

NexGen Energy Ltd.

(NYSE-T: C\$5.15)

BUY

Target: C\$6.00 (from C\$5.55)

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Environmentally Robust FS: Positive for Permitting

NXE-T	New	Last
Rating	--	Buy
Target (C\$)	6.00 ▲	5.55
Projected Return	17% ▲	8%
Target/DCF multiple	0.90x ▲	0.80x
Corporate DCF	6.52 ▼	6.97
Cash, and Investments	0.17 ▼	0.24
Debt	(0.40) ▼	(0.38)
Exploration & Unmodelled Resources	0.33 ▲	0.10
Total NAV	6.61 ▼	6.93
P/NAV	0.78x ▲	0.26x

Company Data				
Last Price				\$5.15
52-week Range	\$0.76	-		\$5.41
Market Cap (\$MM)				\$1,839
Enterprise Value (\$MM)				\$1,942
Shares Outstanding - Basic (MM)				377.6
Shares Outstanding - FD (MM)				410.2
Avg Volume - 100d (000 shares/day)				1,420.6
Cash (est.) (\$MM)				\$74.2
Debt (est.) (\$MM)				\$177.0
Working Capital est. (\$MM)				\$68.5
Forecast	2020A	2021E	2022E	LT
Spot (US\$/lb)	32.0	32.0	35.0	50.0
Term (US\$/lb)	31.0	40.0	45.0	50.0

All Figures in C\$ Unless Otherwise Noted

Source: FactSet, Company Reports, Eight Capital

NXE-T: Price/Volume Chart



Source: FactSet

Company Description

NexGen Energy is a Canadian based uranium exploration and development company focused on the Athabasca Basin, SK. Its 100% owned Rook 1 property hosts the Arrow deposit which contains an updated 239.6 MM lb U3O8, with Measured and Indicated hosting 256.7 MM lbs grading 3.10%. It has already demonstrated some of the highest grade and thickest intercepts in the entire Athabasca Basin.

We maintain our BUY rating and increase our target price to C\$6.00/sh (from C\$5.55/sh) based on our 10% DCF model, after incorporating the results of the FS and increasing our DCF multiple to 0.9x (from 0.8x). NXE trades at a P/NAV of 0.78x vs. 1.73x for producer Cameco (CCO-T, NEUTRAL, C\$20 TP, covered by R. Profiti).

While no big surprises in this Arrow FS relative to the PFS, we are particularly encouraged by the enhanced environmental measures, which should help streamline permitting for this highest-grade project, any commodity, anywhere in the world, and help bring its initial 29 MM lbs U3O8 pa production online ASAP (21% of UxC 2021 global production). While strong projects can sometimes lead regulators/community groups to seek additional environmental protection measures during the permitting process (which can slow things down), we think NexGen is one step ahead of the game in delivering this already environmentally robust project. The study features a 20% reduction in footprint, reduced emissions, improved water management/recycling, and a refined design for the UGTMF. Management achieved this by not skipping any steps, and by diligently and consistently advancing from PEA through PFS to FS over five years, while holding the hands of the regulators/communities along the way to incorporate their hopes/desires to the project design. Excitingly, the company can now focus on exploration (once the pandemic subsides and communities are engaged) helped by C\$55MM in cash and an improved balance sheet from conversion of C\$120MM of debt to equity. Management suggested in the conference call that it could drill for 10 years with 10 rigs and still not define the vast potential.

FS objectives met. The FS aimed to improve the accuracy of costs, and refine/add environmental protective measures to de-risk the project ahead of permitting, financing and construction. We think the study achieved that while keeping initial capex to within 5% of that in the PFS, partially offset by higher grades in Year 1 for a 25% reduction in payback period to 0.9 years, together helping yield an NPV and IRR within 5% and 8% of the PFS (at \$50/lb U3O8). NPV of C\$3.47B increases by roughly \$1B per \$10 increase in uranium price. Permitting could take another 3-4 years with the project coming online as early as 2025-26. This key de-risking step amid rising uranium prices may also further attract an acquisition by Cameco, which could allow it to maintain its world high-grade dominance.

Arrow project is well-timed for the transition towards nuclear, as electrification of vehicles accelerates. China alone is expected to require a 12-fold increase in uranium requirements by 2060. And the US, which is currently the largest consumer of uranium from its some 100 reactors, now for the first time has bipartisan support for nuclear energy. Recent reactor closures in the US have essentially occurred due to market rules that have allowed fossil fuel plants to underbid nuclear plants. But the Biden administration now appears prepared to finally enact policy reform (which the nuclear utilities have been seeking for years) that recognizes nuclear power as a low-carbon source. If enacted, this type of policy could help allow nuclear power (20% of the US grid) to compete with fossil fuels (>60% of the US grid), and possibly even allow reactor lifespan extensions for some of the 26 reactors that WNA anticipates to be shut by 2040.

Spot price may rise more sharply than last cycle given the top five producing mines back then are no longer producing. And while UxC suggests that utilities currently lack the "need to buy" over the next couple of years which could limit increases to spot pricing, we know from history that this can be a disconnect between fundamentals and spot price movements. Buying frenzies can start quickly. Recall, the spot price reached \$25/lb in 2005, before rising to \$35 in 2006 and then \$75 in 2007 helped by mass utility contracting. We think improving nuclear policy and fundamentals around EV power demand, and declining certainty around available supply, could help trigger utilities to start buying any time now, as they cautiously forecast uranium requirements for the next 3-4 years.

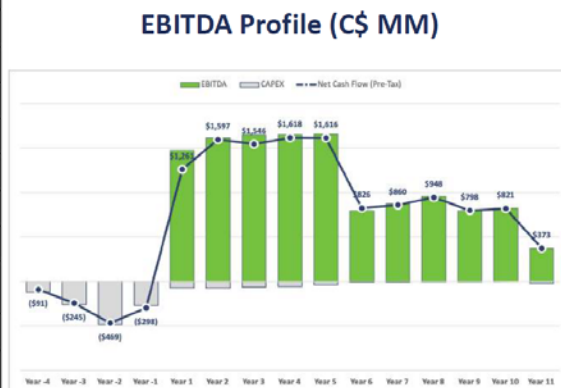
FS highlights include:

- Initial capex: C\$1.3 B (4% higher than 2018 PFS's C\$1.25 B)
- After-tax NPV8%: C\$3.47 B (5% lower than PFS's C\$3.7 B)
- After-tax IRR: 52.4% (8% lower than PFS's 56.8%)
- After-tax Payback: 0.9 years (25% lower than PFS's 1.2 years)
- Opex per tonne: C\$386.8/t (1% lower than PFS's \$389.07/t)
- Opex per lb: US\$5.69/lb (30% higher than PFS's \$4.36/lb due to slightly lower grades)
- First ever measured resource: 2,183 kt grading 4.35% U3O8, containing 209.6 MM lbs U3O8 (previous resource had no measured resources)
- M&I Resources: now total 3,754 kt grading 3.10% U3O8, containing 256.7 M lbs U3O8 (was 2,883 kt grading 4.03% for 256.6 MM lbs in PFS), which excludes an additional 80.7 MM lbs inferred
- Reserve tonnes: 4,575 kt (34% higher than PFS's 3.43 MM t), majority now in measured category
- Reserve grade: 2.37% (23% lower than PFS's 3.09% due largely to dilution)
- Reserve pounds: 239.6 MM lbs (2% higher than PFS's 234.1 MM lbs)
- LOM annual avg. production: 21.7 MM lbs pa or 16% of UxC global 2021 production of 135 MM lbs (15% lower than PFS's 25.4 MM lbs pa)
- Year 1-5 annual avg. production: 28.8 MM lbs pa or 21% of global 2021 primary production (in-line with PFS's 29.0 MM lbs pa)

Figure 1: Feasibility study results

The Rook I Project is the largest development-stage uranium deposit in the world. The Project has advanced through a Preliminary Economic Assessment (“PEA”) in 2017¹, a Pre-feasibility Study (“PFS”) in 2018² and now a Feasibility Study (“FS”) all based on US\$50/lb U₃O₈.

	FS (\$ CAD)
After-Tax NPV @ 8%	\$3.47 Billion
After-Tax Internal Rate of Return (IRR)	52.4%
After-Tax Payback	0.9 Year
Pre-Commitment Early Works Capital	\$157 Million
Project Execution Capital	\$1,143 Million
Total Initial Capital Costs (“CAPEX”)	\$1,300 Million
Average Annual Production (Years 1-5)	28.8 M lbs U₃O₈
Average Annual After -Tax Net Cash Flow (Years 1-5)	\$1,038 Million
Average Annual Production (Life of Mine)	21.7 M lbs U ₃ O ₈
Average Annual After -Tax Net Cash Flow (Life of Mine)	\$763 Million
Nominal Mill Capacity	1,300 tonnes per day
Average Annual Mill Feed Grade	2.37% U ₃ O ₈
Mine Life	10.7 Years
Average Annual Operating Cost (“OPEX”, Life of Mine)	\$ 7.58 (US \$5.69)/lb U ₃ O ₈



The Rook I Project is being permitted for a 24-year mine life.

1. Technical Report on the Preliminary Economic Assessment of the Arrow Deposit, Rook I Property, Province of Saskatchewan, Canada (RPA, 2017).
 2. Arrow Deposit, Rook I Project, Saskatchewan, NI 43-101 Technical Report on Pre-feasibility Study (Wood, 2018).

Source: Company reports

Figure 2: Top 5 feasibility study outcomes

1. Enhanced Environmental Performance

- a) Optimized facilities layout reducing the project footprint by approximately 20% and lowering on-site personnel transportation and ore haulage.
- b) Optimized shaft sizing, water usage through advanced water recycling and plant engineering, all delivering elite environmental standards.
- c) Confirmation of the industry leading UGTMF which will set a new standard globally for tailings management.

2. High Return on Capital with 0.9 Year Payback Period and Life-of-Mine Production Flexibility

- a) At US\$50/lb uranium, Arrow confirmed as one of the most economic mineral projects in the world with combination of high NPV, high IRR and rapid payback.
- b) Due to the Arrow Deposit geometry combined with the competent ground conditions enables decoupled production areas in both the A2 and A3 zones, allowing unique strategic flexibility of production volumes.

3. CAPEX Accuracy

- a) Total CAPEX of \$1.3 Bn comprised of \$157 M of early works and \$1,143 M of pre-production execution capital. The Study is at a Class 3 level (AACE) demonstrating a robust estimation for this stage.

4. OPEX Accuracy

- a) Average OPEX per tonne reduced by 1% with Mining, Processing and G&A costs all being reduced via the optimizations undertaken in the FS. OPEX per pound remains among the lowest in the industry at US\$5.69 per pound.

5. Highest Level of Mineral Resource Confidence

- a) First time declaration of Measured Mineral Resources of 2,183 kt grading 4.35% U₃O₈, containing 209.6 M lbs U₃O₈. Measured and Indicated Mineral Resources total 3,754 kt grading 3.10% U₃O₈, containing 256.7 M lbs U₃O₈ supporting initial 10.7 year mine life (11% increase).

Source: Company reports

Figure 3: Strategic flexibility & the uranium market

Strategic Flexibility

- Geometry of the Arrow Deposit combined with the competent ground conditions allows for **maximum market flexibility to fully optimize economics of mine and respond to supply-demand imbalances** appropriately.



- Combination of no material contracting cycle since 2011 and years of inventory drawdowns and a resurgence in global demand; a perfect storm is upon the uranium industry.
- Estimated **1.5Bn pound U₃O₈ uncommitted demand through to 2035** with no significant new primary uranium sources (ex-Arrow) to cover this.
- The 10-year bear market is over, and **prices need to move conservatively greater than 3x in order to meet demand.**



China

- Fastest growing nuclear power market.
- 49 reactors currently operable with 14 currently under construction.
- Plans to bring on at least 8 each year over next 5 years.
- Recently committed to net carbon neutrality by 2060 which would mean significantly increased investment in nuclear.
- Key part of President Xi's Made in China 2025 plan.



United States

- Largest nuclear power generator accounting for roughly 1/3 of global nuclear power.
- Accounts for 20% of America's electricity.
- First time in decades, bipartisan support for nuclear power infrastructure spending and Western sourcing of nuclear fuels.



Middle East

- In 2020, UAE connected first nuclear reactor to grid.
- 3 others currently under construction.
- On schedule and budget.
- Saudi Arabia plans to build 16 nuclear reactors.



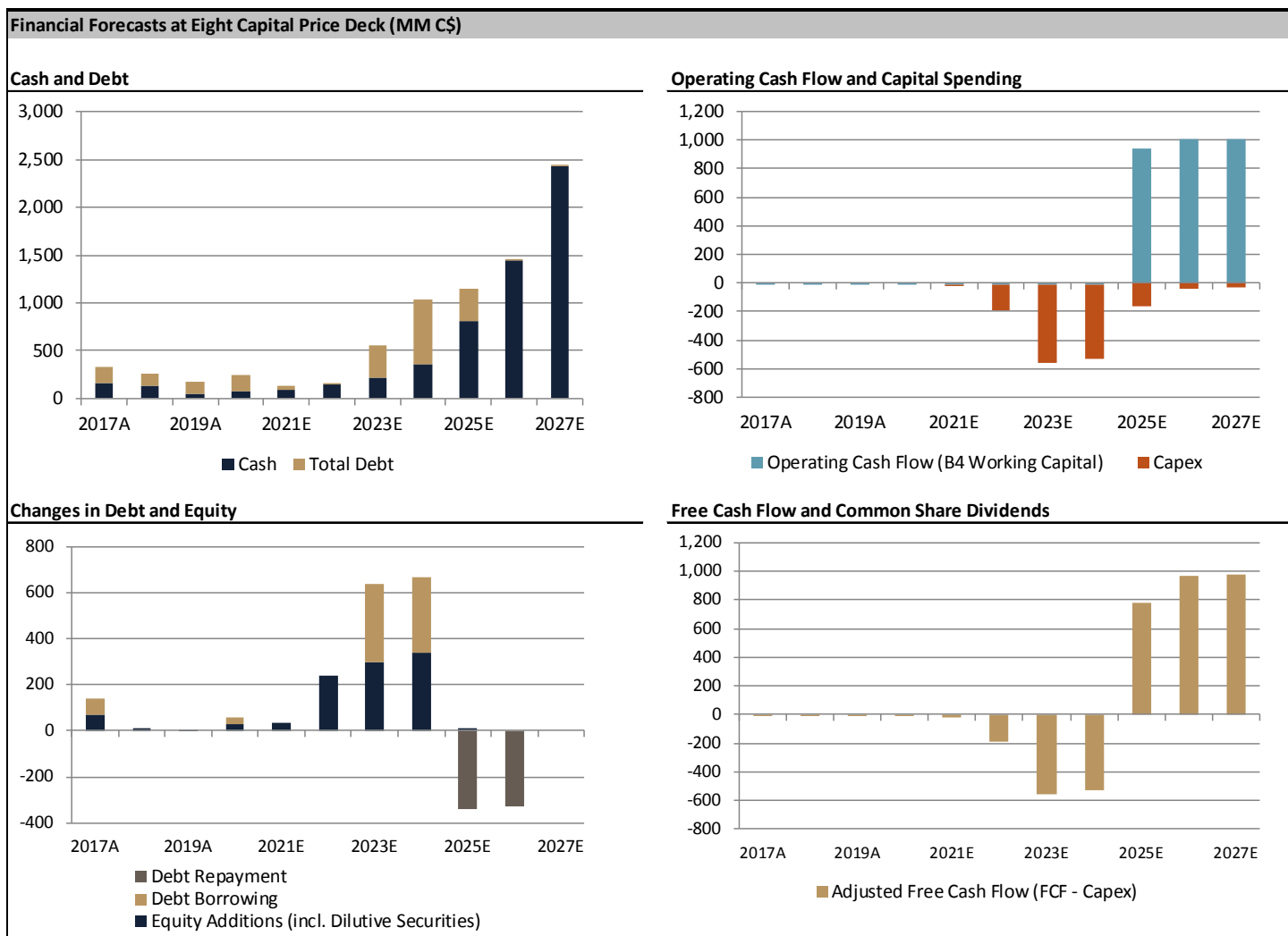
Small Modular Reactors

- Small Modular Reactors ("SMRs") are paradigm shift in nuclear demand picture.
- Huge optionality for remote geographic deployment and renewable back-up.
- Bill Gates, US, Russian, Chinese governments all independently developing SMR technology for mid-2020s.
- Not factored into demand thesis at all.

"Nuclear is ideal for dealing with climate change, because it is the only carbon-free, scalable energy source that's available 24 hours a day."
— Bill Gates

Source: Company reports

Target Setting NAV				NAV at Various Discount Rates					
	Discount Rate	(\$MM)	(\$/Share)	0%		5%		15%	
				(\$MM)	(\$/Share)	(\$MM)	(\$/Share)	(\$MM)	(\$/Share)
Uranium Assets									
Arrow	10%	2,662	6.04	6,553	14.88	4,142	9.41	1,722	3.91
Total Uranium Assets		2,662	6.04	6,553	14.88	4,142	9.41	1,722	3.91
Other Assets & Expenses									
Cash		74	0.17	74	0.17	74	0.17	74	0.17
Investments		0	0.00	0	0.00	0	0.00	0	0.00
Debt		(177)	(0.40)	(177)	-0.40	(177)	-0.40	(177)	(0.40)
Resources		124	0.33	124	0.33	124	0.33	124	0.33
Exploration, G&A, Other	10%	208	0.47	412	-0.94	(25)	-0.06	347	0.79
Net Other Assets		229	0.57	391	-0.84	(3)	0.04	368	0.88
Net Asset Value		2,891	6.61	6,162	14.04	4,139	9.45	2,090	4.79
Share Price			5.15		5.15		5.15		5.15
P/NAV			0.78x		0.37x		0.55x		1.07x



Source: Company reports, Eight Capital estimates

NexGen Energy Ltd.					
Rating	BUY	C\$ Target	\$6.00	Shares O/S (MM)	377.6
		C\$ Close	\$5.15	Fully Diluted Shares (MM)	410.2
Mitch Vanderydt, P.Eng, Mining Research Analyst		12-month return	17%	Basic Mkt. Capitalization (\$MM)	C\$ 1,839
mvanterydt@eightcapital.com				Enterprise Value (\$MM)	C\$ 1,942
PRODUCTION ESTIMATES (000 lbs)					
Year-end June	2024E	2025E	2026E	2027E	2028E
Arrow	0	28,771	28,771	28,771	28,771
Total	0	28,771	28,771	28,771	28,771
TOTAL CASH COST ESTIMATES (excl. non-cash) (US\$/lb)					
Year-end June	2024E	2025E	2026E	2027E	2028E
Arrow	0.0	10.0	10.3	10.6	10.1
Wt. Avg. Cash Costs	0.0	10.0	10.3	10.6	10.1
URANIUM RESERVES & RESOURCES					
	Ownership	Tonnes MM t	Grade % U3O8	Cont U3O8 (MM lbs) 100% Basis	NXE Share
Proven and Probable Reserves					
A2	100%	2.59	3.32%	190.0	190.0
A3	100%	1.98	1.13%	49.5	49.5
Total Reserves		4.58	2.37%	239.5	239.5
Measured and Indicated Resources					
A2-LG	100%	1.62	0.79%	28.1	28.1
A2-HG	100%	0.50	15.90%	174.2	174.2
A3-LG	100%	1.64	1.51%	54.4	54.4
Total M&I Resources		3.75	3.10%	256.7	256.7
Inferred Resources					
A2-LG	100%	0.86	0.61%	11.5	11.50
A2-HG	100%	0.00	10.95%	0.6	0.60
A3-LG	100%	1.21	1.12%	29.8	29.80
A1-LG	100%	1.56	0.69%	23.7	23.70
A4-LG	100%	0.77	0.89%	15.0	15.00
Total Inferred Resources		4.40	0.83%	80.6	80.6
Total Arrow (Q4 2018)		12.73	2.06%	576.8	576.8
Current Per Pound Metrics					
EV/lb (US\$)		\$3.37	1.88	79%	
NET ASSET VALUE (C\$) - 10%					
		NAV (\$ MM)	/Share	% NAV	
Assets:					
Arrow (100%)		2,662	6.04	91%	
Unmined Resources		124	0.33	0%	
Balance Sheet & Other Items:					
Cash & Investments		74	0.17	3%	
Debt		-177	-0.40	-6%	
Exploration, G&A, and Other		208	0.47	7%	
Total		2,891	6.61	100%	
Eight Capital DCF Target Multiple			0.90x		
Share Price Target			6.00		
Long Term Uranium Price Assumption (US\$/lb)					
Target (C\$/share)	30	40	50	60	70
0% Discount	7.37	10.01	12.65	15.28	17.92
5% Discount	5.04	6.77	8.51	10.25	11.98
10% Discount	3.59	4.78	5.96	7.14	8.33
15% Discount	2.66	3.49	4.32	5.16	5.99
COMMERCIAL URANIUM PRODUCTION PROFILE					
	MM lbs U3O8	US\$/lb			
	2019A	2021E	2023E	2025E	2027E
	2029E	2031E	2033E	2035E	2037E
	Arrow	Cash Cost	Total Cash Cost		

BALANCE SHEET (C\$ MM)				
Year-end June	2018A	2019A	2020E	2021E
Assets:				
Cash & Cash Equivalents	125.8	52.1	74.2	91.2
Other Current Assets	0.7	1.3	0.6	0.6
Current Assets	126.5	53.5	74.8	91.8
Mineral Properties	194.6	252.5	270.9	270.9
Other Non-Current Assets	6.5	7.6	7.6	15.1
Total Assets	327.6	313.5	353.3	377.8
Liabilities:				
Current Liabilities	6.5	4.8	6.4	6.4
Long-Term Debt	138.2	119.6	177.0	36.8
Other Non-Current Liabilities	0.2	2.8	10.2	3.9
Total Liabilities	144.9	127.2	193.5	47.0
Capital Stock	208.7	218.8	253.1	443.4
Retained Earnings	-26.8	-54.1	-119.4	-138.8
Total Shareholder Equity	181.9	164.7	133.6	304.6
INCOME STATEMENT (C\$ MM)				
Year-end June	2018A	2019A	2020E	2021E
Total Revenue:	0.0	0.0	0.0	0.0
% Uranium	0%	0%	0%	0%
% Other	100%	100%	100%	100%
Operating Costs	0.0	0.0	0.0	0.0
G&A	10.7	12.3	10.0	11.0
Exploration	0.0	0.0	0.0	0.0
Depreciation	1.5	2.4	2.3	0.0
Other	(25.3)	(11.1)	37.0	6.9
EBITDA	14.7	(1.2)	(47.0)	(17.9)
EBIT	13.1	(3.6)	(49.3)	(17.9)
Interest Expense	(12.0)	(12.0)	(13.3)	(1.5)
EBT	1.2	(5.6)	(62.6)	(19.4)
Taxes	0.3	(0.9)	(1.5)	0.0
Equity Earnings	0.0	0.0	0.0	0.0
Other	0.0	0	0	0
Net Income (Reported)	1.5	(16.5)	(64.1)	(19.4)
EPS (Reported) \$/sh	0.00	(0.05)	(0.17)	(0.04)
Average Shares (MM)	345.9	354.6	381.9	440.3
CASH FLOW STATEMENT (C\$ MM)				
Year-end June	2018A	2019A	2020E	2021E
Net Income (Reported)	1.5	(16.5)	(64.1)	(19.4)
Depreciation	(1.5)	(2.4)	(2.3)	0.0
Working Capital Changes	(0.3)	(1.7)	0.7	0.0
Other	(7.4)	7.8	57.1	8.8
Operating Cash Flow	(7.7)	(12.8)	(8.6)	(10.5)
Operating Cash Flow/sh (\$/sh)	(0.02)	(0.04)	(0.02)	(0.02)
Capital Expenditures	0.0	0.0	0.0	(7.5)
Acquisitions	0.0	0.0	0.0	0.0
Other	(37.8)	(57.7)	(19.5)	0.0
Investing Cash Flow	(37.8)	(57.7)	(19.5)	(7.5)
Common Share Dividends	0.0	0.0	0.0	0.0
Equity financing	10.3	7.4	31.4	35.0
Debt Issue	0.0	0.0	28.2	0.0
Debt Repayment	0.0	0.0	0.0	0.0
Other	(7.9)	(8.8)	(9.8)	0.0
Financing Cash Flow	2.4	(1.4)	49.8	35.0
Net Change in Cash	(39.1)	(72.9)	22.1	17.0
Cash Balance	125.8	52.1	74.2	91.2
Free Cash Flow	(7.7)	(12.8)	(8.6)	(18.0)
VALUATION DATA				
Year-end June	2018A	2019A	2020E	2021E
P/E	--	--	--	--
P/CF	--	--	--	--
EV/EBITDA	--	--	--	--
FCF Yield	--	--	--	--
INPUT PRICES				
Year-end June	2018A	2019A	2020E	2021E
Eight Capital Spot Uranium (US\$/l)	29.0	35.0	32.0	32.0
Uranium Realized Price (US\$/lb)	0.0	0.0	0.0	0.0
Exchange (US\$/C\$)	0.77	0.77	0.73	0.78

Source: Company reports, FactSet, Eight Capital estimates

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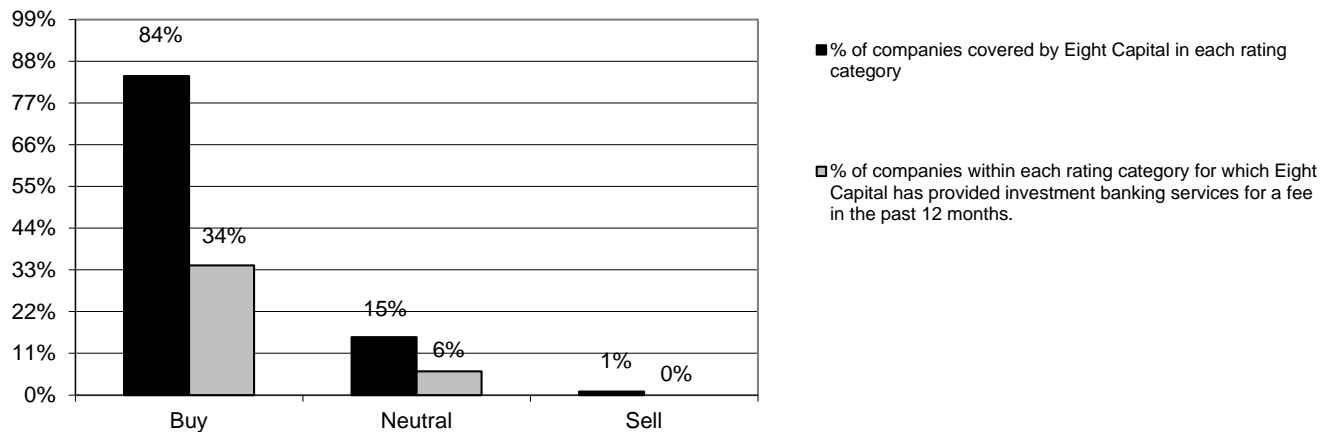
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Eight Capital target: Represents the price target as required under IROC Rule 3400. Valuation methodologies used in determining the price target(s) for the issuer(s) mentioned in this research report are contained in current and/or prior research. Eight Capital target N/A: a price target and/or NAV are not available if the analyst deems there are limited financial metrics upon which to base a reasonable valuation.

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SECURITY ABBREVIATIONS: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares).

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