

Action Note

Equity Research

May 11, 2020

Metals & Minerals

NexGen Energy Ltd.

(NXE-T) C\$1.97

Balance Sheet Bolstered with US\$30M Private Placement

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Event

Earlier today Nexgen announced that it has entered into a binding agreement with Queen's Road Capital (QRC) for a financing package totaling US\$30mm. QRC is a global natural resources fund run by Warren Gilman (Nexgen director) and includes Andrew Forrest (Fortescue's founder and Chairman) as a strategic investor.

Impact: SLIGHTLY POSITIVE

- Terms of the transaction** - The US\$30mm transaction comprises: 1) a US\$15mm private placement (11.6mm shares at C\$1.80/sh.) and 2) US\$15mm in unsecured debentures carrying a 7.5% coupon over a five-year term. The debentures will be convertible at the holder's option into common shares at a conversion price of C\$2.34/sh.
- Makes strategic sense, but slightly dilutive to NAVPS** - From a valuation perspective the offering was slightly dilutive to our NAVPS estimates given that we did not forecast an equity financing over the next 12-months. From a strategic point of view, we believe the timing, quality of the investors, and size of the financing makes good sense given the recent momentum in the uranium market and the uncertainty caused by COVID-19. Based on our revised estimates the company should have sufficient liquidity to comfortably fund its development activities through the end of 2021. Our 12%NAVPS decreases slightly to C\$3.14 from C\$3.20.
- Outlook** - As a reminder, in late March, Nexgen announced that it has postponed certain work programs related to the Environmental Assessment and Feasibility Study (FS) due to the inability to ensure the work is conducted safely in relation to COVID-19. The company had been guiding for the submission of the FS in H1/2020 followed by the Environmental Impact Statement (EIS) in H2/2020. **Based on the pandemic related delays, we believe the FS could be delayed to Q4/20, followed by the EIS submission in H1/2021.**

TD Investment Conclusion

We are increasing our target price to **C\$3.25** from **C\$2.75** and maintaining our **SPECULATIVE BUY**. Although the financing was slightly dilutive to our estimates, it provides the company with a strong financial buffer to continue to advance the development and permitting activities at Arrow. We have increased our 12%NAVPS target multiple to 1.0x (previously 0.9x) to reflect reduced financing risk and improving fundamentals in the uranium market.

Recommendation:	SPEC BUY
Risk:	SPECULATIVE
12-Month Target Price:	C\$3.25↑ Prior: C\$2.75
12-Month Dividend (Est.):	C\$0.00
12-Month Total Return:	65.0%

Market Data (C\$)

Current Price	C\$1.97
52-Week Range	\$0.76 - \$2.32
Mkt Cap (f.d.) (\$mm)	\$762.2
EV (\$mm)	\$776.6
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	1,695,996

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	386.9
Float Shares (mm)	281.9
Net Debt (\$mm)	\$58.0
NAVPS	\$3.14
Working Cap (\$mm)	\$73.3

*Share O/S (f.d.) represents fully diluted in-the-money share count.**Financial data reflects the company's pro forma Q2/20E financial position.

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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Details

US\$15mm private placement – The equity portion of the binding agreement with QRC will result in ~11.6mm common shares to be issued at C\$1.80/sh. (5% premium to the 20-day VWAP).

US\$15mm unsecured convertible debentures – The convertible debt portion of the deal will carry a 7.5% coupon over a five-year term. Two-thirds of the interest (5% per annum) is payable in cash, while the remaining third (2.5% per annum) is payable in common shares equal to the 20-day VWAP on either the TSX- or NYSE-listed share price ending on the day prior to the date such interest payments are due.

The debentures are convertible into common shares at the conversion price of C\$2.34/sh. NexGen is entitled to redeem the debentures at par plus accrued and unpaid interest on the third anniversary of the date of issuance of the debentures, at any time that the 20-day VWAP on the TSX exceeds 130% of the conversion price.

Queen's Road Capital Investment Ltd. (QRC) – QRC is a resource-focused investment company, making investments in privately-held and publicly-traded resource companies with a focus on convertible debt securities and resource projects in advanced development or production in safe jurisdictions.

Mr. Warren Gilman, Chairman and CEO of QRC, has been a director of NexGen since 2017. Mr. Gilman has 30 years of experience as a deal maker in the metals and mining sector, founding CIBC's global mining team in 1988 and leading CEF Holdings Ltd. – a global mining investment company. Mr. Gilman also serves as a director of Niobec Ltd.

Outlook

We have updated our estimates to reflect the abovementioned deal and the company's Q1/20 financial results. We have rolled forward our financial estimates to Q2/20E.

We have made no significant changes to our development assumptions for Arrow. We continue to assume that major construction works will begin in H2/2023, which allows about 2-3 years of permitting following the planned submission of the Environmental Assessment in H1/2021. 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 \$4.64/share). Our base-case 12%NAV DCF valuation for Arrow is \$1.06bln (\$2.74/share).

Exhibit 1. Arrow Development Assumptions

Parameter		PFS	TDS
		Nov-18	Revised
Total Resource (Indicated and Inferred)	Kt	7,730	7,730
Grade U3O8	%	2.05	2.05
Contained U3O8	Mlb	348.3	348.3
Resource Assumed in DCF (100%)	Kt	3,430	3,430
Head Grade U3O8	%	3.09	3.09
Total Contained U3O8	Mlb	234.1	234.1
Avg. Daily Throughput	tpd	1,039	1,035
LOM U3O8 Recovery	%	97.6%	96.0%
LOM U3O8 Production	Mlb		224.5
Mine Life	Years	9	10
Average Life-of-mine production	Mlb	25.4	22.5
Start Up	Date	**	2026
Cost Per Tonne Underground Mining	\$/t	\$157	\$173
Cost Per Tonne Processed	\$/t	\$165	\$181
Cost Per Tonne Other (tailings/contingency)	\$/t		\$18
Cost Per Tonne G&A	\$/t	\$67	\$74
Total Site Cost/tonne ore milled	\$/t	\$389	\$446
Cost Per Pound Underground Mining	\$/lb	\$2.35	\$2.64
Cost Per Pound Processed	\$/lb	\$2.46	\$2.77
Cost Per Pound Other (tailings)	\$/lb		\$0.27
Cost Per Pound G&A	\$/lb	\$1.00	\$1.13
Total Site Costs /lb Produced	\$/lb	\$5.81	\$6.81
Off Site Transportation Costs	\$/lb	\$0.34	\$0.36
Saskatchewan Revenue and Profit Royalties	\$/lb		\$8.73
Total Costs (incl. Royalties and Offsite)	\$/lb		\$15.91
Total Costs US\$ (incl. Royalties and Offsite)	US\$/lb		\$13.04
Pre-Production Capex	\$ mm	\$1,247	\$1,450
LOM Sustaining Capex	\$ mm	\$262	\$350
LOM Total Capex	\$ mm	\$1,509	\$1,800
Long Term Forex Assumption	CAD/USD	0.75	0.82
Long Term Uranium Price Assumption	US\$/lb	\$50.00	\$45.00
8% After Tax NAV	\$ mm	\$3,660	\$1,796
10% After Tax NAV	\$ mm		\$1,383
12% After Tax NAV	\$ mm		\$1,062
IRR	%	56.8%	31.5%
In-Situ Value per tonne	US\$/t		\$2,947

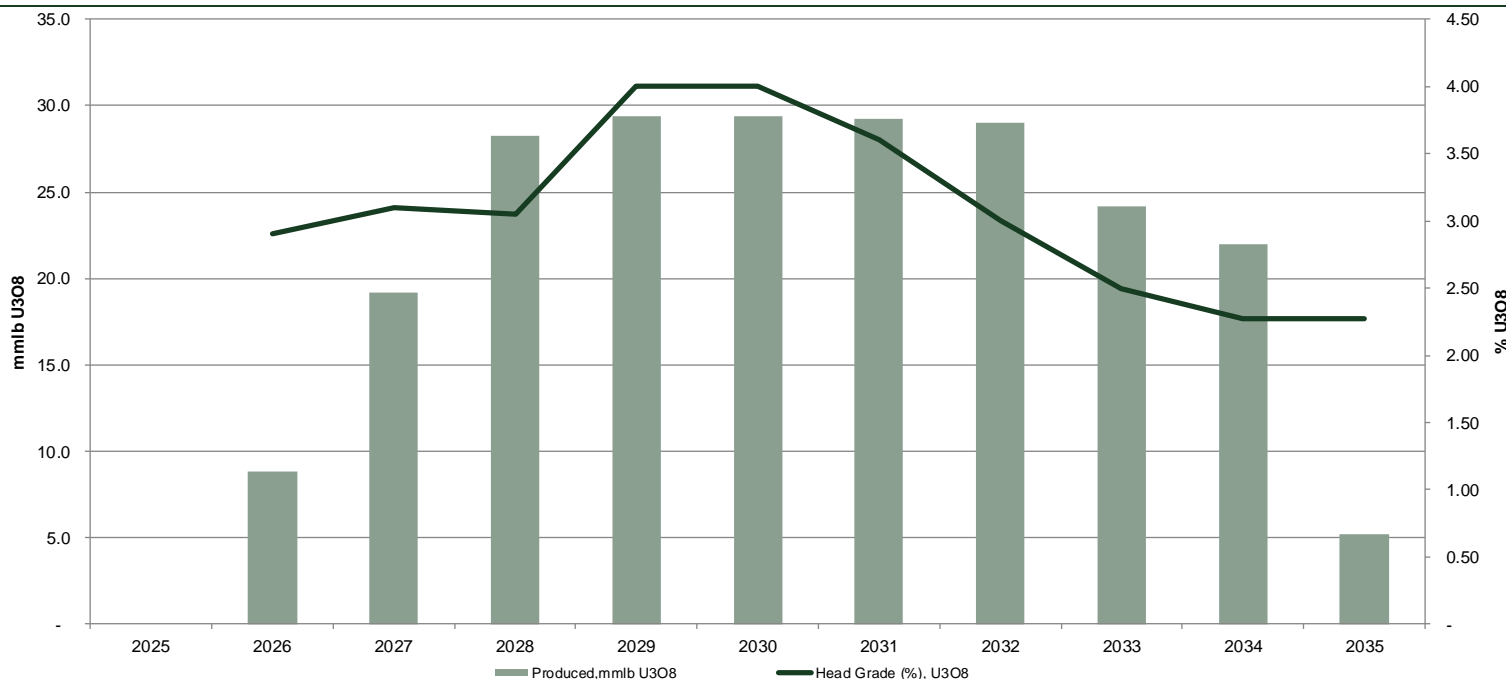
Source: Company, TD Securities

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Exhibit 2. Arrow Production Profile



Source: Company, TD Securities

Valuation

NexGen is trading at 0.63x our corporate 12%NAVPS estimate of \$3.14 (previously \$3.20) versus the base metal developers in our coverage universe of 0.56x. NexGen is currently trading at an EV/lb of US\$1.59 based on its total resources. This compares to its peer average currently trading at an EV/lb multiple of US\$1.88.

Exhibit 3. Uranium Company Comparisons (EV/lb ratios)

Company	Ticker	10-May-20 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	14.97	4,090.7	461.2	885.2	1,059.9	8.87	4.62	3.86
Denison Mines Corp.	DML	0.60	260.1	98.6	144.2	156.9	2.64	1.80	1.66
Fission Uranium Corp.	FCU	0.37	124.2	-	87.8	140.6	n/a	1.42	0.88
NexGen Energy Ltd.	NXE	1.97	554.9	234.1	256.6	348.3	2.37	2.16	1.59
UEX Corp.	UEX	0.18	48.3	-	69.8	86.4	n/a	0.69	0.56
Uranium Energy Corp.	UEC	1.71	235.7	-	58.4	103.9	n/a	4.03	2.27
Ur-Energy Corp.	URE	0.78	96.7	-	32.9	41.2	n/a	2.94	2.35
Median							2.64	2.16	1.66
Average							4.63	2.52	1.88

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

Exhibit 4. 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	0.70	\$733	\$1,129	\$1,526	\$1,922	\$2,266	\$2,655	\$3,043	Forex CAD/USD	0.70	\$343	\$611	\$879	\$1,146	\$1,375	\$1,637	\$1,899
	0.75	\$623	\$971	\$1,341	\$1,711	\$2,081	\$2,396	\$2,758		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

Source: TD Securities Inc

Justification of Target Price

Our \$3.25 target price (previously \$2.75) is based on 1.0x (previously 0.9x) our NAVPS-12% estimate (weighted 100%). Our higher target price multiple reflects reduced financing risk and improving fundamentals in the uranium market.

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. NexGen's development assets could be negatively affected by the ongoing restrictions to travel, social-distancing measures, and other challenges related to the COVID-19 pandemic.

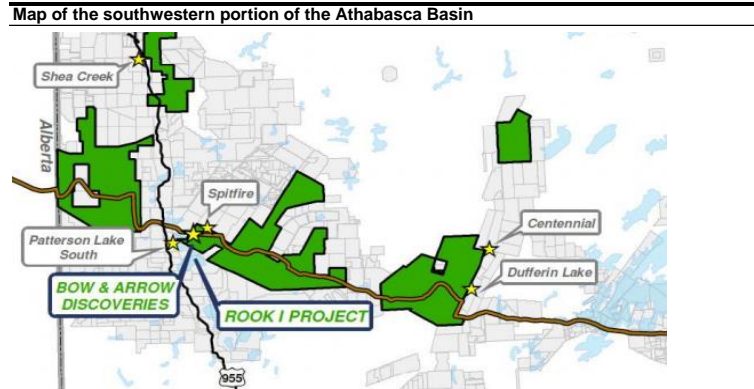
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Exhibit 5. Company Snapshot

NexGen Energy Ltd.				2018A	2019A	2020E	2021E	
Risk Profile:	SPEC			Realized Metal Prices & Forex				
Stock Rating:	Spec BUY			Uranium, U3O8 (US\$/lb)	24.86	25.94	28.94	31.00
Target Price:	C\$3.25			Forex CAD to USD	0.77	0.75	0.72	0.73
Target Price Calculator				Total U3O8 Production (000' lbs)				
Price 12% NAV Mining Assets	Multiple	Implied Target	Weight	Contribution	-	-	-	-
Corporate Adjustments	1.00	\$3.35	100%	\$3.35				
Calculated Target Price	1.00	\$0.00		-\$0.21				
Rounded Target Price				\$3.25				



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) **\$1.59**

Financial Data (C\$mm)	2018A	2019A	2020E	2021E
Reported net earnings	1	(17)	(31)	(27)
Adjusted net earnings	(31)	(38)	(24)	(27)
EPS Reported (C\$/sh.)	0.00	(0.05)	(0.08)	(0.07)
EPS (Adjusted) (C\$/sh.)	(0.09)	(0.11)	(0.06)	(0.07)

Cash Flow Statement (C\$mm)	2018A	2019A	2020E	2021E
Operating CF bf. ch. in WC	(8)	(11)	(12)	(12)
CF from operating activities	(8)	(13)	(11)	(12)
CF from financing activities	2	(1)	35	(9)
CF from investing activities	(38)	(58)	(11)	(15)
CAPEX	(3)	-	-	-

Balance Sheet (C\$mm)	2018A	2019A	2020E	2021E
Cash	125	52	66	31
Current assets	126	53	68	32
Total assets	327	314	339	317
Current liabilities	7	5	7	167
Long term debt	138	120	137	(23)
Total liabilities	145	127	150	150
Non Controlling Interest	17	22	21	21
Shareholders' equity	165	165	168	147

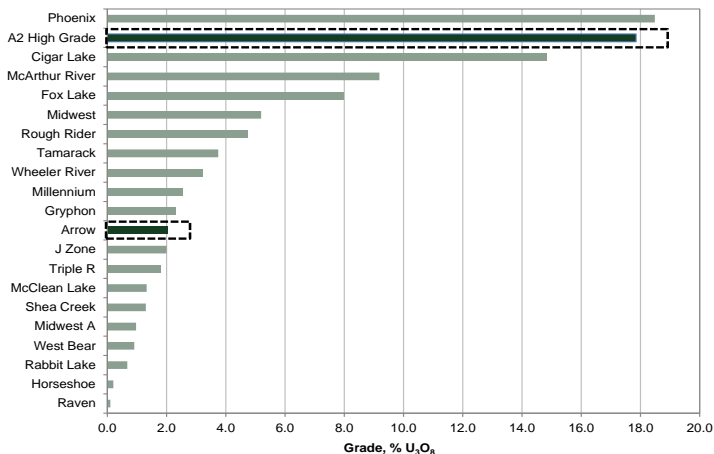
NAV Analysis	10% Discount		12% Discount	
	C\$mm	C\$/sh	C\$mm	C\$/sh
Mining Assets				
Arrow Deposit (DCF)	1,383.4	3.58	1061.6	2.74
TOTAL PROJECT NAV	1,383.4	3.58	1061.6	2.74

OTHER TANGIBLE ASSETS	10% Discount	12% Discount
	C\$mm	C\$/sh
Regional Targets at Rook I	235.0	0.61
TOTAL OTHER ASSETS	235.0	0.61

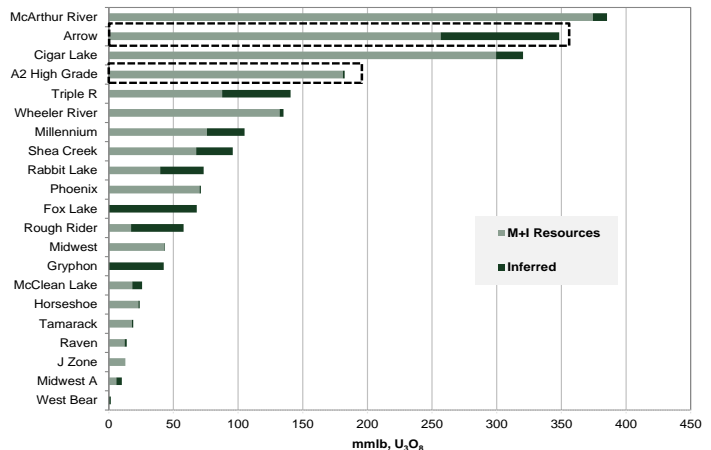
Corporate Adjustments	10% Discount	12% Discount
	C\$mm	C\$/sh
Working Capital	73.3	0.19
Long Term Debt	-173.6	-0.45
Options & Warrants In the Money	18.3	0.05

Total Net Asset Value **1,536.3** **3.97** **1214.5** **3.14**

Athabasca Basin - Relative Grade



Athabasca Basin - Relative Size



Source: Company, TD Securities Inc.



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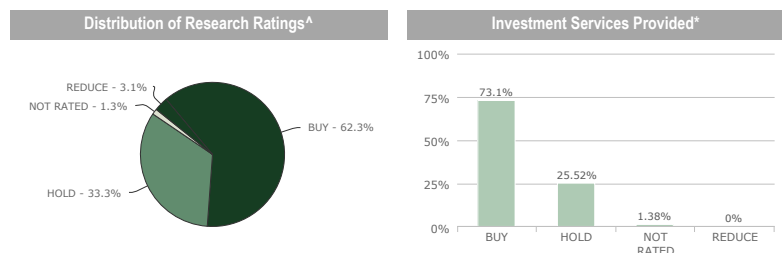
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NexGen Energy Ltd.	NXE-T	9

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