

# Action Note

Equity Research

February 23, 2021

Metals &amp; Minerals

## NexGen Energy Ltd.

(NXE-T) C\$5.06

### Arrow FS Further Solidifies its Tier 1 Project Status

Craig Hutchison, P. Eng

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#### Event

We have updated our estimates to reflect the company's Feasibility Study (FS) results on its wholly owned Arrow project.

#### Impact: POSITIVE

- FS results highlight an after-tax 8%NPV of \$3.47bln** (discounted to start of construction) and an after-tax IRR of 52.4%. Total pre-production capital is \$1.3bln, with the company generating average annual after-tax net cash flow of ~\$1.0bln over the first five years of production, using a long-term U3O8 price of US\$50/lb and a Canadian dollar/U.S. dollar exchange rate of 0.75.
- No significant change in our valuation for Arrow** — We have updated our estimates to reflect the FS results and rolled forward the basis of our valuation by one year to 2021. We assume a production start-up in 2027 for Arrow, which allows two years for permitting after the Environmental Impact Statement (EIS) submission planned in H2/21 and three-and-a-half years for construction and ramp-up. **Our base-case 10%NAV for Arrow increases 4% to \$1.66bln using a long-term uranium price of US\$45/lb and 0.80 Canadian dollar/U.S. dollar.** For comparison, our 8%NAV DCF valuation for Arrow is \$2.1bln discounted to 2021.
- EIS submission targeted for H2/21** — Over the rest of the year, NexGen is planning to continue to build out its team by adding key hires at the executive and project level. The company currently has \$55mm in cash on its balance sheet, which management expects should provide adequate funding to complete the licensing and EIS submissions in H2/21, along with its ongoing community engagements.
- Potential index inclusion** — According to TD's Index Products Group, NexGen is among the top candidates to be included in the S&P/TSX Composite Index in March based on its market capitalization. Assuming that NXE is included (announcement March 12), index demand would be ~14.4mm shares.

#### TD Investment Conclusion

We are increasing our target price to **\$7.00** from **\$4.00** and maintaining our **SPECULATIVE BUY** recommendation. We have increased our target price to reflect higher multiples across the uranium space, combined with a de-risking of the Arrow project following the completion of the feasibility study.

<b>Recommendation:</b>	<b>SPEC BUY</b>
<b>Risk:</b>	<b>SPECULATIVE</b>
<b>12-Month Target Price:</b>	<b>C\$7.00↑</b> Prior: C\$4.00
<b>12-Month Dividend (Est.):</b>	<b>C\$0.00</b>
<b>12-Month Total Return:</b>	<b>38.3%</b>

#### Market Data (C\$)

Current Price	C\$5.06
52-Week Range	\$0.76 - \$5.41
Mkt Cap (f.d.) (\$mm)	\$2,378.4
EV (\$mm)	\$2,004.8
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	3,146,063

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	470.0
Float Shares (mm)	281.9
Net Debt (\$mm)	\$98.3
NAVPS	\$5.88
Working Cap (\$mm)	\$72.9

\*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.

# Action Note

Equity Research

February 23, 2021

## Details

**Contained pounds in the updated M&I mineral resources category remain largely unchanged, albeit at lower grades.** The company reported updated M&I mineral resources of 3.75mmt grading 3.1% U<sub>3</sub>O<sub>8</sub> and containing 256.7mmlbs. These compare with the company's 2018 M&I mineral resource estimate of 2.89mmt grading 4.03% U<sub>3</sub>O<sub>8</sub> and containing 256.6mmlbs U<sub>3</sub>O<sub>8</sub>.

Total mineral resources (MI&I) now totals 8.15mmt grading 1.88% U<sub>3</sub>O<sub>8</sub> and containing 337.4mmlbs U<sub>3</sub>O<sub>8</sub>. These compare with the 2018 total mineral resources of 7.73mmt grading 2.05% U<sub>3</sub>O<sub>8</sub> and containing 348.3mmlbs U<sub>3</sub>O<sub>8</sub>.

Despite the lower overall M&I grades, reserve head-grades during the initial three years of the mine life are largely unchanged from the 2018 PFS (Exhibit 4). The company has also offset the lower grades, in part by increasing the life-of-mine mill throughput.

### Exhibit 1. Updated Mineral Resource Estimate

Category / Zone	Sub Zone	Nov. 2018 Resource Estimate*			Feb. 2021 Resource Estimate*			Contained U <sub>3</sub> O <sub>8</sub> Mlb % Ch.
		Tonnage 000s tonnes	Grades U <sub>3</sub> O <sub>8</sub> %	Contained U <sub>3</sub> O <sub>8</sub> Mlb	Tonnage 000s tonnes	Grades U <sub>3</sub> O <sub>8</sub> %	Contained U <sub>3</sub> O <sub>8</sub> Mlb	
<b>Measured &amp; Indicated</b>								
A2	Main	1,240	0.79	21.7	1,620	0.79	28.1	29%
A2	High Grade	460	17.85	181.0	497	15.90	174.2	-4%
A3	Main	1,010	0.70	15.5	1,637	1.51	54.4	251%
A3	High Grade	180	9.68	38.4	n/a	n/a	n/a	n/a
<b>Total Measured &amp; Indicated</b>		<b>2,890</b>	<b>4.03</b>	<b>256.6</b>	<b>3,754</b>	<b>3.1</b>	<b>256.7</b>	<b>0%</b>
<b>Inferred</b>								
A0	Main	n/a	n/a	n/a	n/a	n/a	n/a	n/a
A1	Main	1,510	0.72	23.9	1,557	0.69	23.7	-1%
A2	Main	1,290	0.70	19.9	863	0.61	11.5	-42%
A2	High Grade	5	12.70	1.4	3	10.95	0.6	-57%
A3	Main	1,230	1.11	30.0	1,207	1.12	29.8	-1%
A3	High Grade	1	9.07	0.2	n/a	n/a	n/a	n/a
A4	Main	800	0.92	16.3	769	0.89	15.0	-8%
A5	Main	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Total Inferred</b>		<b>4,840</b>	<b>0.86</b>	<b>91.7</b>	<b>4,399</b>	<b>0.83</b>	<b>80.7</b>	<b>-12%</b>
<b>Total Resources</b>		<b>7,730</b>	<b>2.05</b>	<b>348.3</b>	<b>8,153</b>	<b>1.88</b>	<b>337.4</b>	<b>-3%</b>

\*Cut-off grade of 0.25% U<sub>3</sub>O<sub>8</sub> based on a long-term price of US\$50 per lb U<sub>3</sub>O<sub>8</sub> and estimated costs.

Source: Company, TD Securities Inc.

## Outlook

**We have made modest adjustments to our assumptions for Arrow.** We now assume that major construction work will begin in 2024 (2023 previously), with pre-commitment early-work capital spent in late-2023, which allows two years for permitting following the planned submission of the EIS in H2/21. We assume that production will start in 2027 (H2/26 previously), with a ramp-up to peak production in 2028 (unchanged).

We calculate a project-level 8%NAV of \$2.09bln (or \$4.45/share). Our base-case 10%NAV DCF valuation for Arrow is \$1.66bln (\$3.53/share).

We have also updated our estimates and share count to reflect the announcement on February 18 that the registered holders of the entire US\$120mm aggregate principal amount of convertible debentures have elected to convert it into common shares of NexGen ([see note](#)).

## Action Note

## Equity Research

February 23, 2021

## Exhibit 2. Arrow Development Assumptions

Parameter		Variance						
		PEA Jul-17	PFS Nov-18	FS Feb-21	PFS vs. FS %	TDS	TDS Revised	Variance TD Est. %
Total Resource (Indicated and Inferred)	Kt	5,430	7,730	8,153	5.5%	7,730	8,153	5.5%
Grade U3O8	%	2.51	2.05	1.88	-8.3%	2.05	1.88	-8.3%
Contained U3O8	Mlb	301.6	348.3	337.4	-3.1%	348.3	337.4	-3.1%
Resource Assumed in DCF (100%)	Kt	7,310	3,433	4,575	33.3%	3,430	4,575	33.4%
Head Grade U3O8	%	1.73	3.09	2.37	-23.3%	3.09	2.37	-23.4%
Total Contained U3O8	Mlb	278.8	234.1	239.6	2.3%	234.1	239.6	2.3%
Avg. Daily Throughput	tpd	1,448	1,039	1,207	16.2%	1,035	1,070	3.4%
LOM U3O8 Recovery	%	96.0%	97.6%	97.6%	0.0%	96.0%	97.6%	1.7%
LOM U3O8 Production	Mlb	267.2	228.4	233.8	2.4%	224.5	233.3	3.9%
Mine Life	Years	14	9	10.7	18.9%	10	11	10.0%
Average Life-of-mine production	Mlb	18.5	25.4	21.7	-14.6%	22.5	21.2	-5.5%
Start Up	Date	**	**	**		2026	2027	+1 Year
Cost Per Tonne Underground Mining	\$/t	\$132	\$157	\$151	-4.0%	\$173	\$151	-12.7%
Cost Per Tonne Processed	\$/t	\$111	\$165	\$141	-14.1%	\$181	\$141	-21.9%
Cost Per Tonne Other (tailings/contingency)	\$/t			\$31		\$18	\$31	74.8%
Cost Per Tonne G&A	\$/t	\$63	\$67	\$63	-6.4%	\$74	\$63	-14.9%
Total Site Cost/tonne ore milled	\$/t	\$306	\$389	\$387	-0.6%	\$446	\$387	-13.3%
Cost Per Pound Underground Mining	\$/lb	\$3.61	\$2.35	\$2.96	26.0%	\$2.64	\$2.96	12.1%
Cost Per Pound Processed	\$/lb	\$3.03	\$2.46	\$2.77	12.6%	\$2.77	\$2.77	0.2%
Cost Per Pound Other (tailings)	\$/lb			\$0.62		\$0.27	\$0.62	124.3%
Cost Per Pound G&A	\$/lb	\$1.73	\$1.00	\$1.23	23.0%	\$1.13	\$1.23	9.3%
Total Site Costs /lb Produced	\$/lb	\$8.37	\$5.81	\$7.58	30.5%	\$6.81	\$7.58	11.3%
Off Site Transportation Costs	\$/lb		\$0.34		-100.0%	\$0.36	\$0.36	0.0%
Saskatchewan Revenue and Profit Royalties	\$/lb	\$11.15				\$9.01	\$8.91	-1.1%
Total Costs (incl. Royalties and Offsite)	\$/lb					\$16.19	\$16.86	4.1%
Total Costs US\$ (incl. Royalties and Offsite)	US\$/lb					\$12.95	\$13.49	4.1%
* Pre-Production Capex	\$ mm	\$1,188	\$1,247	\$1,300	4.3%	\$1,450	\$1,400	-3.4%
* LOM Sustaining Capex	\$ mm	\$468	\$262	\$362	38.2%	\$350	\$385	10.0%
LOM Total Capex	\$ mm	\$1,656	\$1,509	\$1,662	10.1%	\$1,800	\$1,785	-0.8%
Long Term Forex Assumption	CAD/USD	0.80	0.75	0.75	0.0%	0.80	0.80	0.0%
Long Term Uranium Price Assumption	US\$/lb	\$50.00	\$50.00	\$50.00	0.0%	\$45.00	\$45.00	0.0%
**8% After Tax NAV	\$ mm	\$3,490	\$3,661	\$3,470	-5.2%	\$2,022	\$2,093	3.5%
**10% After Tax NAV	\$ mm					\$1,590	\$1,660	4.4%
**12% After Tax NAV	\$ mm					\$1,247	\$1,317	5.6%
IRR	%	56.7%	56.8%	52.4%	-7.7%	32.3%	39.2%	21.6%
In-Situ Value per tonne	US\$/t					\$2,947	\$2,295	-22.1%

\* 2021 FS capex assumption includes pre-commitment early works. Sustaining capex includes decommissioning costs

\*\* TDS Estimate discounted from start of 2021. FS discounted from start of construction

Source: Company, TD Securities Inc.

**We now mark-to-market NexGen's equity holding in IsoEnergy as a corporate adjustment in our base-case NAV.** At IsoEnergy's (ISO-TSXV) current share price, NexGen's position in the company is worth approximately \$143mm, which is up 490% over the past year. Much of the share-price gain is the result of a very successful exploration program at IsoEnergy's 100%-owned Larocque East property. The Hurricane zone discovery situated on the property has demonstrated some of the

# Action Note

Equity Research

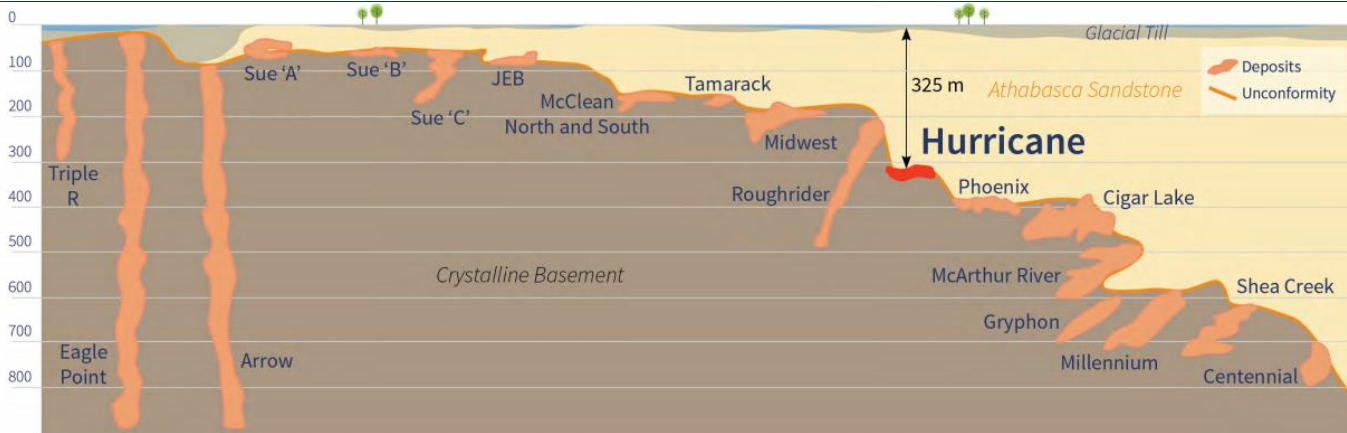
February 23, 2021

thickest and highest-grade intercepts since NexGen's Arrow Deposit was first discovered.

**Exploration is expected to continue at Larocque East through this year in support of a maiden resource update, which we expect at the end of 2021, or early-2022.**

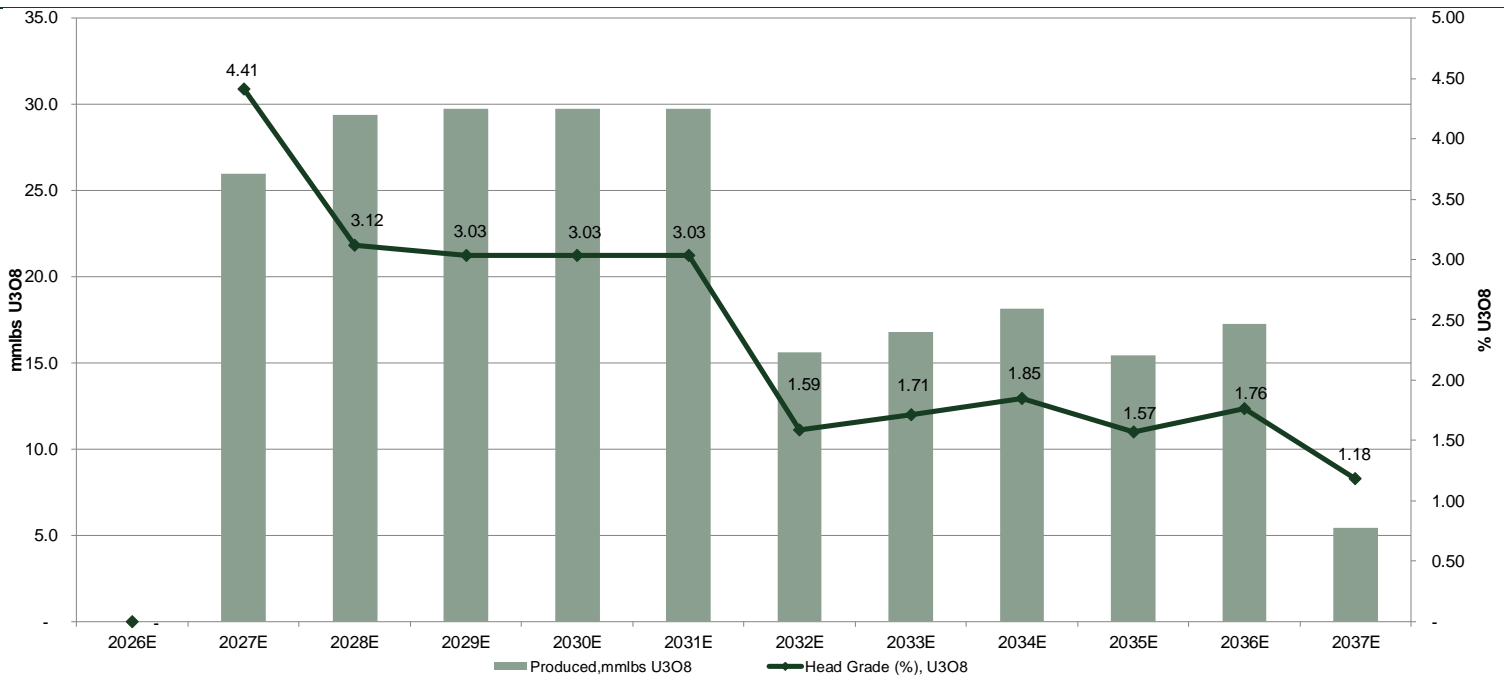
We believe that further positive drill results at IsoEnergy should continue to serve as a catalyst for NexGen shares, given NexGen's significant interest in the company.

**Exhibit 3. Athabasca Basin Deposit Depths**



Source: IsoEnergy

**Exhibit 4. Arrow Production Profile**



Source: Company, TD Securities Inc.

# Action Note

Equity Research

February 23, 2021

## Valuation

NexGen is trading at 0.86x our corporate 10%NAVPS estimate of \$5.88 (previously \$4.02) versus the base metal developers in our coverage universe, which are trading at 0.82x. NexGen is currently trading at an EV/lb of US\$6.19 based on its M&I resources. This compares with its peer average EV/lb of US\$5.34 and a median of US\$5.98.

Exhibit 5 outlines our sensitivity analysis for changes in uranium prices and Canadian dollar/U.S. dollar forex.

### Exhibit 5. Sensitivity Analysis

		8% NAVPS at LT Uranium Price, US\$/lb							10% NAVPS at LT Uranium Price, US\$/lb								
		\$30	\$35	\$40	\$45	\$50	\$55	\$60	\$30	\$35	\$40	\$45	\$50	\$55	\$60		
Forex CAD/USD	0.74	\$4.81	\$5.67	\$6.53	\$7.21	\$8.05	\$8.88	\$9.72	Forex CAD/USD	0.74	\$4.23	\$4.94	\$5.65	\$6.21	\$6.90	\$7.60	\$8.29
	0.77	\$4.61	\$5.43	\$6.26	\$7.09	\$7.72	\$8.53	\$9.33		0.77	\$4.06	\$4.75	\$5.43	\$6.12	\$6.64	\$7.30	\$7.96
	0.80	\$4.42	\$5.22	\$6.01	\$6.81	\$7.42	\$8.20	\$8.97		0.80	\$3.91	\$4.57	\$5.23	\$5.88	\$6.39	\$7.03	\$7.66
	0.83	\$4.25	\$5.02	\$5.78	\$6.55	\$7.31	\$7.89	\$8.63		0.83	\$3.76	\$4.40	\$5.04	\$5.67	\$6.31	\$6.77	\$7.39
	0.86	\$4.09	\$4.83	\$5.57	\$6.31	\$7.05	\$7.60	\$8.32		0.86	\$3.63	\$4.25	\$4.86	\$5.47	\$6.08	\$6.53	\$7.13
	0.89	\$3.94	\$4.65	\$5.37	\$6.08	\$6.80	\$7.34	\$8.03		0.89	\$3.51	\$4.10	\$4.69	\$5.29	\$5.88	\$6.31	\$6.89

Source: TD Securities Inc

## Justification of Target Price

Our \$7.00 target price (up from \$4.00 previously) is based on 1.2x (1.0x previously) our NAVPS-10% estimate (weighted 100%). We have also elected to increase the value we ascribe to NexGen's inferred mineral resources at Arrow (not included in our DCF) to US\$6.50/lb from US\$2.50/lb.

Our increased target multiple and inferred resource value per pound reflect the positive thematic trends related to uranium of-late that has raised valuation across the uranium sector, including the commodity's importance to net-zero emission future globally.

## 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.

# Action Note

Equity Research

February 23, 2021

## Exhibit 6. Company Snapshot

NexGen Energy Ltd.		2018A	2019A	2020E	2021E			
<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	29.52	34.50		
<b>Target Price:</b>	<b>C\$7.00</b>	Forex CAD to USD	0.77	0.75	0.74	0.79		
<b>Target Price Calculator</b>		<b>Total U3O8 Production (000' lbs)</b>						
Price 10% NAV Mining Assets	Multiple	Implied Target	Weight	Contribution	-	-	-	-
Corporate Adjustments	1.20	\$6.30	100%	\$6.30	-	-	-	-
Calculated Target Price	1.00	\$0.64		\$0.64				
<b>Rounded Target Price</b>				<b>\$6.93</b>				
				<b>\$7.00</b>				

Map of the southwestern portion of the Athabasca Basin		<b>Financial Data (C\$mm)</b>				
		Reported net earnings	2018A	2019A	2020E	2021E
		Adjusted net earnings	1	(17)	(58)	(26)
		EPS Reported (C\$/sh.)	(31)	(38)	(33)	(26)
		EPS (Adjusted) (C\$/sh.)	0.00	(0.05)	(0.16)	(0.07)
		<b>Cash Flow Statement (C\$mm)</b>				
		Operating CF bf. ch. in WC	2018A	2019A	2020E	2021E
		CF from operating activities	(8)	(11)	(10)	(10)
		CF from financing activities	(8)	(13)	(9)	(10)
		<b>Balance Sheet (C\$mm)</b>				
		Operating CF from investing activities	2	(1)	45	(9)
		CAPEX	(38)	(58)	(20)	(15)
		Operating CF from financing activities	(3)	-	-	-
		<b>NAV Analysis</b>				
		8% Discount	10% Discount			
		C\$mm	C\$/sh	C\$mm	C\$/sh	
		Operating CF from investing activities	2,093.0	4.45	1659.7	3.53
		<b>OTHER TANGIBLE ASSETS</b>				
		Arrow Deposit (DCF)	2,093.0	4.45	1659.7	3.53
		TOTAL PROJECT NAV	2,093.0	4.45	1659.7	3.53
		Regional Targets at Rook I	807.0	1.72	807.0	1.72
		<b>Corporate Adjustments</b>				
		TOTAL OTHER ASSETS	807.0	1.72	807.0	1.72
		Working Capital	72.9	0.16	72.9	0.16
		Long Term Debt	0.0	0.00	0.0	0.00
		<b>Total Net Asset Value</b>				
		Options & Warrants In the Money	83.6	0.18	83.6	0.18
		Equity Holdings in IsoEnergy (ISO-TSXV)	143.0	0.30	143.0	0.30
		<b>Total Net Asset Value</b>	<b>3,199.5</b>	<b>6.81</b>	<b>2,766.1</b>	<b>5.88</b>

Rook I Resource, Cut-off Grade 0.25% U3O8				
	Sub Zone	000 t	% U3O8	mmlb U3O8
<b>Measured &amp; Indicated</b>				
A2	Main	1620	0.79	28.1
A2	High Grade	497	15.90	174.2
A3	Main	1637	1.51	54.4
A3	High Grade	n/a	n/a	n/a
<b>Total Measure &amp; Indicated</b>		<b>3,754</b>	<b>3.10</b>	<b>256.7</b>
<b>Inferred</b>				
A1	Main	1557	0.69	23.7
A2	Main	863	0.61	11.5
A2	High Grade	3	10.95	0.6
A3	Main	1207	1.12	29.8
A3	High Grade	n/a	n/a	n/a
A4	Main	769	0.89	15.0
<b>Total Inferred</b>		<b>4,399</b>	<b>0.83</b>	<b>80.7</b>
<b>Total Indicated and Inferred Resources</b>		<b>8,153</b>	<b>1.88</b>	<b>337.4</b>
<b>Implied US\$ EV/lb (Measured &amp; Indicated and Inferred Resources)</b>				<b>\$4.71</b>

Source: Company, TD Securities Inc.



# Action Note

## Equity Research

February 23, 2021

### TD Securities Equity Research Disclosures

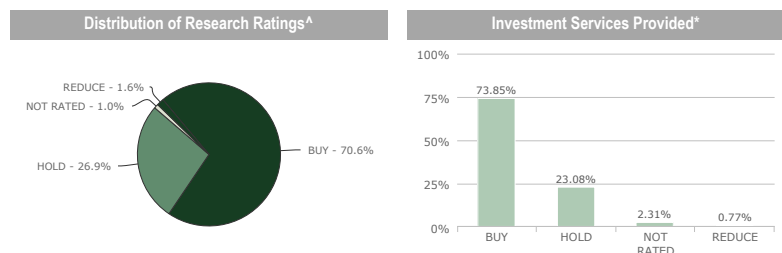
Company	Ticker	Disclosures
NexGen Energy Ltd.	NXE-T	9

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#### Price Graphs

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Current as of: February 23, 2021

<sup>^</sup> 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) and NOT RATED (covering UNDER REVIEW, SUSPENDED, and NOT RATED).

<sup>\*</sup> Percentage of subject companies within each of the four categories (BUY, HOLD, REDUCE, and NOT RATED) for which TD Securities Inc. has provided investment banking services within the last 12 months.

### Definition of Research Ratings

**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.

**BUY:** The stock's total return is expected to exceed a minimum of 10% (with higher thresholds for less liquid, more risky securities) over the next 12 months.

**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.

# Action Note

## Equity Research

February 23, 2021

**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.

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# Action Note

## Equity Research

February 23, 2021

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