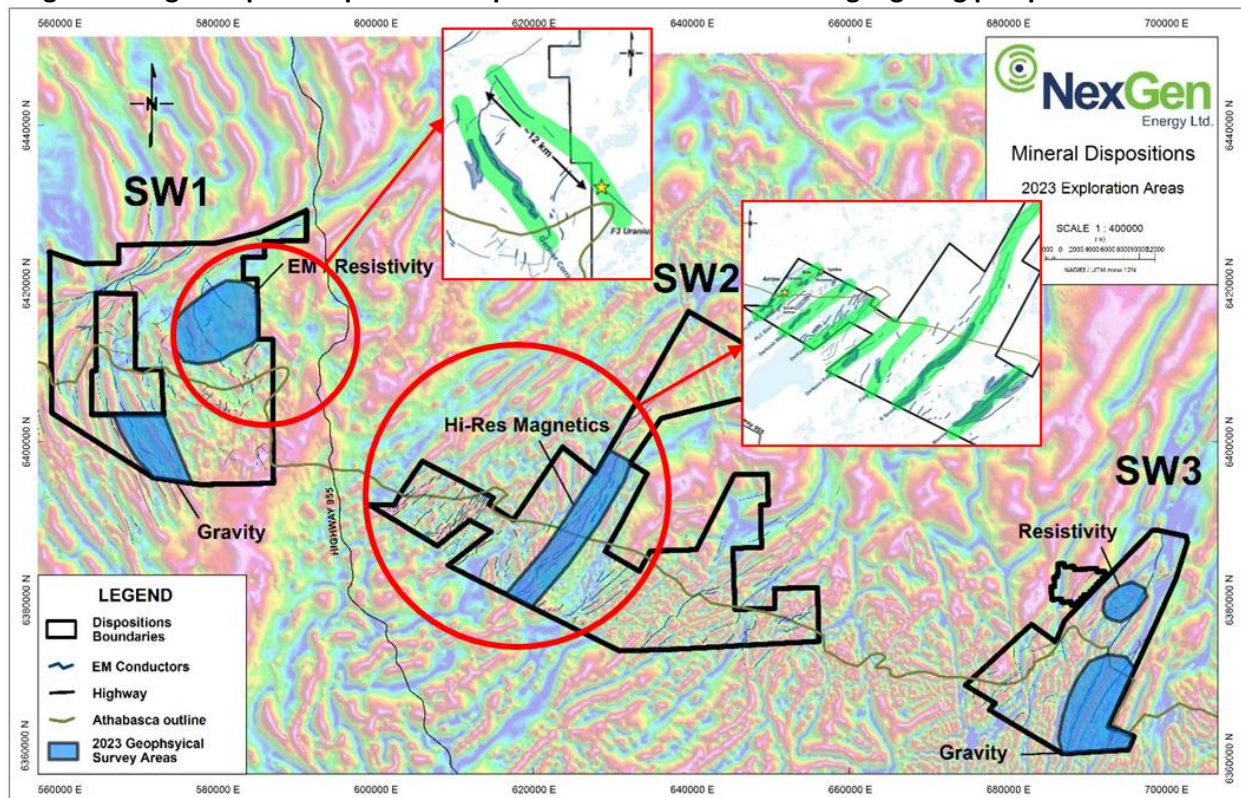


Ticker: NXE CN **Net cash:** C\$138m **Project:** Rook I (Arrow)
Market cap: C\$3,013m **Price:** C\$6.28/sh **Country:** Canada (Sask)

REC. (unc): BUY **TARGET (unc):** C\$11.50/sh **RISK RATING (unc):** HIGH

Big picture from today's 2023 exploration expansion is that there is more to this story than Rook I, and remember that NexGen and sister company Iso have made two major basin discoveries since the last uranium cycle. This adds to Rook I - a best-in-class asset capable of generating >C\$1bn in FCF/year, a tier one asset worthy of an acquisition by a major or the anchor for the development of a new diversified mining house. Thus, while Rook I continues to make good progress through permitting/licensing (we think CY23 EA completion is possible), today's news to advance regional exploration across key areas is a good move in our view. With a dominant land position in the SW and several key trends already worth following up on (incl. SW1 on trend to last year's neighboring ~7% discovery), we see the potential for future low-hanging, high-grade discoveries. Also, nice to see use of new geophysics techniques for potentially lower cost lb additions for efficient use of capital. As such, **we maintain our BUY recommendation and C\$11.50/sh PT based on 1.2xNAV_{8%-60/lb.}** For Western buyers, the best projects are in the Athabasca due to size and grade, and NexGen's Rook I is the largest and highest margin. With markets continuing to focus on domestic energy sources, and nuclear in the spotlight, conviction continues to build on this name, and that's before considering its current P/NAV of 0.65x.

Figure 1. Regional plan map of 2023 exploration areas with insets highlighting prospective corridors



Source: NexGen Energy Ltd. with SCP annotations

2023 exploration program to see 22,500m drilling across 9 conductive trends and new geophysics

NexGen expands their 2023 exploration program to drill 22,500m (up to three rigs) across nine conductive trends on SW1 and SW2 (Figure 1 insets). SW2 drilling will focus on seven prospective conductive trends parallel to Arrow including PLC (5 holes; 3,000m), PLC East (7 holes; 2,300m), Derkson West (4 holes; 1,500m), Derkson (2 holes, 750m), Derkson East (2 holes, 700m), R Seven (10 holes, 3,000m), and Morrow (10 holes, 3,000m). SW1 drilling will focus on two conductive trends first with Gartner Corridor (15 holes, 7,500m) with second trend quickly being brought to a drill ready state. Additionally, a geophysics program

(incl. ground EM, resistivity, gravity and cosmic ray muon tomography) is planned to focus on high priority SW1, SW2, and SW3 areas. Permitting/licencing for Rook I are ongoing while workflows transition to detailed engineering.

Why we like NexGen Energy

- Best undeveloped uranium asset – largest and lowest cost
- Most advanced permitting process of the Athabasca developers
- Still undervalued relative to world class development projects in other commodities
- Permitting catalysts including EIS submission in H2 and potential EA approval in SCPe next 12-18 months provide upside beyond leverage to the uranium price

Catalysts

- 2H22: FEED study completion
- 2022: EIS and Licensing submissions
- 2023-2024: EA approval

Research

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Ticker: NXE CN	Price / mkt cap: C\$6.28/sh, C\$3,013m	Market P/NAV: 0.66x	Assets: Arrow
Author: J Chan	Rec / PT: BUY / C\$11.50	1xNAV₂₀₂₀ FD: C\$9.50/sh	Country: Canada (Sask)

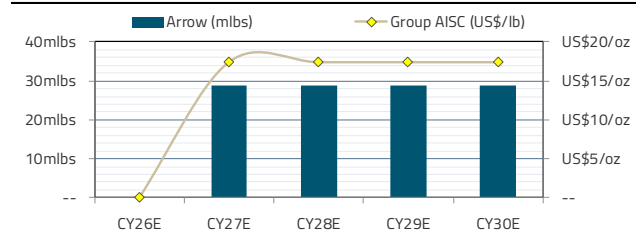
Group-level SOTP valuation	3Q22	1Q23E			
	C\$m	O/ship	NAVx	C\$/sh	
Arrow NPV 1Q23E	3,971	100%	1.0x	7.42	
Central SG&A & fin costs 1Q23E	(176)	--	1.0x	(0.33)	
Lbs outside mine plan (\$6.00/lb)	733	100%	1.0x	1.37	
IsoEnergy stake	245		1.0x	0.46	
Cash and restr. cash 3Q22	141	--	1.0x	0.26	
Debt 3Q22 excl convert	(3)	--	1.0x	(0.01)	
ITM options	177	--	1.0x	0.33	
1xNAV8% US\$60/lb	5,088			9.50	
Assumed build equity issuance	295			0.53	
1xNAV fully funded8% US\$60/lb	5,383			9.65	

P/NAV (x):	0.65x
Target multiples	Multiple
Target P/NAV Multiple	1.20x
Target price	11.50

Sources	Uses
PFS capex C\$1247m	SCPe 3Q20 cash + ITM options C\$248m
SCPe contingency C\$348m	Mine debt @ 60% gearing C\$952m
SCPe G&A + fin. cost to first Au C\$246m	Build Equity C\$295m
SCPe working capital -C\$5m	Offtake C\$340m
Total uses C\$1835m	Total proceeds C\$1835m

1xNAV sensitivity to gold price and discount / NAV multiple					
1xNAV Arrow (C\$m)	\$40/lb	\$50/lb	\$60/lb	\$70/lb	\$80/lb
10% discount	1,796	2,594	3,393	4,192	4,991
9% discount	1,964	2,816	3,669	4,522	5,375
8% discount	2,147	3,059	3,971	4,883	5,794
7% discount	2,348	3,324	4,300	5,277	6,253
6% discount	2,568	3,615	4,661	5,708	6,754
5% discount	2,810	3,933	5,057	6,180	7,303
Valuation (C\$/sh)	\$40/lb	\$50/lb	\$60/lb	\$70/lb	\$80/lb
1.00xNAV	6.00	7.75	9.75	11.50	13.25
1.10xNAV	6.50	8.50	10.50	12.75	14.75
1.20xNAV	7.25	9.50	11.50	13.75	16.00
1.30xNAV	7.75	10.25	12.50	15.00	17.25
1.40xNAV	8.50	11.00	13.50	16.00	18.75

Valuation over time	3Q21A	3Q22E	3Q23E	3Q24E	3Q25E
Mines NPV (C\$m)	3,335	3,623	3,935	4,271	4,813
Cntrl G&A & fin costs (C\$m)	(192)	(184)	(178)	(157)	(110)
Net cash at 1Q (C\$m)	199	312	617	390	(244)
Other Assets + Options	423	423	423	423	423
1xNAV (C\$m)	3,764	4,174	4,797	4,927	4,883
P/NAV (x):	0.9x	0.8x	0.7x	0.7x	0.7x
1xNAV share px FD (C\$/sh)	7.03	7.80	8.96	9.20	9.12
ROI to equity holder (% pa)	12%	11%	13%	10%	8%
Resource / Reserve	kt	% U308	Mlbs	EV/lb U308	
Measured, ind. & inf. - Arrow	8,152	1.88%	338.4	6.51	
Reserves (2P)	4,576	2.37%	239.5	9.20	
SCPe Mine inventory - Arrow	4,576	2.37%	239.5	9.20	
Production (100%)	CY26E	CY27E	CY28E	CY29E	CY30E
Arrow (000mlbs U308)	--	28.8	28.8	28.8	28.8
Arrow cash cost (US\$/lb)	--	4.65	4.65	4.65	4.65
Arrow AISC (US\$/lb)	--	17.36	17.36	17.36	17.36



Source: SCP estimates

Share data					
Basic shares (m): 479.7	FD + options (m): 535.5	FD + FF	557.7		
Commodity price	CY23E	CY24E	CY25E	CY26E	CY27E
Uranium price (US\$/lb)	60.0	60.0	60.0	60.0	60.0
Ratio analysis	CY23E	CY24E	CY25E	CY26E	CY27E
FD shares out (m)	535.5	535.5	535.5	544.2	554.5
EPS (C\$/sh)	(0.061)	(0.104)	(0.156)	(0.213)	1.532
CFPS before w/c (C\$/sh)	(0.03)	(0.02)	(0.02)	(0.03)	2.13
FCFPS pre growth (C\$/sh)	(0.06)	(0.10)	(0.16)	(0.21)	1.59
FCF/sh (C\$/sh)	(0.10)	(0.45)	(1.23)	(1.21)	1.59
FCF yield - pre growth (%)	(1%)	(2%)	(2%)	neg	25%
FCF yield (%)	(2%)	(7%)	(20%)	neg	25%
EBITDA margin (%)	--	--	--	--	72%
FCF margin (%)	--	--	--	--	41%
ROA (%)	(3%)	(4%)	(5%)	(6%)	33%
ROE (%)	(5%)	(9%)	(15%)	(22%)	61%
ROCE (%)	(2%)	(1%)	(1%)	(1%)	77%
EV (C\$m)	1,965	2,229	2,926	3,574	2,765
PER (x)	(98.3)	(58.2)	(39.6)	(29.6)	4.1x
P/CF (x)	nmf	nmf	nmf	nmf	2.4x
EV/EBITDA (x)	nmf	nmf	nmf	nmf	1.8x
Income statement	CY23E	CY24E	CY25E	CY26E	CY27E
Revenue (C\$m)	--	--	--	--	2,124
COGS (C\$m)	--	--	--	--	(564)
Gross profit (C\$m)	--	--	--	--	1,559
G&A & central	(20)	(20)	(20)	(20)	(20)
Depreciation	--	--	--	--	(223)
Impairment & other (C\$m)	--	--	--	--	--
Net finance costs (C\$m)	(12)	(36)	(64)	(96)	(106)
Tax (C\$m)	--	--	--	--	(361)
Minority interest (C\$m)	--	--	--	--	--
Net income attr. (C\$m)	(32)	(56)	(84)	(116)	849
EBITDA	(20)	(20)	(20)	(20)	1,539
Cash flow	CY23E	CY24E	CY25E	CY26E	CY27E
Profit/(loss) after tax (C\$m)	(32)	(56)	(84)	(116)	849
Add non-cash items (C\$m)	16	44	72	100	331
Less wkg cap / other (C\$m)	--	--	--	--	(160)
Cash flow ops (C\$m)	(17)	(11)	(11)	(15)	1,020
PP&E (C\$m)	--	(185)	(573)	(541)	(33)
Other (C\$m)	--	--	--	--	--
Cash flow inv. (C\$m)	(20)	(185)	(573)	(541)	(33)
Debt draw (repayment) (C\$m)	238	238	238	238	(119)
Equity issuance (C\$m)	18	14	23	95	20
Other (C\$m)	324	(44)	(72)	(100)	(145)
Cash flow fin. (C\$m)	580	208	189	233	(245)
Net change post forex (C\$m)	543	11	(396)	(324)	742
FCF (C\$m)	(52)	(241)	(657)	(657)	880
Balance sheet	CY23E	CY24E	CY25E	CY26E	CY27E
Cash (C\$m)	859	870	474	150	892
Accounts receivable (C\$m)	1	1	1	1	81
Inventories (C\$m)	1	1	1	1	141
PPE & exploration (C\$m)	373	559	1,132	1,673	1,483
Other (C\$m)	9	9	9	9	9
Total assets (C\$m)	1,243	1,440	1,617	1,835	2,607
Debt (C\$m)	241	479	717	956	836
Other liabilities (C\$m)	369	369	350	350	372
Shareholders equity (C\$m)	866	880	922	1,017	1,036
Retained earnings (C\$m)	(260)	(316)	(400)	(515)	334
Minority int. & other (C\$m)	28	28	28	28	28
Liabilities+equity (C\$m)	1,243	1,440	1,617	1,835	2,607
Net Cash	617	390	(244)	(806)	56
Net Debt to NTM EBITDA (x)	nmf	nmf	nmf	0.5x	(0.0)

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Summary of Recommendations as of February 2023	
BUY:	53
HOLD:	1
SELL:	0
UNDER REVIEW:	1
TENDER:	0
NOT RATED:	0
TOTAL	55

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