

NEXGEN ENERGY LTD. (NXE-TSX | NXE-TSX)

Mining | Uranium

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Financing with Queen's Road Capital

RECOMMENDATION

NexGen offers exposure to one of the world's largest undeveloped uranium deposits located in Saskatchewan. NexGen is well financed in the near-term with ~C\$44 mln in cash at 1Q20 quarter-end. Given the high quality of the Arrow deposit and current valuation, we rate the shares Outperform.

ANALYSIS

Financing with Queen's Road Capital: NexGen announced that it has entered into a binding agreement with Queen's Road Capital Investment Ltd. for a financing package totalling US\$30 mln comprising a US\$15 mln private placement of NexGen shares and US\$15 mln aggregate principal amount of unsecured convertible debentures. The US\$15 mln private placement is expected to result in the issuance of ~11.6 mln shares at a price of C\$1.80/share.

Convertible Debenture Terms: The debentures will be convertible at the holder's option into ~8.9 mln shares (at current exchange rates, with actual number of Common Shares to be issued dependent on exchange rate at time of conversion). The debentures will carry a 7.5% coupon over a 5-year term. The Debentures will be convertible at the holder's option into common shares at a conversion price of C\$2.34, equal to a 30% premium to the issue price of the common shares. Two-thirds of the interest (equal to 5% per annum) is payable in cash, and one-third of the interest (equal to 2.5% per annum) is payable in shares issuable at a price equal to the 20-day VWAP on either the TSX or NYSE MKT (whichever has the greatest trading volume) ending on the day prior to the date such interest payment is due. NexGen will be entitled, on or after the third anniversary of the date of the issuance of the debentures, at any time that the 20-day VWAP on the TSX exceeds 130% of the Conversion Price, to redeem the debentures at par plus accrued and unpaid Interest.

Investor Rights Agreement: NexGen and QRC will enter into an investor rights agreement providing for similar rights and obligations as were agreed to by investors in connection with NexGen's most recent private placement financing. Specifically, the Investor Rights Agreement will provide for voting alignment, standstill and transfer restriction covenants that would apply for such time as QRC holds at least 5% of NexGen's shares (on a partially diluted basis) or until there is a change of control of the Company.

VALUATION

Our new target is based on a 1.0x multiple applied to our revised financed NAVPS estimate with net corporate adjustments included at 1.0x, generally in-line with our base metal and uranium universe. See Exhibit 1.

MAY 11, 2020 | 1:46 PM EDT
COMPANY COMMENT

Outperform 2

Target Price C\$4.25 ↑ old: C\$4.00

Suitability High Risk/Speculation

MARKET DATA

Current Price (May-8-20)	C\$1.97
Market Cap (mln)	C\$530
Current Net Debt (mln)	C\$78
Enterprise Value (mln)	C\$619
Shares Outstanding (mln)	360.3
30-Day Avg. Daily Value (mln)	C\$2.0
Dividend	C\$0.00
Dividend Yield	0.0%
52-Week Range	C\$0.76 - C\$2.31

KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
EPS (C\$, Dec FY)				
2019A	0.02	(0.04)	(0.00)	(0.03)
2020E	(0.03) A	(0.02)	(0.02)	(0.02)
2021E	(0.02)	(0.02)	(0.02)	(0.02)

	2019A	2020E	2021E
EPS (C\$, Dec FY)			
	(0.04)	(0.10)	(0.08)
Uranium Price (US\$/lb) (Dec FY)			
	25.90	32.93	42.00
U308 Production (mln lbs) (Dec FY)			
	0	0	0
Capex (mln) (C\$, Dec FY)			
	(58)	(38)	(40)

Source: Thomson One, Raymond James Ltd.
Quarterly figures may not add to full year due to rounding.

Exhibit 1: Valuation Methodology

Valuation	C\$mIn	C\$/Share	% NAV
Arrow	\$2,900	\$3.44	100%
Minesite NAV	\$2,900	\$3.44	100%
Working Capital	\$59	\$0.07	
Long Term Debt	(\$174)	(\$0.21)	
Cash from Future Equity	\$820	\$0.97	
Other	\$41	\$0.05	
Total NAV	\$3,646	\$4.32	
Valuation Measures	Weight	Target Multiple	
P / NAVPS*	100%	1.0x	
Valuation		C\$4.32	
Target Price (C\$):		C\$4.25	

*Target multiple applied to operating assets, with net cash included at par

Source: Raymond James Ltd.

COMPANY DESCRIPTION

NexGen Energy is a uranium development company whose main asset is the high-grade Arrow deposit, which is located in Saskatchewan and one of the best undeveloped uranium deposits in the world.

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Market Perform (Hold)	43%	40%	13%	16%
Underperform (Sell)	3%	8%	3%	0%

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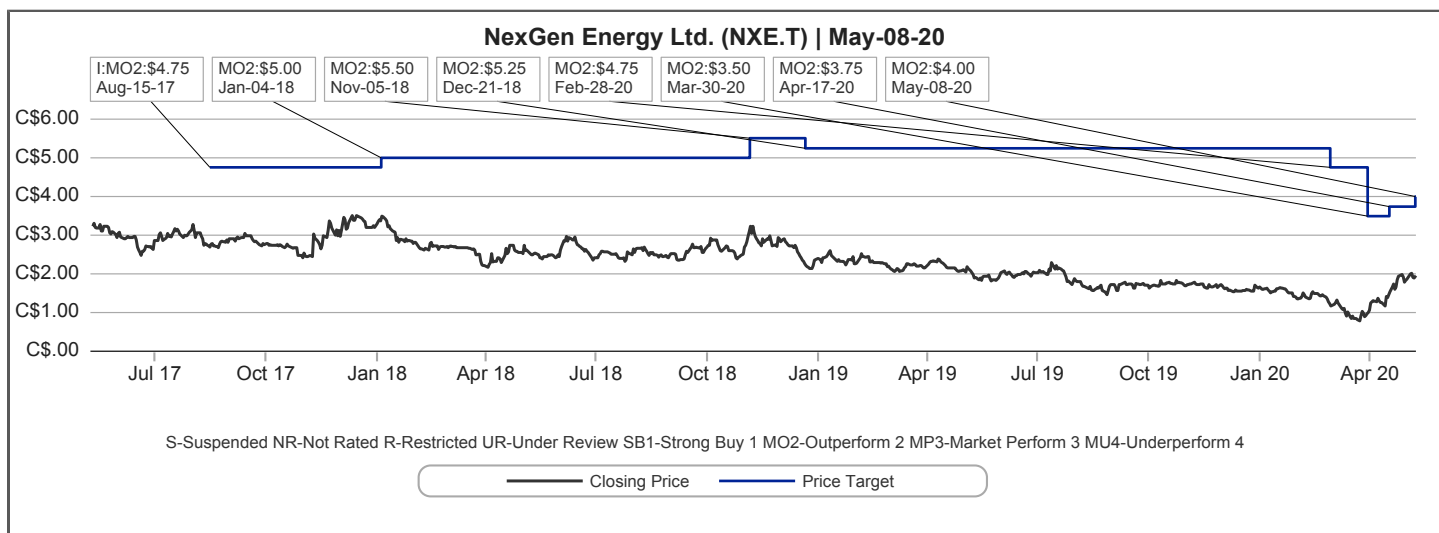
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Valuation Methodology

NexGen Energy Ltd.

We value NexGen Energy using a multiple applied to our NAV/share estimate.

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Company-Specific Risks

NexGen Energy Ltd.

Development Risk:

Given Arrow is a development-stage project, many parameters could change materially. There are also financing, capital, permitting and timing risks.

Permitting Risk:

Permitting a new uranium mine comes with high risk, but this may be mitigated slightly given the appetite for mining in the region, the lack of deleterious elements, and the expectation that surface disturbance will be relatively minor. We expect permitting to be one of the key issues that could impact the timing of development.

Financing Risk:

While currently well-funded, significant financing is still required to develop Arrow but given the high quality of the deposit, we believe financing is possible and in our analysis have financed the project with a combination of debt and equity.

Single-Asset Risk:

Given Arrow represents over 95% of the value, any negative news with respect to Arrow could have a material impact on the shares.

Low Share Liquidity.

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