

# Action Note

Equity Research

March 20, 2020

Metals &amp; Minerals

## NexGen Energy Ltd.

(NXE-T) C\$0.87

### Corporate Update - Target Lowered on COVID Related Uncertainties

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#### Event

We have updated our estimates to reflect the company's 2019YE financials. In addition we have lowered our target price to \$2.50 from \$3.25 on lower target price multiples to reflect industry-wide multiple compression amid the uncertainty caused by COVID-19.

#### Impact: SLIGHTLY NEGATIVE

- Solid liquidity through 2020** - Nexgen ended 2019 with working capital of \$49mm, and as of February the company had cash of ~\$44mm. Given the company has no significant debt maturities until 2022, we believe the company is well positioned to fund a moderate development program at the Arrow project this year.
- Outlook** - At this point the company has not provided formal guidance on its 2020 exploration program. We have assumed \$25mm in total expenditures in 2020, which is roughly a third of 2019 expenditure levels. Based on our forecasts, we expect the company will require some type of small financing next year to maintain a moderate development program. The company's two key objectives for 2020 include the submission of the Environmental Impact Statement (H2/2020) along with the completion of a feasibility study (H1/2020).
- COVID-19 related impacts cause uncertainty on uranium demand** - Earlier today, we lowered our 2020-2023 uranium price forecasts by an average of 9% (Exhibit 1). Our lower price forecasts reflect the impacts of weaker GDP growth and therefore lower nuclear fuel requirements amid the evolving COVID-19 pandemic. While nuclear power generally serves as base load power and we do not forecast any immediate closures, decreased power demand will lead to lower power prices in deregulated markets, which in turn will put pressure on the utilities. The situation could also be compounded by cheap energy alternatives including natural gas, which has seen its price decline significantly since February. For now our long-term (2025 and beyond) incentive uranium price of US\$45/lb, which forms the basis of our valuation for Nexgen, remains unchanged.

#### TD Investment Conclusion

Our SPECULATIVE BUY recommendation on Nexgen remains unchanged and reflects our view that Arrow is a world-class project both in terms of size and grade, and continues to be de-risked as permitting advances through the Environmental Assessment process.

<b>Recommendation:</b>	<b>SPEC BUY</b>
<b>Risk:</b>	<b>SPECULATIVE</b>
<b>12-Month Target Price:</b>	<b>C\$2.50↓</b> Prior: C\$3.25
<b>12-Month Dividend (Est.):</b>	<b>C\$0.00</b>
<b>12-Month Total Return:</b>	<b>187.4%</b>

#### Market Data (C\$)

Current Price	C\$0.87
52-Week Range	\$0.76 - \$2.45
Mkt Cap (f.d.) (\$mm)	\$318.9
EV (\$mm)	\$381.1
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	876,334

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	366.6
Float Shares (mm)	281.9
Net Debt (\$mm)	\$67.5
NAVPS	\$3.23
Working Cap (\$mm)	\$48.7

\*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.

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## Outlook

### Exhibit 1. Revised Uranium Price and FX Forecasts

US\$/lb	2020E		2021E		2022E		2023E		2024E		LT	
	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New
Uranium	28.00	<b>25.13</b> ↓	30.00	<b>27.00</b> ↓	32.50	<b>30.00</b> ↓	37.50	<b>35.00</b> ↓	40.00	<b>40.00</b>	45.00	<b>45.00</b>
FX (US\$/C\$)	0.76	<b>0.75</b> ↓	0.77	<b>0.76</b> ↓	0.80	<b>0.77</b> ↓	0.82	<b>0.82</b>	0.82	<b>0.82</b>	0.82	<b>0.82</b>

Source: UxC, TD Securities

We have made no significant changes to our development assumptions for Arrow. We continue to assume that major construction works will begin in 2023, which allows for a minimum of three years of permitting following the planned submission of the Environmental Assessment in 2020. We assume production begins in H2/2026, with a ramp-up to peak production in 2028.

We calculate a project level 8%NAV of \$1.80bln (or \$4.90/share). Our base-case 12%NAV DCF valuation for Arrow is \$1.06bln (\$2.90/share).

### Exhibit 2. Arrow Development Assumptions

Parameter		PFS	TDS
		Nov-18	Revised
Total Resource (Indicated and Inferred)	Kt	7,730	<b>7,730</b>
Grade U3O8	%	2.05	<b>2.05</b>
Contained U3O8	Mlb	348.3	<b>348.3</b>
Resource Assumed in DCF (100%)	Kt	3,430	<b>3,430</b>
Head Grade U3O8	%	3.09	<b>3.09</b>
Total Contained U3O8	Mlb	234.1	<b>234.1</b>
Avg. Daily Throughput	tpd	1,039	<b>1,035</b>
LOM U3O8 Recovery	%	97.6%	<b>96.0%</b>
LOM U3O8 Production	Mlb		<b>224.5</b>
Mine Life	Years	9	<b>10</b>
Average Life-of-mine production	Mlb	25.4	<b>22.5</b>
Start Up	Date	**	<b>2026</b>
Cost Per Pound Underground Mining	\$/lb	\$2.35	<b>\$2.64</b>
Cost Per Pound Processed	\$/lb	\$2.46	<b>\$2.77</b>
Cost Per Pound Other (tailings)	\$/lb		<b>\$0.27</b>
Cost Per Pound G&A	\$/lb	\$1.00	<b>\$1.13</b>
Total Site Costs /lb Produced	\$/lb	\$5.81	<b>\$6.81</b>
Off Site Transportation Costs	\$/lb	\$0.34	<b>\$0.36</b>
Saskatchewan Revenue and Profit Royalties	\$/lb		<b>\$8.73</b>
Total Costs (incl. Royalties and Offsite)	\$/lb		<b>\$15.91</b>
Total Costs US\$ (incl. Royalties and Offsite)	US\$/lb		<b>\$13.04</b>
Pre-Production Capex	\$ mm	\$1,247	<b>\$1,450</b>
LOM Sustaining Capex	\$ mm	\$262	<b>\$350</b>
LOM Total Capex	\$ mm	\$1,509	<b>\$1,800</b>
Long Term Forex Assumption	CAD/USD	0.75	<b>0.82</b>
Long Term Uranium Price Assumption	US\$/lb	\$50.00	<b>\$45.00</b>
<b>8% After Tax NAV</b>	\$ mm	\$3,660	<b>\$1,796</b>
<b>10% After Tax NAV</b>	\$ mm		<b>\$1,383</b>
<b>12% After Tax NAV</b>	\$ mm		<b>\$1,062</b>
<b>IRR</b>	%	56.8%	<b>31.5%</b>
<b>In-Situ Value per tonne</b>	US\$/t		<b>\$2,947</b>

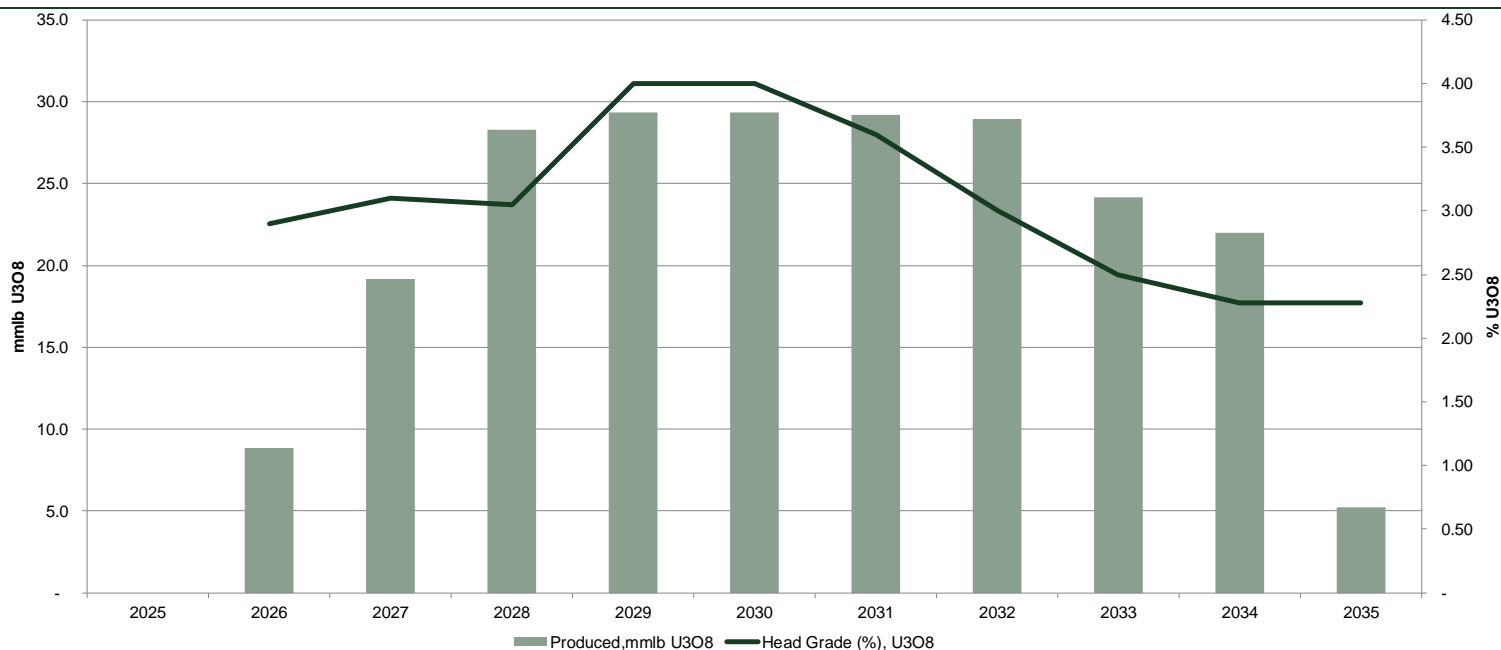
Source: Company, TD Securities

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## Exhibit 3. Arrow Production Profile



Source: Company, TD Securities

## Valuation

NexGen is trading at 0.27x our corporate 12%NAVPS estimate of \$3.23 (previously \$3.18) versus the base metal developers in our coverage universe of 0.34x. NexGen is currently trading at an EV/lb of US\$1.03 based on its total resources. This compares to its peer average currently trading at an EV/lb multiple of US\$1.27.

## Exhibit 4. Uranium Company Comparisons (EV/lb ratios)

	19-Mar-20	Corporate Resources <sup>1</sup>							
		Share	EV	Global		EV/Res			
Ticker	Price (C\$)	(US\$mm)	2P	M+I	Resources	EV/2P	EV/M&I	EV/All	
			(Mlbs)	(Mlbs)	(Mlbs)	(US\$/lb)	(US\$/lb)	(US\$/lb)	
Cameco Corp.	CCO	8.78	2,362.8	461.2	885.2	1,059.9	5.12	2.67	2.23
Denison Mines Corp.	DML	0.31	120.8	98.6	144.2	156.9	1.22	0.84	0.77
Fission Uranium Corp.	FCU	0.13	37.4	-	87.8	140.6	n/a	0.43	0.27
<b>NexGen Energy Ltd.</b>	<b>NXE</b>	<b>0.87</b>	<b>263.1</b>	<b>234.1</b>	<b>256.6</b>	<b>348.3</b>	<b>1.12</b>	<b>1.03</b>	<b>0.76</b>
UEX Corp.	UEX	0.08	19.1	-	69.8	86.4	n/a	0.27	0.22
Uranium Energy Corp.	UEC	0.81	112.1	-	58.4	103.9	n/a	1.92	1.08
Ur-Energy Corp.	URE	0.49	58.3	-	32.9	41.2	n/a	1.77	1.42
<b>Median</b>							<b>1.22</b>	<b>1.03</b>	<b>0.77</b>
<b>Average</b>							<b>2.49</b>	<b>1.27</b>	<b>0.96</b>

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

Source: Company, CapIQ, TD Securities Inc.

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Exhibit 5 outlines our sensitivity analysis for changes to uranium prices and CAD/USD forex.

## Exhibit 5. Sensitivity Analysis

		8% NAV at LT Uranium Price, US\$/lb									12% NAV at LT Uranium Price, US\$/lb						
		\$25	\$30	\$35	\$40	\$45	\$50	\$55			\$25	\$30	\$35	\$40	\$45	\$50	\$55
Forex CAD/USD	0.75	\$623	\$971	\$1,341	\$1,711	\$2,081	\$2,396	\$2,758	Forex CAD/USD	0.75	\$270	\$504	\$754	\$1,004	\$1,254	\$1,463	\$1,707
	0.80	\$505	\$832	\$1,179	\$1,526	\$1,872	\$2,219	\$2,509		0.80	\$190	\$410	\$644	\$879	\$1,113	\$1,347	\$1,539
	0.82	\$461	\$781	\$1,120	\$1,458	\$1,796	\$2,135	\$2,418		0.82	\$160	\$376	\$604	\$833	\$1,062	\$1,290	\$1,478
	0.85	\$399	\$735	\$1,036	\$1,362	\$1,689	\$2,015	\$2,289		0.85	\$118	\$346	\$548	\$769	\$989	\$1,209	\$1,391
	0.90	\$303	\$623	\$909	\$1,217	\$1,526	\$1,834	\$2,142		0.90	\$54	\$270	\$462	\$671	\$879	\$1,087	\$1,295
	0.95	\$217	\$523	\$796	\$1,088	\$1,380	\$1,672	\$1,964		0.95	-\$4	\$203	\$386	\$583	\$780	\$977	\$1,175

Source: TD Securities Inc

### Justification of Target Price

Our \$2.50 target price (previously \$3.25) is based on 0.8x (previously 1.0x) our NAVPS-12% estimate (weighted 100%). Our lower target price multiples reflect industry-wide multiple compression amid the uncertainty caused by COVID-19.

### 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.

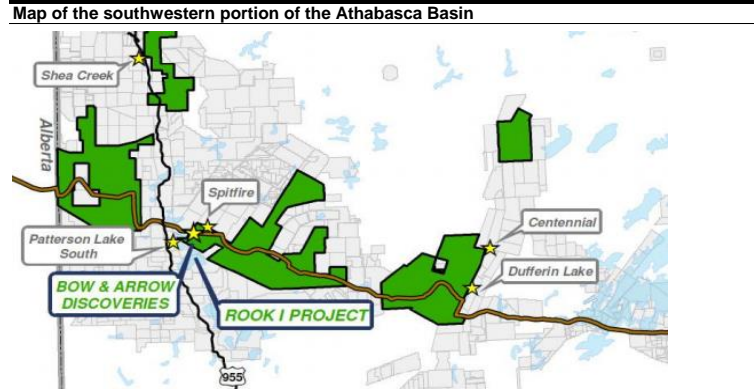
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## Exhibit 6. Company Snapshot

<b>NexGen Energy Ltd.</b>					<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	
<b>Risk Profile:</b>	<b>SPEC</b>				<b>Realized Metal Prices &amp; Forex</b>				
<b>Stock Rating:</b>	<b>Spec BUY</b>				Uranium, U3O8 (US\$/lb)	24.86	25.94	25.13	27.00
<b>Target Price:</b>	<b>C\$2.50</b>				Forex CAD to USD	0.77	0.75	0.75	0.76
<b>Target Price Calculator</b>					<b>Total U3O8 Production (000' lbs)</b>				
Price 12% NAV Mining Assets	Multiple	Implied Target	Weight	Contribution	-	-	-	-	
Corporate Adjustments	1.00	\$0.00	100%	\$2.81					
Calculated Target Price				-\$0.28					
<b>Rounded Target Price</b>				<b>\$2.52</b>					
				<b>\$2.50</b>					



Rook I Resource, Cut-off Grade 0.25% U3O8				
	Sub Zone	000 t	% U3O8	mmlb U3O8
<b>Indicated</b>				
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
<b>Total Indicated</b>		<b>2,890</b>	<b>4.03</b>	<b>256.6</b>
<b>Inferred</b>				
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
<b>Total Inferred</b>		<b>4,840</b>	<b>0.86</b>	<b>91.7</b>
<b>Total Indicated and Inferred Resources</b>		<b>7,730</b>	<b>2.05</b>	<b>348.3</b>

Implied US\$ EV/lb (Indicated and Inferred Resources) **\$1.03**

Financial Data (C\$m)	2018A	2019A	2020E	2021E
Reported net earnings	1	(17)	(26)	(26)
Adjusted net earnings	(31)	(38)	(26)	(26)
EPS Reported (C\$/sh.)	0.00	(0.05)	(0.07)	(0.07)
EPS (Adjusted) (C\$/sh.)	(0.09)	(0.11)	(0.07)	(0.07)

Cash Flow Statement (C\$m)	2018A	2019A	2020E	2021E
Operating CF bf. ch. in WC	(8)	(11)	(12)	(12)
CF from operating activities	(8)	(13)	(12)	(12)
CF from financing activities	2	(1)	(8)	(8)
CF from investing activities	(38)	(58)	(4)	(15)
CAPEX	(3)	-	-	-

Balance Sheet (C\$m)	2018A	2019A	2020E	2021E
Cash	125	52	27	(8)
Current assets	126	53	29	(7)
Total assets	327	314	292	271
Current liabilities	7	5	5	165
Long term debt	138	120	120	(40)
Total liabilities	145	127	127	127
Non Controlling Interest	17	22	22	22
Shareholders' equity	165	165	143	122

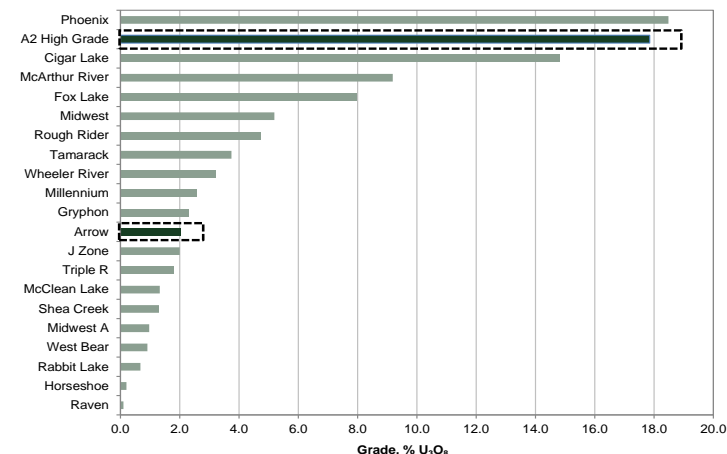
NAV Analysis	10% Discount		12% Discount	
	C\$m	C\$/sh	C\$m	C\$/sh
<b>Mining Assets</b>				
Arrow Deposit (DCF)	1,383.4	3.77	1061.6	2.90
<b>TOTAL PROJECT NAV</b>	<b>1,383.4</b>	<b>3.77</b>	<b>1061.6</b>	<b>2.90</b>

OTHER TANGIBLE ASSETS	2018A	2019A	2020E	2021E
Regional Targets at Rook I	225.0	0.61	225.0	0.61
<b>TOTAL OTHER ASSETS</b>	<b>225.0</b>	<b>0.61</b>	<b>225.0</b>	<b>0.61</b>

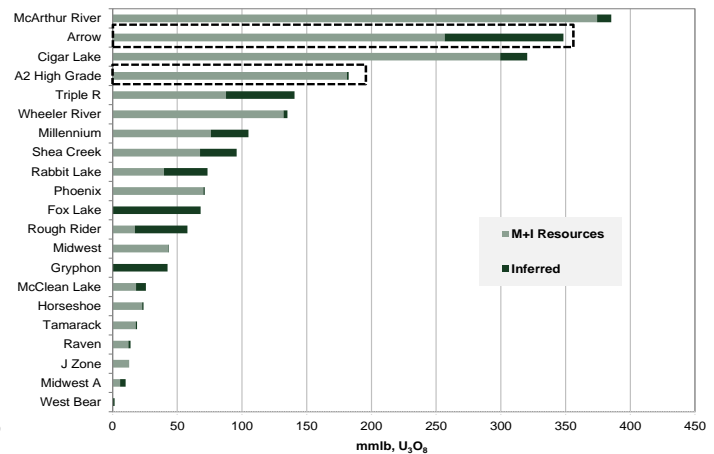
Corporate Adjustments	2018A	2019A	2020E	2021E
Working Capital	48.7	0.13	48.7	0.13
Long Term Debt	-155.8	-0.43	-155.8	-0.43
Options & Warrants In the Money	3.5	0.01	3.5	0.01

**Total Net Asset Value** **1,504.8** **4.10** **1182.9** **3.23**

Athabasca Basin - Relative Grade



Athabasca Basin - Relative Size



Source: Company, TD Securities Inc.



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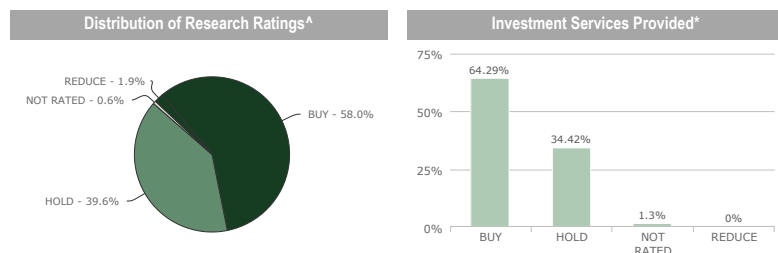
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NexGen Energy Ltd.	NXE-T	9

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# Action Note

## Equity Research

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