



Action Note

Equity Research

September 15, 2021

Metals & Minerals

NexGen Energy Ltd.

(NXE-T) C\$7.16

Target Price Increased to Reflect Higher LT Uranium Prices

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Event

We have revised our estimates for NexGen following an upward revision to our uranium price forecasts, including a higher long-term uranium price of US\$55/lb.

Impact: POSITIVE

- **Spot uranium prices move sharply higher** — The driver behind the meteoric rise in the spot price over the past month was and continues to be spot-market purchasing by the Sprott Physical Uranium Trust (SPUT). We estimate that SPUT has purchased more than 6.0mmlbs of uranium in the spot market and that it has deployed ~US\$245mm of its original US\$300mm ATM since mid-August. Last week, SPUT announced that its ATM has been increased to a total of US\$1.3bln, with ~US\$1bln of available remaining capacity (~23mmlbs at current prices).
- **Producers maintain supply discipline** — Although uranium prices are now at levels that would support the restart of idled Tier 1 capacity, both Cameco and Kazatomprom have recently reiterated their intention to maintain supply discipline. Cameco has indicated that it would restart McArthur River only when production is committed to long-term contracts. In our view, the lack of an immediate supply response to higher prices suggests that SPUT may have a long runway in front of it (6-12 months) to continue purchasing material in the spot market before idle capacity re-enters the market.
- **We have increased our long-term incentive uranium price to US\$55/lb (from US\$45/lb).** The World Nuclear Association (WNA) recently published its biannual uranium market outlook. The report forecasts that uranium production volumes at existing mines are projected to remain fairly stable until the late-2020s, then decrease by >50% from 2030 to 2040. The WNA believes that intense development of new projects will be needed in the current decade to avoid potential supply disruptions.
- We currently model full construction start-up for NexGen's Arrow project in 2024 and initial production in 2027, ramping up to full production in 2028. In our view, the timing of the ramp-up should coincide nicely with the emergence of supply deficits.

Recommendation:	SPEC BUY
Risk:	SPECULATIVE
12-Month Target Price:	C\$10.00↑ <i>Prior: C\$7.00</i>
12-Month Dividend (Est.):	C\$0.00
12-Month Total Return:	39.7%

Market Data (C\$)

Current Price	C\$7.16
52-Week Range	\$2.12 - \$7.81
Mkt Cap (f.d.) (\$mm)	\$3,746.5
EV (\$mm)	\$3,166.2
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	3,456,490

Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d)(mm)	523.3
Float Shares (mm)	388.4
Net Debt (\$mm)	\$(172.4)
NAVPS	\$7.32
Working Cap (\$mm)	\$233.3

*Share O/S (f.d.) represents fully diluted in-the-money share count.
All figures in C\$, unless otherwise specified

TD Investment Conclusion

Our 10%NAVPS has increased to \$7.32 from \$5.78 on the back of our higher long-term uranium price deck. Our revised C\$10.00 target price is based on a 1.4x multiple to our mining 10%NAV.

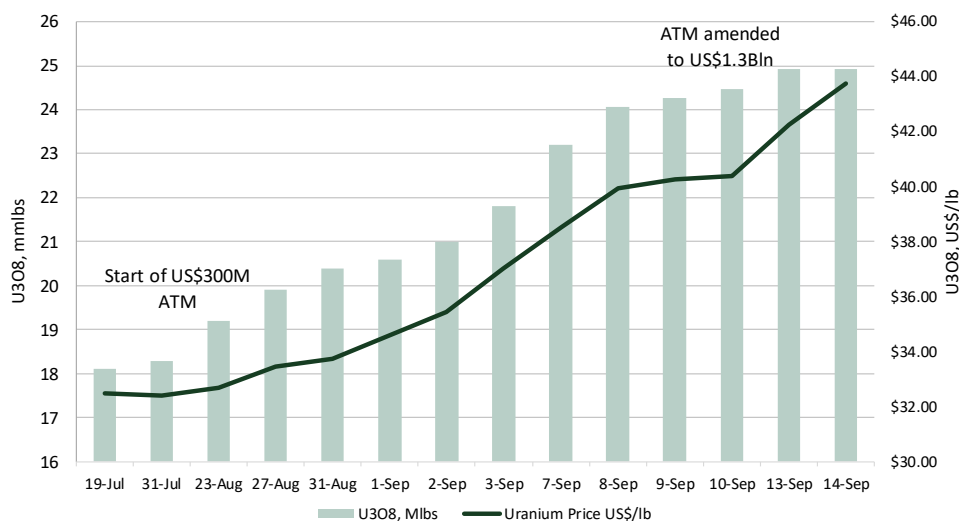


Company Profile

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.

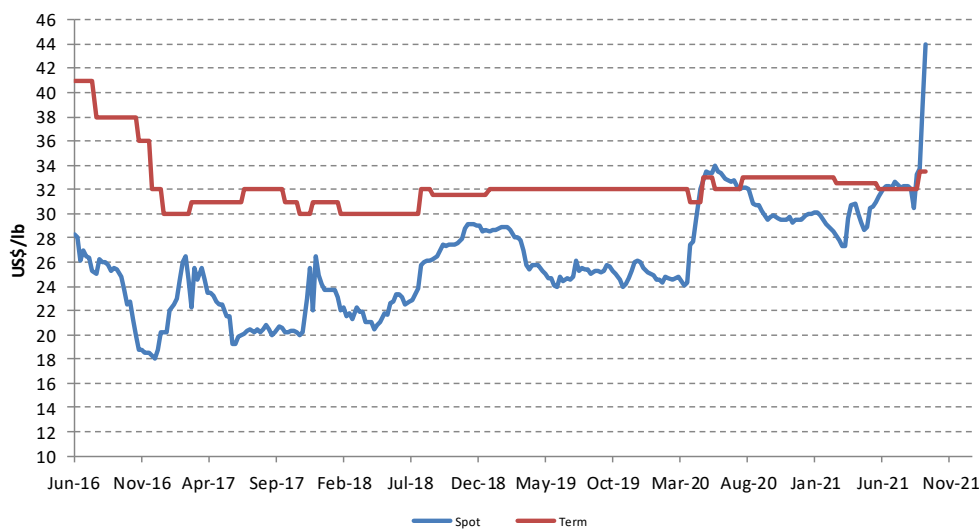
Outlook

Exhibit 1. Sprott Physical Uranium Trust



Source: Company, TD Securities

Exhibit 2. Spot and Term Uranium Prices (US\$/lb)



Source: UxC; TD Securities estimates

We have increased our LT incentive uranium price to US\$55/lb (from US\$45/lb). In addition, we have also increased our short- and medium-term price deck to reflect the impact of SPUT buying of uranium inventories. We are now forecasting an average uranium price of US\$36.49/lb in 2021, US\$50/lb in 2022 and US\$55/lb in 2023.

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Exhibit 3. TD Securities Uranium Supply/Demand Model

	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Mine Supply - Western World (Mlb U3O8)									
Total Mine Supply - Western World	100	83	85	81	75	80	85	88	86
Net Eastern Mine Supply (lbs U3O8)	54	54	55	44	52	53	60	66	72
Total World Mine Supply (Mlb U3O8)	154	138	140	125	127	132	145	154	158
YoY % change	-7.6%	-10.2%	1.7%	-10.9%	2.0%	4.0%	9.1%	6.8%	2.6%
Secondary Supply									
Global underfeeding and tails re-enrichment*	19	18	18	16	16	15	15	14	14
Mixed Oxide Fuel (MOX)*	5	5	6	6	6	6	6	7	8
US government sales (DOE Proposed)*	3	2	2	1	0	0	0	0	0
Additional Russian secondary supply*	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0
Total Secondary Supply (Mlb)	27	24	26	24	22	21	21	21	21
Secondary supply as % of global reactor demand	16%	14%	15%	13%	12%	12%	12%	11%	11%
Mobilization of Commercial Inventory	7	7	7	7	7	7	7	7	7
Total Supply	187	169	173	156	156	161	173	183	187
Total World Demand									
Total World Nuclear Generating Capacity (MWe) *	358,819	368,571	372,978	374,420	384,508	385,211	389,242	394,906	398,885
Uranium requirements per MWe	472	472	472	472	472	472	472	472	472
Uranium demand (mmlb)	169	174	176	177	181	182	184	186	188
First Core Requirement (2 year lead)	-	-	-	-	-	-	-	-	-
Total World Demand (Mlb U3O8)	169	174	176	177	181	182	184	186	188
YoY % change	1.7%	2.7%	1.2%	0.4%	2.7%	0.2%	1.0%	1.5%	1.0%
Supply / Demand Balance (Mlb)	18	-5	-3	-21	-25	-21	-11	-4	-2
Spot Uranium Price (US\$/lb U3O8)	\$22.12	\$24.82	\$25.94	\$29.52	\$36.49	\$50.00	\$55.00	\$55.00	\$55.00

* Source: World Nuclear Association - Nuclear Fuel Report 2019-2040 Reference Case

Source: UxC, Bloomberg, World Nuclear Association, TD Securities Inc

Outlook for Arrow - Following the completion of the feasibility study in February, the company is focused on the submission of Arrow's Environmental Impact Study targeted for completion in December 2021. This will initiate the Federal and Provincial regulatory body review process, during which the Canadian Nuclear Safety Commission and Ministry of Environment will conduct an Environmental Assessment (EA). The EA process involves both regulator and public review, and Commission Hearing prior to final approval.

Upon receipt of Environmental Approval, the project's construction has an expected timeline of 42-months, including commissioning and full ramp up. We currently model full construction start-up in 2024 and initial production in 2027 ramping up to full production in 2028. In our view, the timing of the ramp-up should coincide nicely with the emergence of supply deficits driven by sustained demand growth of 1-2% and a drop in supply as several projects reach the end of their mine lives.

NexGen maintains a strong balance sheet with a \$234mm cash position as of June 30, 2021, following the equity financing completed in Q1/21. The majority of the proceeds are expected to be allocated to pre-commitment early works at Arrow, with a scope that includes preparing the site, completing initial freeze hole drilling, and building the supporting infrastructure.

We have updated our estimates to reflect the company's Q2/21 financial results and have made no significant changes to our assumptions for Arrow.

Exhibit 4. Arrow Development Assumptions

Parameter		PEA	PFS	FS	TDS
		Jul-17	Nov-18	Feb-21	
Total Resource (Indicated and Inferred)	Kt	5,430	7,730	8,153	8,153
Grade U3O8	%	2.51	2.05	1.88	1.88
Contained U3O8	Mlb	301.6	348.3	337.4	337.4
Resource Assumed in DCF (100%)	Kt	7,310	3,433	4,575	4,575
Head Grade U3O8	%	1.73	3.09	2.37	2.37
Total Contained U3O8	Mlb	278.8	234.1	239.6	239.6
Avg. Daily Throughput	tpd	1,448	1,039	1,207	1,067
LOM U3O8 Recovery	%	96.0%	97.6%	97.6%	97.6%
LOM U3O8 Production	Mlb	267.2	228.4	233.8	233.3
Mine Life	Years	14	9	10.7	11
Average Life-of-mine production	Mlb	18.5	25.4	21.7	21.2
Start Up	Date	**	**	**	2027
Cost Per Tonne Underground Mining	\$/t	\$132	\$157	\$151	\$151
Cost Per Tonne Processed	\$/t	\$111	\$165	\$141	\$141
Cost Per Tonne Other (tailings/contingency)	\$/t			\$31	\$31
Cost Per Tonne G&A	\$/t	\$63	\$67	\$63	\$63
Total Site Cost/tonne ore milled	\$/t	\$306	\$389	\$387	\$387
Cost Per Pound Underground Mining	\$/lb	\$3.61	\$2.35	\$2.96	\$2.96
Cost Per Pound Processed	\$/lb	\$3.03	\$2.46	\$2.77	\$2.77
Cost Per Pound Other (tailings)	\$/lb			\$0.62	\$0.62
Cost Per Pound G&A	\$/lb	\$1.73	\$1.00	\$1.23	\$1.23
Total Site Costs /lb Produced	\$/lb	\$8.37	\$5.81	\$7.58	\$7.58
Off Site Transportation Costs	\$/lb		\$0.34		\$0.36
Saskatchewan Revenue and Profit Royalties	\$/lb	\$11.15			\$12.43
Total Costs (incl. Royalties and Offsite)	\$/lb				\$20.38
Total Costs US\$ (incl. Royalties and Offsite)	US\$/lb				\$16.30
* Pre-Production Capex	\$ mm	\$1,188	\$1,247	\$1,300	\$1,400
* LOM Sustaining Capex	\$ mm	\$468	\$262	\$362	\$385
LOM Total Capex	\$ mm	\$1,656	\$1,509	\$1,662	\$1,785
Long Term Forex Assumption	CAD/USD	0.80	0.75	0.75	0.80
Long Term Uranium Price Assumption	US\$/lb	\$50.00	\$50.00	\$50.00	\$55.00
**8% After Tax NAV	\$ mm	\$3,490	\$3,661	\$3,470	\$2,745
**10% After Tax NAV	\$ mm				\$2,195
**12% After Tax NAV	\$ mm				\$1,759
IRR	%	56.7%	56.8%	52.4%	45.3%
In-Situ Value per tonne	US\$/t				\$2,805

* 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

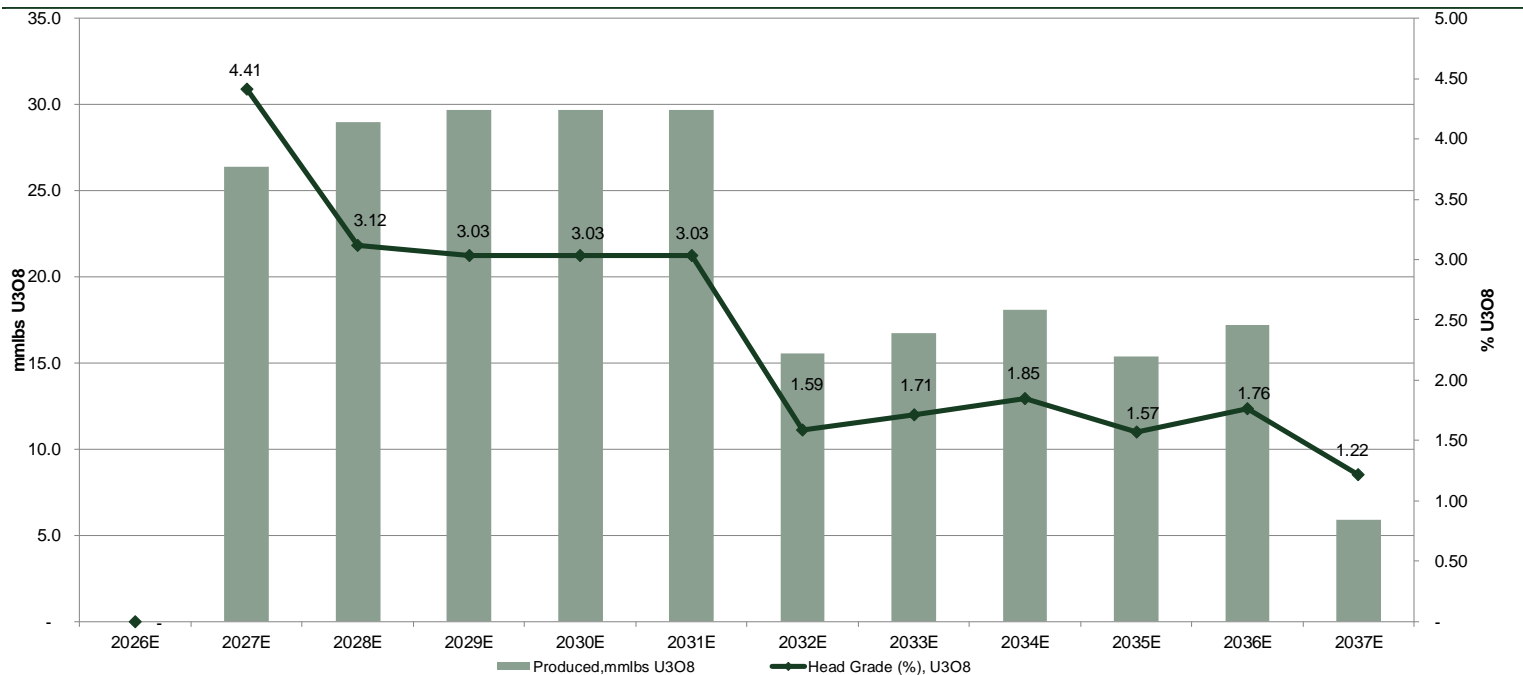
Source: Company, TD Securities

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Exhibit 5. Arrow Production Profile



Source: Company, TD Securities

Valuation

NexGen is trading at 0.98x our corporate 10%NAVPS estimate of \$7.32 (previously \$5.78) versus the base metal developers in our coverage universe of 0.86x. NexGen is currently trading at an EV/lb of US\$9.85/lb based on its M&I resources. This compares to its peer average currently trading at an EV/lb of US\$8.17 and a median of US\$8.70.

Exhibit 6. Uranium Comps

	Ticker	14-Sep-21 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	30.84	9,556.5	467.1	891.1	1,065.8	20.46	10.72	8.97
Denison Mines Corp.	DML	2.04	1,213.7	98.6	161.0	183.0	12.31	7.54	6.63
Fission Uranium Corp.	FCU	1.10	523.4	-	102.4	135.2	n/a	5.11	3.87
NexGen Energy Ltd.	NXE	7.16	2,529.2	234.1	256.7	337.4	10.80	9.85	7.50
Paladin Energy, Ltd.	PDN	0.88	1,868.3	76.8	275.6	356.2	24.34	6.78	5.25
UEX Corp.	UEX	0.59	242.7	-	109.4	35.3	n/a	2.22	6.87
Uranium Energy Corp.	UEC	4.10	718.5	-	58.4	103.9	n/a	12.29	6.92
Ur-Energy Corp.	URE	2.36	355.9	-	32.9	41.2	n/a	10.81	8.65
Median							16.38	8.70	6.89
Average							16.98	8.17	6.83

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

Source: Capital IQ, Company Reports, TDS

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Exhibit 7 outlines our sensitivity analysis for changes to uranium prices and CAD/USD forex.

Exhibit 7. Sensitivity Analysis

		8% NAVPS at LT Uranium Price, US\$/lb							10% NAVPS at LT Uranium Price, US\$/lb								
		\$40	\$45	\$50	\$55	\$60	\$65	\$70	\$40	\$45	\$50	\$55	\$60	\$65	\$70		
Forex CAD/USD	0.74	\$6.88	\$7.49	\$8.24	\$8.99	\$9.74	\$10.49	\$11.24	Forex CAD/USD	0.74	\$6.09	\$6.59	\$7.21	\$7.83	\$8.45	\$9.08	\$9.70
	0.77	\$6.64	\$7.38	\$7.95	\$8.67	\$9.39	\$10.11	\$10.83		0.77	\$5.89	\$6.51	\$6.97	\$7.57	\$8.16	\$8.76	\$9.36
	0.80	\$6.41	\$7.13	\$7.68	\$8.37	\$9.07	\$9.76	\$10.45		0.80	\$5.71	\$6.30	\$6.75	\$7.32	\$7.90	\$8.47	\$9.04
	0.83	\$6.21	\$6.90	\$7.43	\$8.10	\$8.77	\$9.43	\$10.10		0.83	\$5.54	\$6.11	\$6.54	\$7.09	\$7.65	\$8.20	\$8.75
	0.86	\$6.02	\$6.68	\$7.34	\$7.84	\$8.49	\$9.13	\$9.78		0.86	\$5.38	\$5.93	\$6.48	\$6.88	\$7.42	\$7.95	\$8.48
	0.89	\$5.84	\$6.48	\$7.12	\$7.60	\$8.23	\$8.85	\$9.47		0.89	\$5.23	\$5.76	\$6.29	\$6.68	\$7.20	\$7.72	\$8.23

Source: TD Securities Inc

Justification of Target Price

Our \$10.00 target is based on a 1.4x multiple to our mining 10%NAV (previously 1.2x) and 1.0x corporate adjustments. We also ascribe US\$8.00/lb (previously US\$7.00/lb) to NexGen's inferred mineral resources at Arrow (not included in our DCF). We have increased our NAV multiple to reflect higher valuations across the uranium sector.

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.

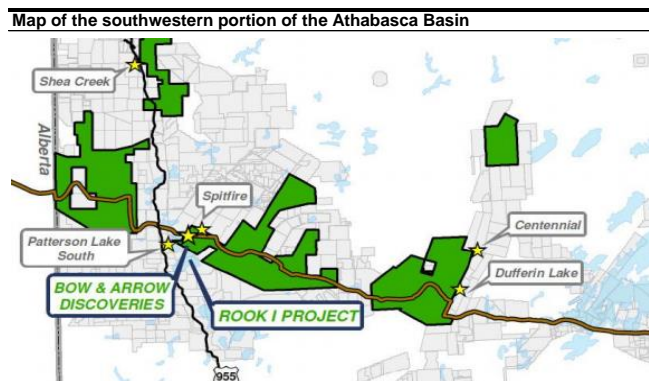
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Exhibit 8. Company Snapshot

NexGen Energy Ltd.					2019A	2020A	2021E	2022E	
Risk Profile:	SPEC				Realized Metal Prices & Forex				
Stock Rating:	Spec BUY				Uranium, U3O8 (US\$/lb)	25.94	29.52	36.49	50.00
Target Price:	C\$10.00				Forex CAD to USD	0.75	0.74	0.81	0.81
Target Price Calculator					Total U3O8 Production (000' lbs)				
Price 10% NAV Mining Assets	Multiple	Implied Target	Weight	Contribution	-	-	-	-	
Corporate Adjustments	1.40	\$8.52	100%	\$8.52					
Calculated Target Price	1.00	\$1.24		\$1.24					
Rounded Target Price				\$10.00					



Rook I Resource, Cut-off Grade 0.25% U3O8				
	Sub Zone	000 t	% U3O8	mmlb U3O8
Measured & Indicated				
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
Total Measured & Indicated		3,754	3.10	256.7
Inferred				
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
Total Inferred		4,399	0.83	80.7
Total Indicated and Inferred Resources		8,153	1.88	337.4

Implied US\$ EV/lb (Measured & Indicated and Inferred Resources) **\$7.50**

Financial Data (C\$m)	2019A	2020A	2021E	2022E
Reported net earnings	(17)	(114)	(101)	(26)
Adjusted net earnings	(38)	(38)	(36)	(26)
EPS Reported (C\$/sh.)	(0.05)	(0.30)	(0.24)	(0.05)
EPS (Adjusted) (C\$/sh.)	(0.11)	(0.10)	(0.08)	(0.05)

Cash Flow Statement (C\$m)	2019A	2020A	2021E	2022E
Operating CF bf. ch. in WC	(11)	(11)	(15)	(16)
CF from operating activities	(13)	(11)	(15)	(16)
CF from financing activities	(1)	51	181	(2)
CF from investing activities	(58)	(18)	(39)	(60)
CAPEX	-	-	-	-

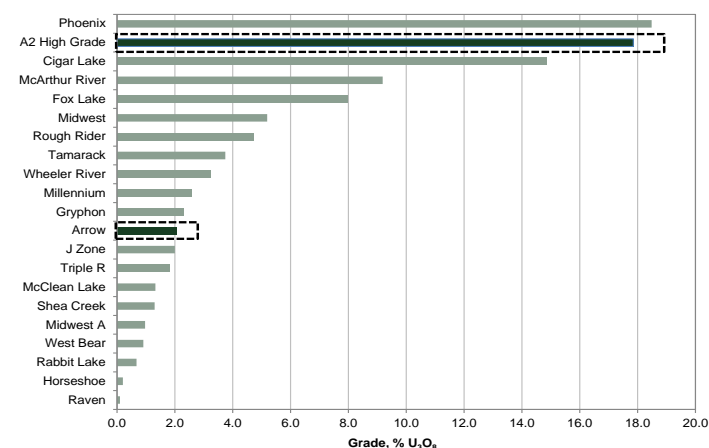
Balance Sheet (C\$m)	2019A	2020A	2021E	2022E
Cash	52	74	200	121
Current assets	53	75	205	126
Total assets	314	357	525	505
Current liabilities	5	7	6	6
Long term debt	120	227	62	62
Total liabilities	127	238	71	71
Non Controlling Interest	22	25	25	25
Shareholders' equity	165	94	429	408

NAV Analysis	8% Discount		10% Discount	
	C\$m	C\$/sh	C\$m	C\$/sh
Mining Assets				
Arrow Deposit (DCF)	2,744.8	5.25	2195.1	4.20
TOTAL PROJECT NAV	2,744.8	5.25	2195.1	4.20

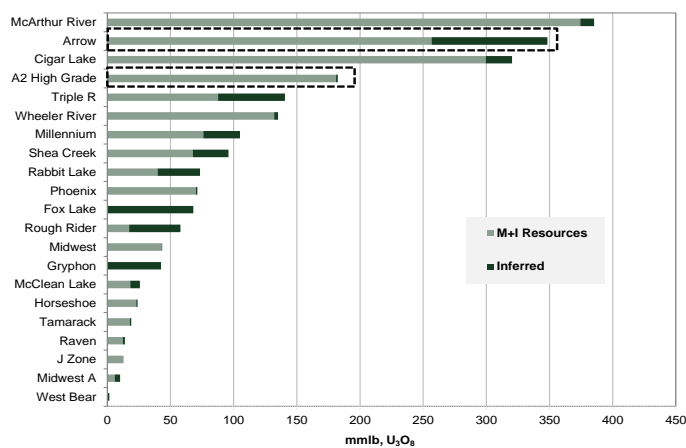
OTHER TANGIBLE ASSETS	8% Discount	10% Discount
	C\$/sh	C\$/sh
Regional Targets at Rook I	1.89	1.89
TOTAL OTHER ASSETS	1.89	1.89

Corporate Adjustments	8% Discount	10% Discount
	C\$/sh	C\$/sh
Working Capital	0.45	0.45
Long Term Debt	0.00	0.00
Options & Warrants In the Money	0.28	0.28
Estimated Working Capital Additions	0.00	0.00
Equity Holdings in IsoEnergy (ISO-TSXV)	0.51	0.51
Total Net Asset Value	8.37	7.32

Athabasca Basin - Relative Grade



Athabasca Basin - Relative Size



Source: Company, TD Securities Inc.



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TD Securities Equity Research Disclosures

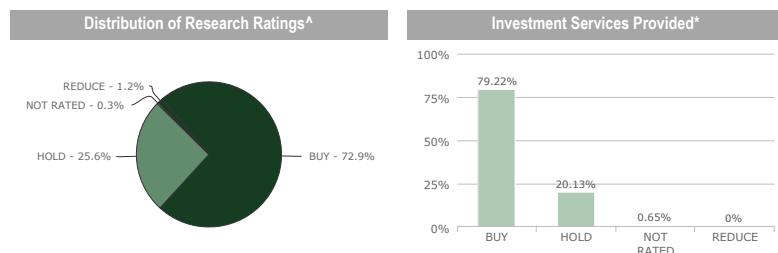
Company	Ticker	Disclosures
NexGen Energy Ltd.	NXE-T	1, 2, 4, 9

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Current as of: September 15, 2021

[^] 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).

^{*} 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.

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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.

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Action Note

Equity Research

September 15, 2021

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