

# Action Note

Equity Research

January 14, 2022

Metals &amp; Minerals

## NexGen Energy Ltd.

(NXE-T) C\$5.78

### Pivotal Year Ahead for Arrow and Uranium Market Fundamentals

Craig Hutchison, P. Eng

Nicholas Clarke, CFA (Associate)

#### Event

We have made some slight revisions to our estimates for NexGen to reflect recent corporate activities and have provided commentary on the uranium market.

#### Impact: NEUTRAL

- Uranium market overview** — There have been two key events to start the year, which could have a meaningful impact on the outlook for the uranium market. Firstly, on December 31, the European Commission announced that it is planning to classify nuclear power as a sustainable energy source under a green labelling system known as the "taxonomy for sustainable finance". If approved, this would help support investment in new nuclear plants in the EU for the next two decades. It could also provide support for investment in uranium mining companies, including developers such as NexGen, through ESG funds, which may have been previously hesitant or unable to own uranium equities.
- Unrest in Kazakhstan highlights the importance of stable jurisdictions like Canada** — More recently, the unrest in Kazakhstan, which produces 40-45% of the world's uranium (~60Mlbs/year) puts a spotlight on the concentrated supply risk in a challenging jurisdiction. Although there are no reports of production curtailments due to the unrest, supply-chain disruptions could occur, further tightening the market. In our view, the crisis should incentivize nuclear utilities to look to contract uranium from stable jurisdictions, including Canada, which should benefit NexGen over the next few years as it looks to commit Arrow's future production.
- Outlook for NexGen** — 2022 should be another pivotal year for NexGen as the company targets the submission of its draft Environmental Impact Assessment and licensing submissions in H1/22. We also expect the company to complete the Front-end Engineering and Design stage at Arrow in H2/22 and start making some capital investments at the site in early works activities, including a site camp and infrastructure. Regional exploration will likely continue to be a focus in 2022, targeting prospective zones along the Patterson Corridor.

#### TD Investment Conclusion

We have trimmed our target price to **\$9.50**, while maintaining our **SPECULATIVE BUY** rating. We believe that NexGen is positioned to benefit from an improving macro environment for uranium, along with several de-risking milestones at Arrow (permits, engineering, and pre-construction activities).

<b>Recommendation:</b>	<b>SPEC BUY</b>
<b>Risk:</b>	<b>SPECULATIVE</b>
<b>12-Month Target Price:</b>	<b>C\$9.50</b> ↓ Prior: C\$10.00
<b>12-Month Dividend (Est.):</b>	<b>C\$0.00</b>
<b>12-Month Total Return:</b>	<b>64.4%</b>

#### Market Data (C\$)

Current Price	C\$5.78
52-Week Range	\$3.25 - \$8.12
Mkt Cap (f.d.) (\$mm)	\$3,025.7
EV (\$mm)	\$2,617.2
Current Dividend	\$0.00
Dividend Yield	0.0%
Avg. Daily Trading Vol.	4,540,268

#### Financial Data (C\$)

Fiscal Y-E	December
Shares O/S (f.d.)(mm)	523.5
Float Shares (mm)	388.4
Net Debt (\$mm)	\$(136.0)
NAVPS	\$7.21
Working Cap (\$mm)	\$206.7

\*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.

## Outlook

**Reclassification of nuclear power as sustainable** — The inclusion of nuclear power in the EU’s green taxonomy was supported by a group of pro-nuclear countries led by France and is the first attempt by a large regulator to determine what should count as real sustainable energy investments.

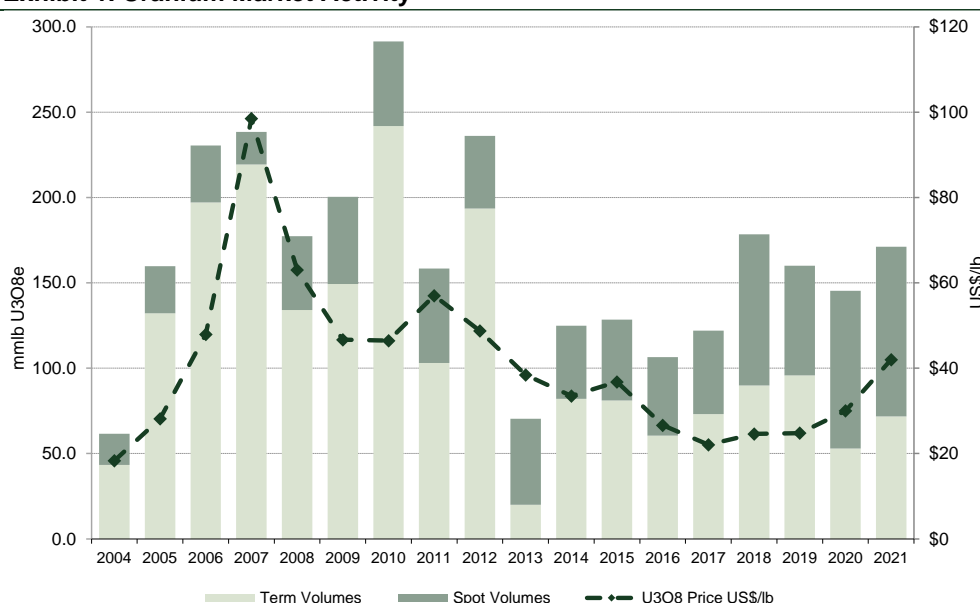
The EU’s green taxonomy is facing opposition from a number of anti-nuclear countries, including Germany and Austria. The draft text of the proposed green taxonomy will form part of a consultation that will run until January 12. After January 12, the European Parliament and Council will have up to six months to review the document. But anti-nuclear EU countries do not have veto power over the proposals and the taxonomy is likely to win majority support of the EU Council.

**Coming off a very strong year for uranium** — The Ux Consulting weekly spot price indicator ended 2021 at US\$42.00/lb, +40% over the course of the year. Total spot-market volume of ~99.4mmlbs was the highest annual volume on record. Between fund-buying, producer purchases, purchases by pre-development uranium companies, and the activities of the Sprott Physical Uranium Trust, we estimate that between 55–60mmlbs of uranium have been removed from the market this year, a large portion of which is permanently sequestered.

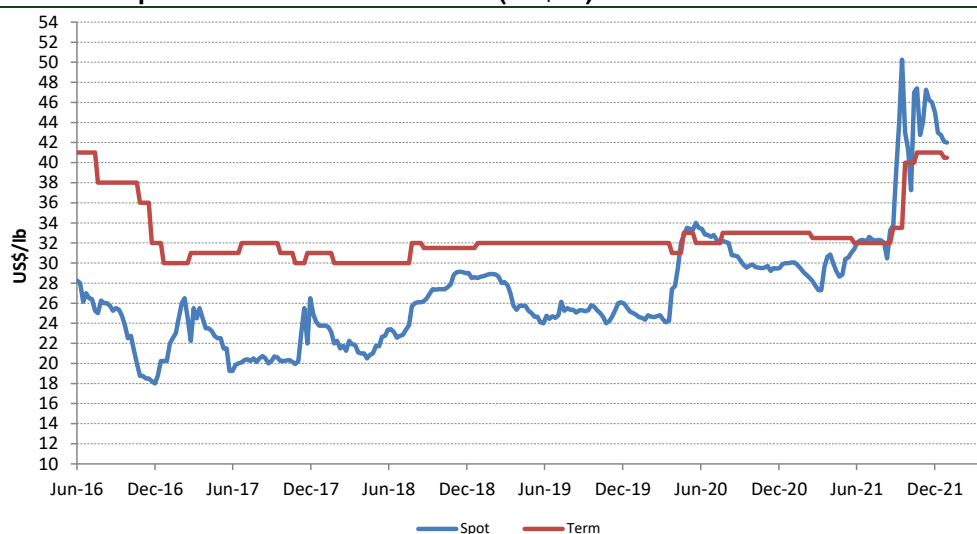
Although still early, we believe that a uranium contracting cycle appears to be underway, with fund-buying in the spot market pushing utilities into the term market. Increasing price volatility, tightening supply in the spot market, and an increasing realization that long-term supply is under threat are all contributing to nuclear utilities becoming more concerned about security of supply. Unrest in Kazakhstan could provide further impetus behind the nascent uranium contracting cycle.

**We continue to forecast an average uranium price of US\$50/lb in 2022, increasing to US\$55/lb in 2023. Our long-term (≥2024) incentive price of US\$55/lb is also unchanged.**

**Exhibit 1. Uranium Market Activity**



Source: Company, TD Securities Inc.

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

Source: UxC, TD Securities Inc.

**We expect the submission of Arrow's EIS sometime in Q1/22.** Concurrently, we expect the company to submit its licensing applications in H1/22.

**We have rolled forward our valuation one quarter to Q1/22 and updated our estimates to reflect our estimated 2021 year-end balance-sheet assumptions.**

NexGen maintains a strong balance sheet, with a \$228mm cash position as of September 30, 2021. We expect a portion of its cash to be allocated to pre-commitment early works at Arrow in 2022, with a scope that includes preparing the site, camp construction, and building the supporting infrastructure (road and airstrip).

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.

## Exhibit 3. Arrow Development Assumptions

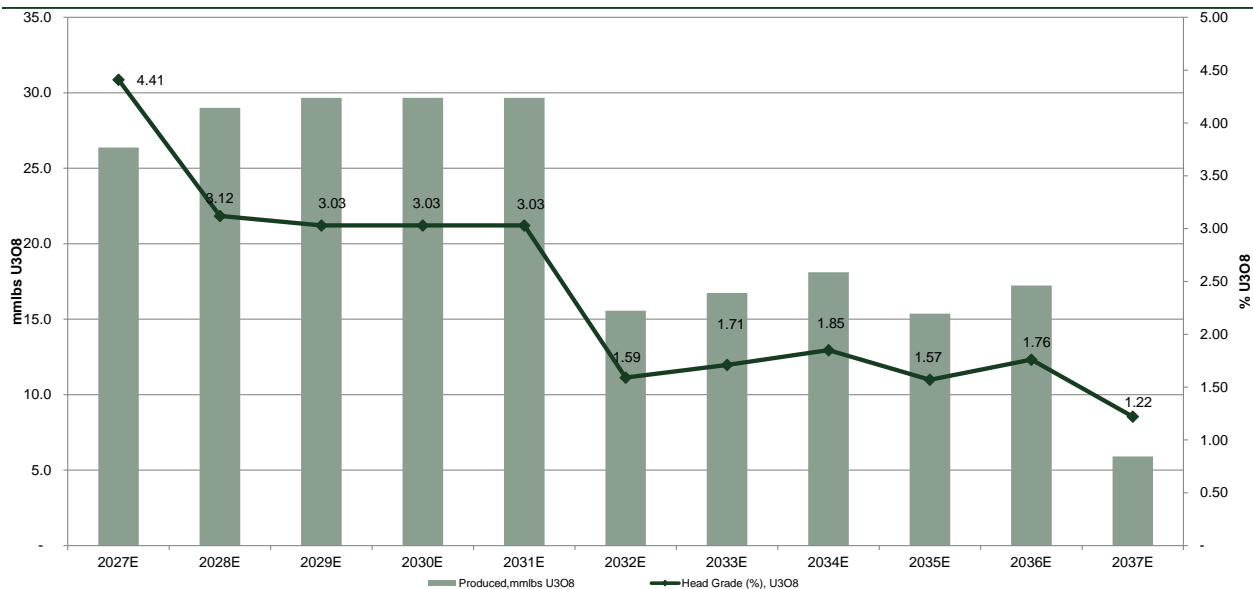
Parameter		PEA	PFS	FS	TDS	Variance
		Jul-17	Nov-18	Feb-21		TD Est. %
Total Resource (Indicated and Inferred)	Kt	5,430	7,730	8,153	<b>8,153</b>	5.5%
Grade U3O8	%	2.51	2.05	1.88	<b>1.88</b>	-8.3%
Contained U3O8	Mlb	301.6	348.3	337.4	<b>337.4</b>	-3.1%
Resource Assumed in DCF (100%)	Kt	7,310	3,433	4,575	<b>4,575</b>	33.4%
Head Grade U3O8	%	1.73	3.09	2.37	<b>2.37</b>	-23.4%
Total Contained U3O8	Mlb	278.8	234.1	239.6	<b>239.6</b>	2.3%
Avg. Daily Throughput	tpd	1,448	1,039	1,207	<b>1,067</b>	3.1%
LOM U3O8 Recovery	%	96.0%	97.6%	97.6%	<b>97.6%</b>	1.7%
LOM U3O8 Production	Mlb	267.2	228.4	233.8	<b>233.3</b>	3.9%
Mine Life	Years	14	9	10.7	<b>11</b>	10.0%
Average Life-of-mine production	Mlb	18.5	25.4	21.7	<b>21.2</b>	-5.5%
Start Up	Date	**	**	**	<b>2027</b>	+1 Year
Cost Per Tonne Underground Mining	\$/t	\$132	\$157	\$151	<b>\$151</b>	-12.7%
Cost Per Tonne Processed	\$/t	\$111	\$165	\$141	<b>\$141</b>	-21.9%
Cost Per Tonne Other (tailings/contingency)	\$/t			\$31	<b>\$31</b>	74.8%
Cost Per Tonne G&A	\$/t	\$63	\$67	\$63	<b>\$63</b>	-14.9%
Total Site Cost/tonne ore milled	\$/t	\$306	\$389	\$387	<b>\$387</b>	-13.3%
Cost Per Pound Underground Mining	\$/lb	\$3.61	\$2.35	\$2.96	<b>\$2.96</b>	12.1%
Cost Per Pound Processed	\$/lb	\$3.03	\$2.46	\$2.77	<b>\$2.77</b>	0.2%
Cost Per Pound Other (tailings)	\$/lb			\$0.62	<b>\$0.62</b>	124.3%
Cost Per Pound G&A	\$/lb	\$1.73	\$1.00	\$1.23	<b>\$1.23</b>	9.3%
Total Site Costs /lb Produced	\$/lb	\$8.37	\$5.81	\$7.58	<b>\$7.58</b>	11.3%
Off Site Transportation Costs	\$/lb		\$0.34		<b>\$0.36</b>	0.0%
Saskatchewan Revenue and Profit Royalties	\$/lb	\$11.15			<b>\$12.43</b>	38.0%
Total Costs (incl. Royalties and Offsite)	\$/lb				<b>\$20.38</b>	25.9%
Total Costs US\$ (incl. Royalties and Offsite)	US\$/lb				<b>\$16.30</b>	25.9%
* Pre-Production Capex	\$ mm	\$1,188	\$1,247	\$1,300	<b>\$1,400</b>	-3.4%
* LOM Sustaining Capex	\$ mm	\$468	\$262	\$362	<b>\$385</b>	10.0%
LOM Total Capex	\$ mm	\$1,656	\$1,509	\$1,662	<b>\$1,785</b>	-0.8%
Long Term Forex Assumption	CAD/USD	0.80	0.75	0.75	<b>0.80</b>	0.0%
Long Term Uranium Price Assumption	US\$/lb	\$50.00	\$50.00	\$50.00	<b>\$55.00</b>	22.2%
<b>**8% After Tax NAV</b>	\$ mm	\$3,490	\$3,661	\$3,470	<b>\$2,964</b>	46.6%
<b>**10% After Tax NAV</b>	\$ mm				<b>\$2,415</b>	51.8%
<b>**12% After Tax NAV</b>	\$ mm				<b>\$1,970</b>	58.0%
IRR	%	56.7%	56.8%	52.4%	<b>45.3%</b>	40.2%
In-Situ Value per tonne	US\$/t				<b>\$2,805</b>	-4.8%

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

\*\* TDS Estimate discounted from start of 2022. FS discounted from start of construction

Source: Company, TD Securities Inc.

## Exhibit 4. Arrow Production Profile



Source: Company, TD Securities Inc.

## Valuation

NexGen is trading at 0.80x our corporate 10%NAVPS estimate of \$7.21 (previously \$7.32) versus the base-metal developers in our coverage universe of 0.87x. NexGen is currently trading at an EV/lb of US\$6.21/lb based on its M&I+I resources. This compares with its peer average currently trading at an EV/lb of US\$5.55.

## Exhibit 5. 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	\$6.65	\$7.31	\$8.12	\$8.93	\$9.74	\$10.55	\$11.36		0.74	\$5.86	\$6.41	\$7.09	\$7.77	\$8.45	\$9.14	\$9.82
	0.77	\$6.39	\$7.19	\$7.80	\$8.58	\$9.36	\$10.14	\$10.92		0.77	\$5.64	\$6.31	\$6.82	\$7.48	\$8.14	\$8.79	\$9.45
	0.80	\$6.15	\$6.92	\$7.51	\$8.26	\$9.01	\$9.76	\$10.51		0.80	\$5.44	\$6.09	\$6.58	\$7.21	\$7.84	\$8.47	\$9.10
	0.83	\$5.92	\$6.67	\$7.24	\$7.96	\$8.68	\$9.41	\$10.13		0.83	\$5.25	\$5.87	\$6.35	\$6.96	\$7.57	\$8.18	\$8.78
	0.86	\$5.72	\$6.43	\$7.15	\$7.69	\$8.38	\$9.08	\$9.78		0.86	\$5.07	\$5.68	\$6.28	\$6.73	\$7.31	\$7.90	\$8.49
	0.89	\$5.52	\$6.21	\$6.91	\$7.43	\$8.10	\$8.77	\$9.45		0.89	\$4.91	\$5.49	\$6.08	\$6.51	\$7.07	\$7.64	\$8.21

Source: TD Securities Inc.

## Justification of Target Price

Our \$9.50 target price is based on a 1.4x multiple to our mining 10%NAV and 1.0x corporate adjustments. We also ascribe US\$6.50/lb (previously US\$8.00/lb) to NexGen's mineral resources at Arrow not already included in our DCF.

## 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.

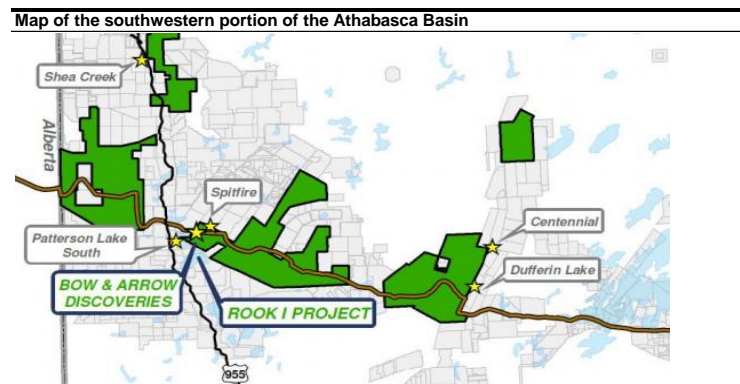
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### Exhibit 6. Company Snapshot

<b>NexGen Energy Ltd.</b>					<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	
<b>Risk Profile:</b>	SPEC				<b>Realized Metal Prices &amp; Forex</b>				
<b>Stock Rating:</b>	Spec BUY				Uranium, U3O8 (US\$/lb)	25.94	29.52	35.24	50.00
<b>Target Price:</b>	C\$9.50				Forex CAD to USD	0.75	0.74	0.80	0.80
<b>Target Price Calculator</b>					<b>Total U3O8 Production (000' lbs)</b>				
	Multiple	Implied Target	Weight	Contribution					
Price 10% NAV Mining Assets	1.40	\$8.62	100%	\$8.62	-	-	-	-	
Corporate Adjustments	1.00	\$1.05		\$1.05					
Calculated Target Price				\$9.67					
<b>Rounded Target Price</b>				<b>\$9.50</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 Measured &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>

Implied US\$ EV/lb (Measured & Indicated and Inferred Resources) **\$6.21**

Financial Data (C\$mm)	2019A	2020A	2021E	2022E
Reported net earnings	(17)	(114)	(115)	(31)
Adjusted net earnings	(38)	(38)	(38)	(31)
EPS Reported (C\$/sh.)	(0.05)	(0.30)	(0.27)	(0.06)
EPS (Adjusted) (C\$/sh.)	(0.11)	(0.10)	(0.08)	(0.06)

Cash Flow Statement (C\$mm)	2019A	2020A	2021E	2022E
Operating CF bf. ch. in WC	(11)	(11)	(14)	(16)
CF from operating activities	(13)	(11)	(13)	(16)
CF from financing activities	(1)	51	184	(3)
CF from investing activities	(58)	(18)	(36)	(45)
CAPEX	-	-	-	-

Balance Sheet (C\$mm)	2019A	2020A	2021E	2022E
Cash	52	74	210	146
Current assets	53	75	222	158
Total assets	314	357	547	526
Current liabilities	5	7	15	15
Long term debt	120	227	74	74
Total liabilities	127	238	94	94
Non Controlling Interest	22	25	27	27
Shareholders' equity	165	94	426	405

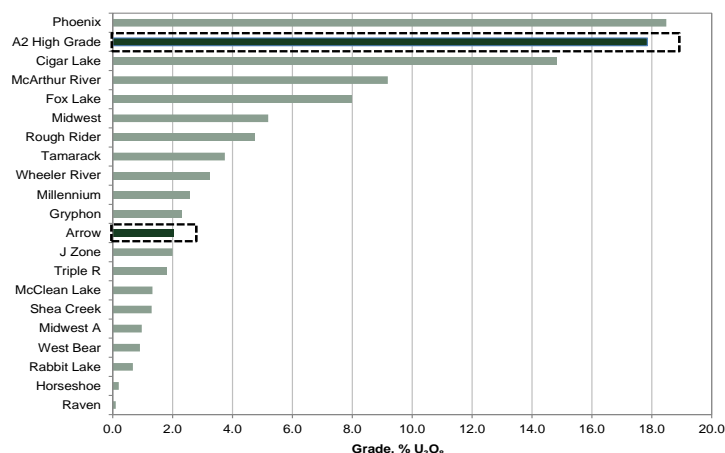
NAV Analysis	8% Discount		10% Discount	
	C\$mm	C\$/sh	C\$mm	C\$/sh

<b>Mining Assets</b>				
Arrow Deposit (DCF)	2,964.4	5.66	2414.6	4.61
<b>TOTAL PROJECT NAV</b>	<b>2,964.4</b>	<b>5.66</b>	<b>2414.6</b>	<b>4.61</b>

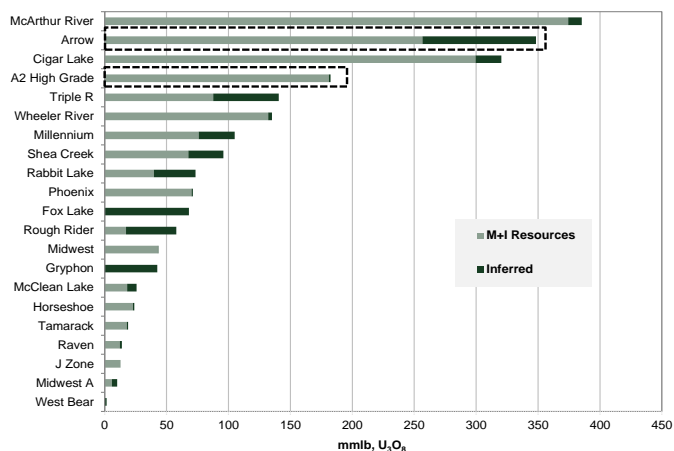
OTHER TANGIBLE ASSETS	Regional Targets at Rook I		TOTAL OTHER ASSETS	
	C\$mm	C\$/sh	C\$mm	C\$/sh
Regional Targets at Rook I	810.0	1.55	810.0	1.55
<b>TOTAL OTHER ASSETS</b>	<b>810.0</b>	<b>1.55</b>	<b>810.0</b>	<b>1.55</b>

Corporate Adjustments	Working Capital		Long Term Debt	
	C\$mm	C\$/sh	C\$mm	C\$/sh
Working Capital	206.7	0.39	206.7	0.39
Long Term Debt	0.0	0.00	0.0	0.00
Options & Warrants In the Money	146.8	0.28	146.8	0.28
Estimated Working Capital Additions	0.0	0.00	0.0	0.00
Equity Holdings in IsoEnergy (ISO-TSXV)	196.0	0.37	196.0	0.37
<b>Total Net Asset Value</b>	<b>4,323.8</b>	<b>8.26</b>	<b>3,774.0</b>	<b>7.21</b>

Athabasca Basin - Relative Grade



Athabasca Basin - Relative Size



Source: Company, TD Securities Inc.



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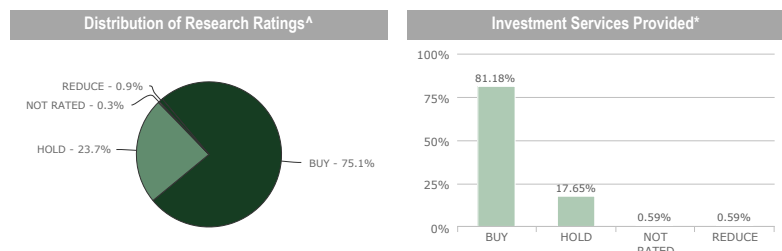
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NexGen Energy Ltd.	NXE-T	1, 2, 4, 9

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Current as of: January 14, 2022

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# Action Note

## Equity Research

January 14, 2022

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