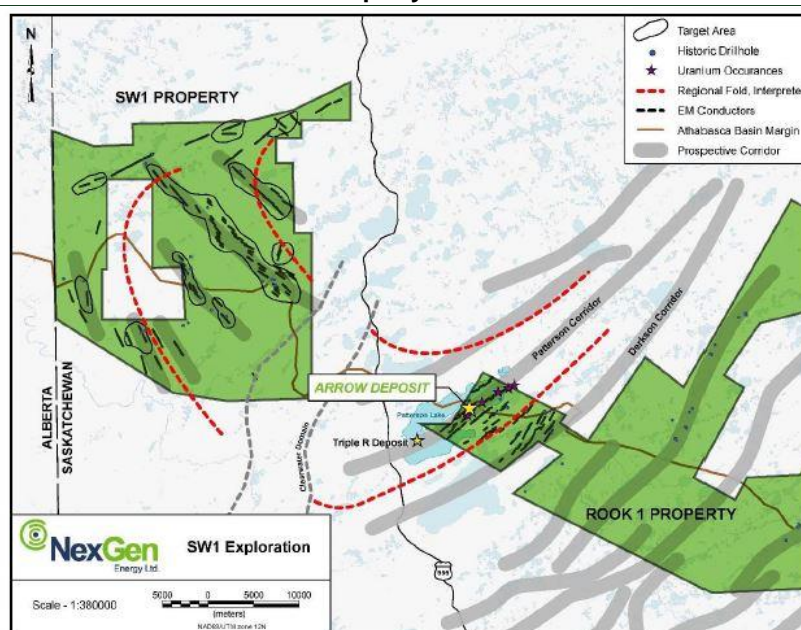
Phase 1 drilling is now complete and supports high-grade infill drilling in zones A2 and A3 - Preliminary geotechnical work also indicates highly competent ground conditions for mine development. Hydrogeological data is now being incorporated into a model which will characterize the hydrogeological conditions at Arrow, including the proposed underground tailings management facility.

Mr. Curyer noted during our TD Uranium Roundtable last week that recent advances in a new directional drilling technology, AziDrill, has been able to reduce the metres required for Phase I conversion by 28% due to the ability to target mineralization more accurately with deeper directional cuts. The new accuracy and cost savings have eliminated the potential to develop an exploration shaft at Arrow, which is positive from a near-term balance sheet perspective.

Field work from the 2019 Phase 1 and Phase 2 drill programs are expected to be incorporated into a feasibility study planned for H1/2020, and the submission of an Environmental Impact Statement (EIS) in H2/2020.

Renewed focus on regional exploration – Leigh Curyer also noted during our TD Uranium Roundtable that regional exploration remains a key focus for the company, after completing an extensive geophysical analysis over the last several years. In late August, NexGen announced the initiation of a maiden 4,000m drill program on the SW1 property located 10km northwest of Rook 1. The property was identified through historical drilling and favourable geophysical survey work, which indicated strong similarities to the Rook 1 property (Arrow deposit).

Exhibit 1. Overview of SW1 Property



Source: Company

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We have adjusted our uranium market supply/demand balance to incorporate the updated 2019 WNA Nuclear Fuel Market outlook report findings. All three of the demand/supply scenarios suggest a market that is fundamentally under-supplied, albeit in the near- to medium-term, the supply gap is filled by “unspecified supply” - a combination of commercial inventories, idled capacity, reserve projects and capacity expansions. The report suggests that production restarts from currently idled primary production capacity will not resume until later in 2023; new and planned production capacity could start in the mid- to late-2020s when supply deficits become more significant.

We have delayed our restart assumptions for McArthur River by one year and Rabbit Lake by three years, with a formal decision to restart McArthur River in H2/2022 with production resuming H2/2023 (previously H2/2022). A restart decision for Rabbit Lake is now assumed by H2/2024 with production resuming in H2/2025.

Exhibit 2. TD Securities Uranium Supply/Demand Model

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E
Mine Supply - Western World (mm lbs U3O8)													
Total Mine Supply - Western World	90	93	85	106	104	100	83	86	88	84	84	88	90
Net Eastern Mine Supply (lbs U3O8)	59	60	60	57	62	54	54	55	55	55	60	60	66
Total World Mine Supply (mmlb U3O8)	150	153	145	163	166	154	138	141	144	139	144	148	156
YoY % change	5.9%	2.4%	-5.3%	12.2%	2.1%	-7.6%	-10.2%	2.3%	1.9%	-3.4%	3.8%	2.6%	5.8%
Secondary Supply													
Global underfeeding and tails re-enrichment*	5	15	20	20	18	19	18	18	16	16	15	15	14
Mixed Oxide Fuel (MOX)*	10	8	8	4	5	5	5	6	6	6	6	6	7
US government sales (DOE Proposed)*	5	8	8	7	4	3	2	2	1	0	0	0	0
Additional Russian secondary supply*	24	24	5	2	2	0	0	0	0	0	0	0	0
Other			0	0	0	0	0	0	0	0	0	0	0
Total Secondary Supply (mmlb)	43	55	41	34	29	27	24	26	24	22	21	21	21
Secondary supply as % of global reactor demand	28%	32%	26%	21%	17%	16%	14%	15%	13%	12%	12%	12%	11%
Mobilization of Commercial Inventory			4	8	7	7	7	7	7	7	7	7	7
Total Supply	193	208	190	205	202	187	169	174	174	168	172	176	185
Total World Demand													
Total World Nuclear Generating Capacity (MWe) *				345,377	351,271	358,819	368,571	372,978	379,182	384,508	385,211	389,242	394,906
Uranium requirements per MWe				464	474	472	472	472	472	472	472	472	472
Uranium demand (mmlb)				160	167	169	174	176	179	181	182	184	186
First Core Requirement (2 year lead)				-	-	-	-	-	-	-	-	-	-
Total World Demand (mmlbs U3O8)	155	170	155	160	167	169	174	176	179	181	182	184	186
YoY % change	0.0%	9.7%	-8.8%	3.4%	3.9%	1.7%	2.7%	1.2%	1.7%	1.4%	0.2%	1.0%	1.5%
Supply / Demand Balance (mmlb)	38	38	35	44	35	18	-5	-2	-5	-14	-9	-8	-2
Spot Uranium Price (US\$/lb U3O8)	\$48.73	\$38.57	\$33.60	\$36.89	\$26.57	\$22.12	\$24.82	\$26.28	\$30.00	\$35.00	\$40.00	\$45.00	\$50.00

* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case

Note - TD LT price assumption starts in 2025; a flat US\$50/lb price is assumed for 2025 and beyond.

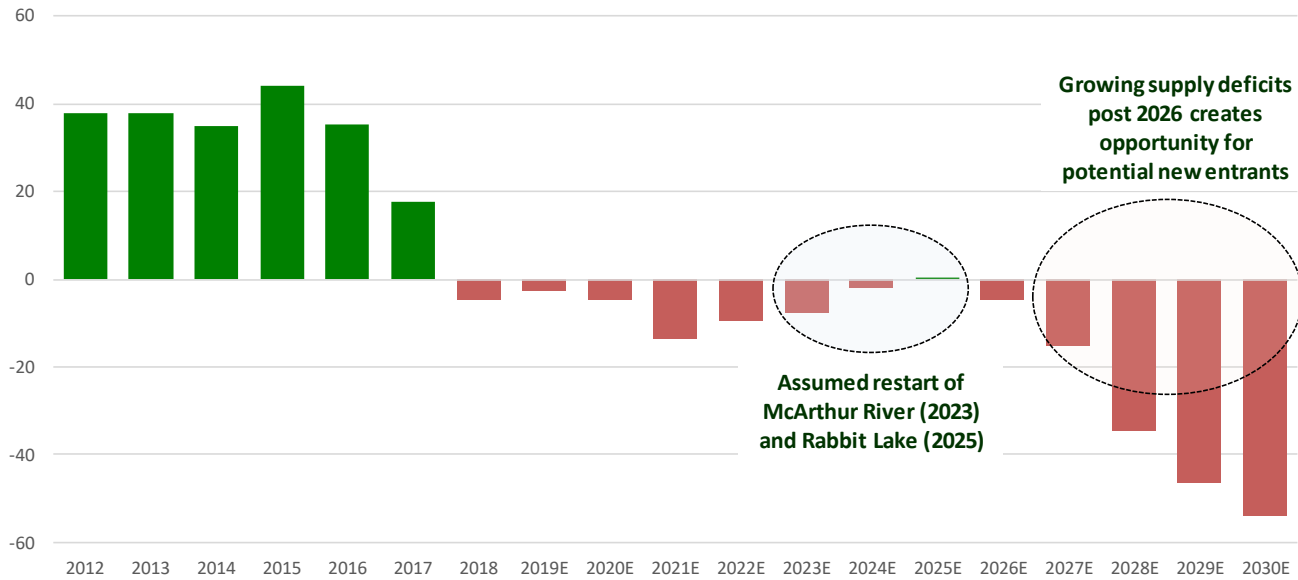
Source: UxC, Bloomberg, TD Securities

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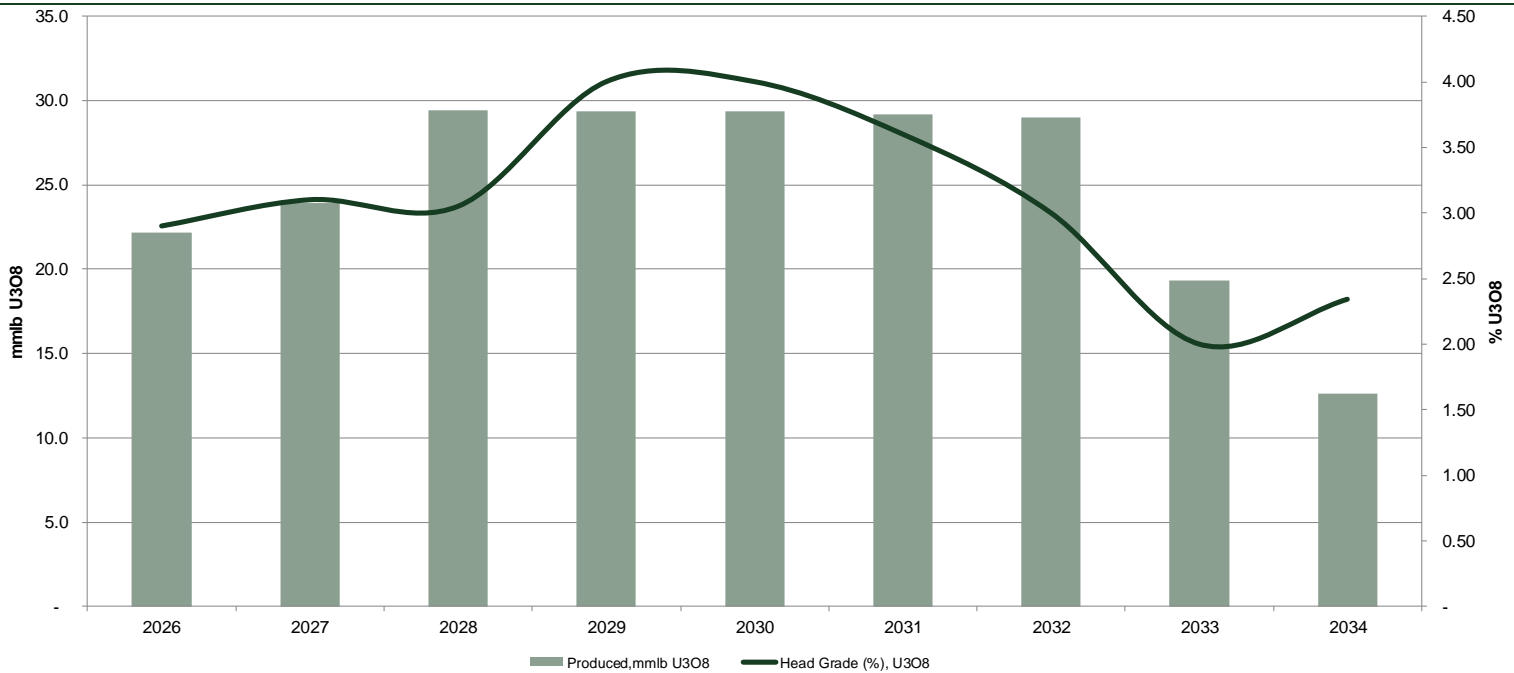
Exhibit 3. TD Securities Uranium Supply/Demand Balance (mmlbs)



Source: UxC, Bloomberg, TD Securities Inc.

Exhibit 4 and 5 highlight our production and development assumptions for Nexgen. Our 2026 start-up assumption (full production 2028), coincides with growing anticipated deficits in mid-2020s, highlighting the need for the development of Arrow (Exhibit 3).

Exhibit 4. Arrow Production Profile



Source: Company, TD Securities

Exhibit 5. Arrow Development Assumptions

Parameter		PEA Jul-17	PFS Nov-18	TDS Revised
Total Resource (Indicated and Inferred)	Kt	5,430	7,730	7,730
Grade U3O8	%	2.51	2.05	2.05
Contained U3O8	Mlb	301.6	348.3	348.3
Resource Assumed in DCF (100%)	Kt	7,310	3,430	3,430
Head Grade U3O8	%	1.73	3.09	3.09
Total Contained U3O8	Mlb	278.8	234.1	234.1
Avg. Daily Throughput	tpd	1,448	1,039	967
LOM U3O8 Recovery	%	96.0%	97.6%	96.0%
LOM U3O8 Production	Mlb	267.2		224.4
Mine Life	Years	14	9	9
Average Life-of-mine production	Mlb	18.5	25.4	24.9
Start Up	Date	**	**	2026
Cost Per Tonne Underground Mining	\$/t	\$132	\$157	\$173
Cost Per Tonne Processed	\$/t	\$111	\$165	\$181
Cost Per Tonne Other (tailings/contingency)	\$/t			\$18
Cost Per Tonne G&A	\$/t	\$63	\$67	\$74
Total Site Cost/tonne ore milled	\$/t	\$306	\$389	\$446
Cost Per Pound Underground Mining	\$/lb	\$3.61	\$2.35	\$2.65
Cost Per Pound Processed	\$/lb	\$3.03	\$2.46	\$2.77
Cost Per Pound Other (tailings)	\$/lb			\$0.28
Cost Per Pound G&A	\$/lb	\$1.73	\$1.00	\$1.13
Total Site Costs /lb Produced	\$/lb	\$8.37	\$5.81	\$6.82
Off Site Transportation Costs	\$/lb		\$0.34	\$0.36
Saskatchewan Revenue and Profit Royalties	\$/lb	\$11.15		\$10.17
Total Costs (incl. Royalties and Offsite)	\$/lb			\$17.35
Total Costs US\$ (incl. Royalties and Offsite)	US\$/lb			\$14.23
Pre-Production Capex	\$ mm	\$1,188	\$1,247	\$1,450
LOM Sustaining Capex	\$ mm	\$468	\$262	\$315
LOM Total Capex	\$ mm	\$1,656	\$1,509	\$1,765
Long Term Forex Assumption	CAD/USD	0.80	0.75	0.82
Long Term Uranium Price Assumption	US\$/lb	\$50.00	\$50.00	\$55.00
8% After Tax NAV	\$ mm	\$3,490	\$3,660	\$2,118
10% After Tax NAV	\$ mm			\$1,652
12% After Tax NAV	\$ mm			\$1,290
IRR	%	56.7%	56.8%	41.0%
In-Situ Value per tonne	US\$/t			\$3,601

Source: Company, TD Securities

Valuation

We have updated our valuation to reflect NexGen's Q2/19 financials. NexGen is trading at 0.44x our 12%NAVPS estimate of \$4.13 (previously \$4.20) versus the base metal developers in our coverage universe of 0.52x. NexGen is currently trading at an EV/lb of US\$1.53 based on its total resources. This compares to its peer average currently trading at an EV/lb multiple of US\$1.81.

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Exhibit 6. Uranium Company Comparisons (EV/lb ratios)

	11-Sep-19 Share Price (C\$)	EV (US\$mm)	Corporate Resources ¹			EV/Res			
			2P (Mlbs)	M+I (Mlbs)	Global Resources (Mlbs)	EV/2P (US\$/lb)	EV/M&I (US\$/lb)	EV/All (US\$/lb)	
Cameco Corp.	CCO	12.43	4,023.1	467.1	890.3	1,065.9	8.61	4.52	3.77
Denison Mines Corp.	DML	0.64	276.2	98.6	144.1	156.8	2.80	1.92	1.76
Fission Uranium Corp.	FCU	0.40	139.3	-	87.8	140.6	n/a	1.59	0.99
NexGen Energy Ltd.	NXE	1.80	531.4	234.1	256.6	348.3	2.27	2.07	1.53
UEX Corp.	UEX	0.16	42.1	-	69.8	86.4	n/a	0.60	0.49
Uranium Energy Corp.	UEC	1.33	180.7	-	58.4	103.9	n/a	3.09	1.74
Ur-Energy Corp.	URE	0.78	100.2	-	34.3	42.5	n/a	2.93	2.36
Median							2.80	2.07	1.74
Average							4.56	2.39	1.81

1: Resources are shown inclusive of reserves; M&I-I includes historical resource estimates.

Source: Company, CapIQ, TD Securities Inc.

Justification of Target Price

Our \$4.25 target price is based on 1.0x our NAVPS-12% estimate (weighted 100%).

Key Risks to Target Price

Relative to the other companies in our equity coverage universe, we believe that an investment in NexGen Energy is subject to a SPECULATIVE level of risk. Our recommendation is subject to forecast, financial, technical, political, and deposit-size risks. These include risks related to uranium prices; fuel cost; the governing fiscal and legislative regimes; the timing of key developments; market conditions; capital and operating costs; foreign exchange rates; resources; access to capital; operating parameters; permitting; environment; indigenous people; and staffing and key personnel retention.

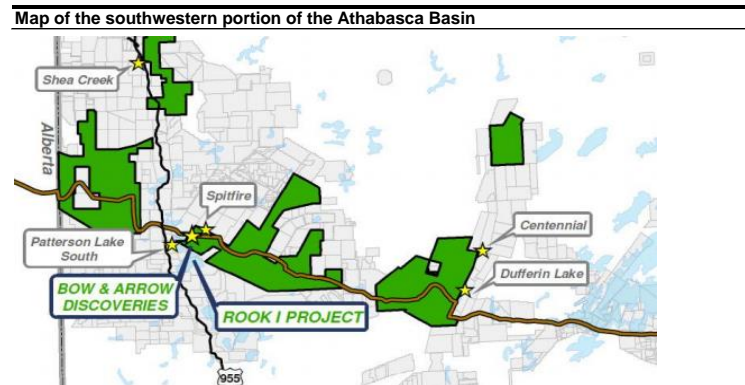
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Exhibit 7. Company Snapshot

NexGen Energy Ltd.					2017A	2018A	2019E	2020E	2021E	
Risk Profile:	SPEC				Realized Metal Prices & Forex					
Stock Rating:	Spec BUY				Uranium, U3O8 (US\$/lb)	22.12	24.86	26.28	30.00	35.00
Target Price:	C\$4.25				Forex CAD to USD	0.78	0.78	0.78	0.78	0.78
Target Price Calculator					Total U3O8 Production (000' lbs)					
Price 12% NAV	Multiple	Implied Target	Weight	Contribution	-	-	-	-	-	
2018 EV/EBITDA	1.00	\$4.13	100%	\$4.13	-	-	-	-	-	
Calculated Target Price	0.0	\$0.00	0%	\$0.00	-	-	-	-	-	
Rounded Target Price	\$4.25									



Rook I Resource, Cut-off Grade 0.25% U3O8				
	Sub Zone	000 t	% U3O8	mmlb U3O8
Indicated				
A2	Main	1240	0.79	21.7
A2	High Grade	460	17.85	181.0
A3	Main	1010	0.70	15.5
A3	High Grade	180	9.68	38.4
Total Indicated		2,890	4.03	256.6
Inferred				
A1	Main	1510	0.72	23.9
A2	Main	1290	0.70	19.9
A2	High Grade	5	12.70	1.4
A3	Main	1230	1.11	30.0
A3	High Grade	1	9.07	0.2
A4	Main	800	0.92	16.3
Total Inferred		4,840	0.86	91.7
Total Indicated and Inferred Resources		7,730	2.05	348.3

Implied US\$ EV/lb (Indicated and Inferred Resources) **\$1.53**

Financial Data	2017A	2018A	2019E	2020E	2021E
Reported net earnings	(56.83)	1.49	(17.55)	(24.52)	(24.52)
Adjusted net earnings	(29.22)	(31.09)	(31.28)	(24.52)	(24.52)
EPS Reported (C\$/sh.)	(0.17)	0.00	(0.05)	(0.07)	(0.07)
EPS (Adjusted) (C\$/sh.)	(0.09)	(0.09)	(0.09)	(0.07)	(0.07)

Cash Flow Statement (C\$mm)	2017A	2018A	2019E	2020E	2021E
Operating CF bf. ch. in WC	(10.89)	(8.11)	(9.87)	(10.52)	(10.52)
CF from operating activities	(11.14)	(8.45)	(11.65)	(10.52)	(10.52)
CF from financing activities	135.10	2.43	(5.98)	(8.00)	(8.00)
CF from investing activities	9.63	(37.77)	(56.05)	(25.00)	(15.00)
CAPEX	(1.86)	(2.95)	-	-	-

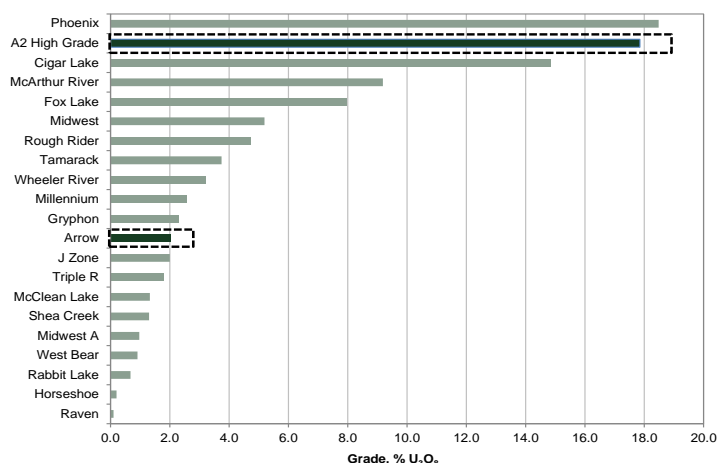
Balance Sheet (C\$mm)	2017A	2018A	2019E	2020E	2021E
Cash	165	125	50	7	(27)
Current assets	166	126	52	9	(25)
Total assets	323	327	312	292	273
Current liabilities	3	7	6	6	166
Long term debt	171	138	125	125	(35)
Total liabilities	175	145	135	135	135
Non Controlling Interest	-	-	-	-	-
Shareholders' equity	136	165	161	142	122

NAV Analysis	10% Discount		12% Discount	
	C\$mm	C\$/sh	C\$mm	C\$/sh
Mining Assets				
Arrow Deposit (DCF)	1,652.2	4.49	1290.0	3.50
TOTAL PROJECT NAV	1,652.2	4.49	1290.0	3.50

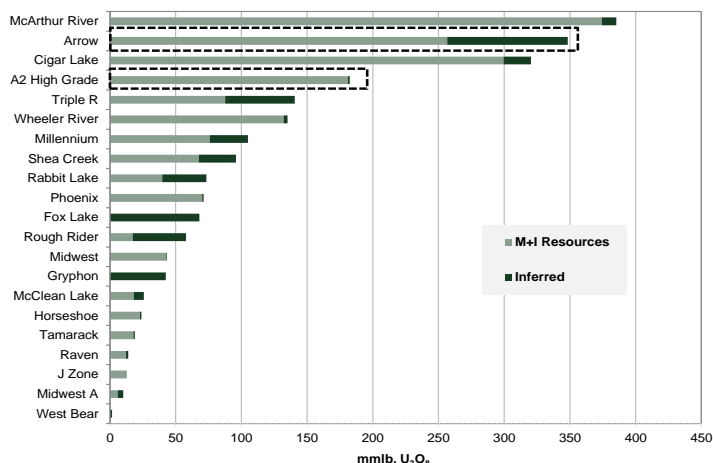
OTHER TANGIBLE ASSETS				
Regional Targets at Rook I				
TOTAL OTHER ASSETS	300.0	0.81	300.0	0.81

Corporate Adjustments				
Working Capital	79.7	0.22	79.7	0.22
Long Term Debt	-156.8	-0.43	-156.8	-0.43
Options & Warrants In the Money	6.3	0.02	6.3	0.02
Total Net Asset Value	1,881.4	5.11	1519.2	4.13

Athabasca Basin - Relative Grade



Athabasca Basin - Relative Size



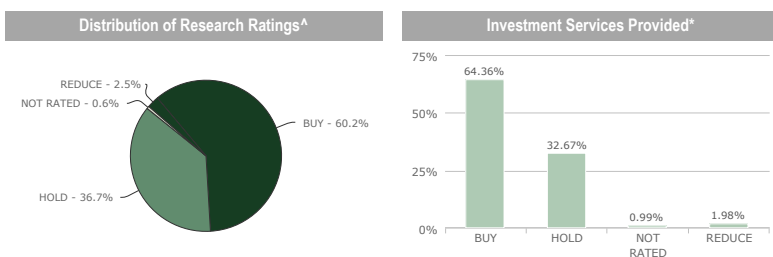
Source: Company, TD Securities Inc.

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Current as of: September 12, 2019

^A Percentage of subject companies under each rating category: BUY (covering ACTION LIST BUY, BUY and SPECULATIVE BUY ratings), HOLD, and REDUCE (covering TENDER and REDUCE ratings).

^{*} Percentage of subject companies within each of the three categories (BUY, HOLD, and REDUCE) for which TD Securities Inc. has provided investment banking services within the last 12 months.

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ACTION LIST BUY: The stock's total return is expected to exceed a minimum of 15% (with higher thresholds for less liquid, more risky securities) over the next 12 months and it is a top pick in the Analyst's sector.

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SPECULATIVE BUY: The stock's total return is expected to exceed a minimum of 30% over the next 12 months (with higher thresholds for less liquid securities); however, there is material event risk associated with the investment that could result in a significant loss.

HOLD: The stock's total return is expected to be between 0% and 10%, (with higher thresholds for less liquid, more risky securities) over the next 12 months.

TENDER: Investors are advised to tender their shares to a specific offer for the company's securities or to support a proposed combination reflecting our view that a superior offer is not forthcoming.

REDUCE: The stock's total return is expected to be negative over the next 12 months.

SUSPENDED: Due to evolving circumstances, we can no longer generate what we consider a defensible target price and rating at the current time.

UNDER REVIEW: Our rating is under review pending additional information and/or analysis. The prior rating should not be relied on.

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Action Note

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