

Nevsun Resources Ltd. (NSU-T, C\$3.43)

Rating BUY
Target Price C\$4.00
Return 17%
Overall Risk Rating High

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Improvements at Bisha Drive Q1/18 Results

Company Profile

Website – www.nevsun.com

CEO – Peter Kukielski

Nevsun Resources Ltd. is an intermediate base metals producer domiciled on the Toronto Stock Exchange (TSX). The Company operates the 60% owned Bisha mine in Eritrea, and is advancing its Timok project in Serbia, where it owns 100% of the Upper orebody, with an indicated resource of 1.7 Mt grading 13.5% copper and 10.4 g/t gold, and an inferred resource of 35 Mt grading 2.9% copper and 1.7g/t gold. Nevsun will also own 46% of the much larger and lower grade Lower Timok orebody.

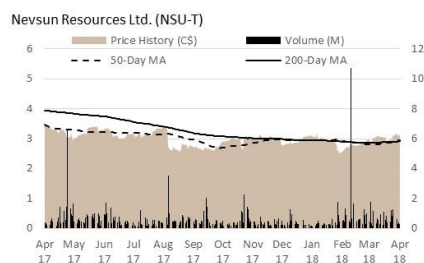
Company Data

52-Week High/Low	C\$3.57/C\$2.49
YTD Performance	12%
Dividend Yield	-
Shares O/S	302.3M (basic)/ 309.9M (F/D)
Market Capitalization	\$805M
Cash	\$150M
Debt	\$0M
Working Capital	\$188M
Enterprise Value	\$811M
Daily Volume	813,100
YE 2018 (est.) Cash Balance	\$158M
Currency	US\$ unless noted

Haywood Estimates

		2018E	2019E
Revenue	US\$M	393	373
EBITDA	US\$M	129	172
EPS	US\$	0.01	0.07
CFPS	US\$	0.43	0.50
FCFPS	US\$	0.24	0.18

Price Performance



Source: Capital IQ and Haywood Securities

Event | Nevsun reported Q1/18 financial results.

Impact – Positive | Q1/18 financial results showed strong QoQ improvement as a result of progress at Bisha.

- **Financial results improved.** Nevsun reported a Q1/18 EPS loss of (\$0.01) and CFPS of \$0.11, in line with our estimates of \$0.01 for EPS and \$0.11 for CFPS, and with consensus estimates of \$0.02 and \$0.11. In Q4/17, Nevsun reported an EPS loss of (\$0.01) and a CFPS loss of (\$0.02). Revenues were up QoQ (+32%) on increased zinc concentrate sales (+20%) and copper concentrate sales (+117%) resulting in healthy operating income (\$23M), EBITDA (\$32M), and cash flow (\$33M). In Q4/17, those measures were insignificant, or in the case of cash flow, negative.
- **Balance sheet bolstered.** Cash increased to \$150M from \$125M in Q4/17, primarily the result of operating cash flow of \$36.2M, which was offset by \$8.5M net cash invested. Debt remained nil.
- **Higher zinc and copper production.** Zinc production increased 30% QoQ to 71.6M lbs, and benefited from a 17% improvement in recovery to 81%. Copper production increased 117% QoQ to 8.9M lbs, and benefited from a 98% improvement in recovery to 62%. Q1/18 C1 cash cost with copper on a co-product basis was \$0.79/lb Zn sold (vs. \$1.23/lb Zn in Q4/17).
- **New Bisha mining plan paying off.** In Q1/18, ore production and waste movement in the mine performed well, reflecting the deployment of new heavy mining equipment (HME), and the implementation of a plan for in-pit waste dumping with favorable impacts on hauling distance. As a result, the strip ratio decreased to 7.1 from 13.8 in Q4/17. The availability of run-of-mine ore, and the impact of using the depressant Sodium Meta BiSulfate in the copper flotation circuit has improved copper vs. zinc selectivity, and recoveries.

Adjusting our estimates | We have adjusted our 2018 EPS to \$0.01/sh from \$0.03/sh, our CFPS remains at \$0.43/sh, to reflect our model update after Q1/18 results.

Catalysts | 1) Timok decline construction start in Q2/18; 2) Initial resource for Timok Lower Zone in Q3/18; 3) Feasibility study for Timok in H1/19; 4) Ongoing exploration drilling results at Timok, including Timok East.

Valuation and Recommendation | We maintain our BUY rating and C\$4.00 target price on the strength of the Timok project. However, the improvement at Bisha will help with cash flow, and there is growing potential to extend the mine life beyond the current 4-year mine plan. In addition, our confidence in management's execution has also been re-affirmed. Our target price is based on a sum of parts valuation to give credit to Bisha as well as Timok, and is calculated on the basis of 50% of our 2018 EV/CF of C\$1.59/sh, and 50% of our C\$6.41/sh for corporate NAV. The stock trades at P/NAV of 0.53x, compared to peers at 0.68x.

Please see page 7 for Analyst Certification, and pages 7 to 9 for Important Information, Legal Disclaimers, Rating Structure, and notes.



First Quarter Financial and Operating Results

Figure 1: Nevsun Resources Financial Results for Q1/18 and previous quarters

	Q1/18A	Q1/18E	Var	Q-Q	Q4/17A	Q3/17A	Q2/17A	Q1/17A
Realized Commodity Prices								
Copper Price, US\$/lb	\$3.16	\$3.16	-	(3%)	\$3.26	\$2.99	\$2.65	\$2.65
Zinc Price, US\$/lb	\$1.51	\$1.55	(2%)	(2%)	\$1.54	\$1.44	\$1.16	\$1.28
Shares O/S, millions	302	302	0%	0%	302	302	302	302
Revenue, US\$M	\$107	\$95	13%	32%	\$81	\$71	\$66	\$72
Operating Income, US\$M	\$23	\$24	(2%)	56%	\$15	\$12	(\$65)	\$12
EBITDA, US\$M	\$32	\$32	3%	4098%	\$1	\$20	\$12	\$20
Adjusted Earnings, US\$M	(\$5)	\$2	-	-	(\$4)	(\$1)	(\$45)	(\$0)
Adjusted EPS, US\$	(\$0.01)	\$0.01	-	-	(\$0.01)	(\$0.00)	(\$0.15)	(\$0.00)
Operating Cash Flow, US\$M	\$33	\$32	4%	-	(\$7)	\$20	\$13	\$20
CFPS, US\$	\$0.11	\$0.11	4%	-	(\$0.02)	\$0.07	\$0.04	\$0.07
Free Cash Flow, US\$M	\$27	\$14	90%	72%	\$16	\$2	(\$7)	\$5
FCFPS, US\$	\$0.09	\$0.05	90%	72%	\$0.05	\$0.01	(\$0.02)	\$0.02
CAPEX, US\$M	\$6	\$18	(66%)	-	(\$23)	\$19	\$20	\$15
Current Cash, US\$M	\$150	\$124	21%	20%	\$125	\$151	\$171	\$167
Working Capital, US\$M	\$188	\$162	16%	16%	\$162	\$179	\$172	\$190
Total Debt, US\$M	\$ -	\$ -	-	-	\$ -	\$ -	\$ -	\$ -

Source: Company Reports, Haywood Securities (prior quarters not restated)

Figure 2: Nevsun Resources Production Results for Q1/18 and previous quarters

	Q1/18A	Q1/18E	Var	Q-Q	Q4/17A	Q3/17A	Q2/17A	Q1/17A
Ore Milled, tonnes millions	563	637	(12%)	8%	520	524	590	599
Ore Milled, tonnes per operating day	1,564	1,768	(12%)	8%	1,444	1,456	1,639	1,664
Strip Ratio	7.1	7.4	(4%)	(49%)	13.8	10.8	5.7	4.8
Zinc Grade Milled, %	7.1%	4.8%	49%	3%	6.9%	6.8%	5.3%	5.9%
Copper Grade Milled, %	1.2%	0.9%	30%	-	1.2%	1.0%	0.8%	0.9%
Zinc Recovery, %	81%	80%	1%	17%	69%	74%	62%	67%
Copper Recovery, %	62%	49%	26%	98%	31%	33%	52%	34%
Payable Zinc Production, Mlb	71.6	50.6	41%	30%	55.1	57.8	43.0	51.9
Payable Copper Production, Mlb	8.9	5.6	58%	117%	4.1	4.0	5.7	4.2
Payable Zinc in Concentrate Sold, Mlb	53.4	50.6	5%	20%	44.6	43.4	34.3	52.9
Payable Copper in Concentrate Sold, Mlb	7.8	5.6	38%	117%	3.6	3.1	7.7	-
Total Zinc Cash Cost (Cu co-product), US\$/lb sold	\$0.79	\$0.86	(8%)	(36%)	\$1.23	\$0.84	\$0.92	\$0.89
Total Zinc Cash Cost (Cu by-product), US\$/lb sold	\$0.58	\$0.69	(15%)	(49%)	\$1.13	\$0.75	\$0.68	\$0.89
Total Copper Cash Cost (net of credits), US\$/lb sold	\$1.56	\$1.59	(2%)	(22%)	\$2.01	\$1.70	\$1.59	-

Source: Company Reports, Haywood Securities (prior quarters not restated)



Financial Results

- **Positive financial results.** Nevsun reported a Q4/17 EPS loss of (\$0.01) and CFPS of \$0.11, compared to our estimates of \$0.01 for EPS and \$0.11 for CFPS, and to consensus \$0.02 and \$0.11. In Q4/17, reported a EPS loss of (\$0.01) and a CFPS loss of (\$0.02). Revenues were up QoQ (+32%) on increased zinc concentrate sales (+20%) and copper concentrate sales (+117%).
- **Balance sheet remains strong.** Cash increased to \$150M from \$125M in Q4/17, primarily the result of operating cash flow of \$36.2M, which was offset by \$8.5M net cash invested. Debt remained nil.

Operating Results

- **Zinc Production ahead of expectations with lower costs.** Zinc production was 71.6 Mlbs in Q1/18, which was up 30% QoQ and above our estimate of 50.6 Mlbs. Head grades were flat QoQ at 7.1% Zn (up from 6.9% Zn in Q4/17), and zinc recoveries increased (up from 69% to 81% Zn recovery). Q1/18 C1 cash cost with copper on a co-product basis was \$0.79/lb Zn sold (vs. Q4/17 at \$1.23/lb Zn and our \$0.86/lb Zn); and C1 cash cost with copper on a by-product basis was \$0.58/lb Zn sold (vs. Q4/17 at \$1.13/lb Zn and our \$0.69/lb Zn).
- **Copper production increased on improved recoveries.** Copper production also showed improvement at 8.9 Mlbs in Q1/18, which was up 117% QoQ and above our estimate of 5.6 Mlbs. Head grades were flat QoQ at 1.2% Cu but copper recoveries increased significantly (up from 31% to 62% Cu recovery). The Company reported copper in concentrate sales of 7.8 Mlbs Cu (up 117% QoQ from 3.6 Mlbs Cu in Q4/17). Total copper cash cost (net of credits) were \$1.56/lb Cu sold (vs. Q4/17 at \$2.01/lb Cu and our \$1.59/lb Cu).
- **New Bisha mining plan delivered...** During Q1 2018, ore production and waste movement in the mine performed well, reflecting the deployment of new heavy mining equipment (HME), and the implementation of a plan for in-pit waste dumping with favorable impacts on hauling distance. Exceptions to the mine plan in 2017, which were required to alleviate processing difficulties associated with certain ore types, have now been largely corrected. This resulted in a decrease in the stripping ratio from 13.8 during Q4 2017 to 7.1 during Q1 2018, and has ensured that the mine was fed solely with primary ore feed through the entire quarter.
- **...And helped recoveries.** The continued improvement in mining capability and the resulting increase in availability of run of mine ("ROM") ore meant that no zinc-only stockpiles were processed in the quarter, which benefitted copper recoveries. Additionally, considerable progress was made in addressing metallurgical issues related to the recovery of copper from primary ore. A 31-day plant trial was completed to assess the impact of the depressant Sodium Meta BiSulfate ("SMBS") on copper vs. zinc selectivity in the copper flotation circuit. The results of the trial indicated that the use of SMBS could significantly improve copper recovery and copper concentrate grade for primary ore. The upgrades on the plant, once completed in Q2/18, will allow for a more consistent application of the revised reagent scheme which is expected to improve both copper recovery and copper concentrate grades.



Figure 3: Haywood 2018 Financial Estimate Revisions for Nevsun Resources

	New	Old			
	2018E	2018E	Var	Q-Q	2017A
Realized Commodity Prices					
Copper Price, US\$/lb	\$3.10	\$3.10	-	8%	\$2.88
Zinc Price, US\$/lb	\$1.49	\$1.50	(1%)	10%	\$1.36
Shares O/S, millions	302	302	-	-	302
Revenue, US\$M	\$393	\$381	3%	36%	\$289
Operating Income, US\$M	\$96	\$97	(1%)	(474%)	(\$26)
EBITDA, US\$M	\$129	\$128	1%	934%	\$13
Adjusted Earnings, US\$M	\$2	\$9	(75%)	(103%)	(\$85)
Adjusted EPS, US\$	\$0.01	\$0.03	(75%)	(103%)	(\$0.28)
Operating Cash Flow, US\$M	\$131	\$130	1%	614%	\$18
CFPS, US\$	\$0.43	\$0.43	1%	613%	\$0.06
Free Cash Flow, US\$M	\$72	\$59	22%	(668%)	(\$13)
FCFPS, US\$	\$0.24	\$0.20	22%	(667%)	(\$0.04)
CAPEX, US\$M	\$59	\$70	(16%)	88%	\$31
Current Cash, US\$M	\$158	\$132	20%	27%	\$125
Working Capital, US\$M	\$196	\$170	15%	21%	\$162
Total Debt, US\$M	\$ -	\$ -	-	-	\$ -

Source: Company Reports, Haywood Securities (prior quarters not restated)

Figure 4: Haywood 2018 Production Estimate Revisions for Nevsun Resources

	New	Old			
	2018E	2018E	Var	Y-Y	2017A
Ore Milled, tonnes millions	2,473	2,546	(3%)	11%	2,233
Ore Milled, tonnes per operating day	6,869	7,074	(3%)	11%	6,203
Strip Ratio	7.3	7.4	(1%)	(6%)	7.8
Zinc Grade Milled, %	5.5%	5.0%	11%	(11%)	6.2%
Copper Grade Milled, %	1.0%	0.9%	7%	2%	1.0%
Zinc Recovery, %	80%	80%	0%	18%	68%
Copper Recovery, %	52%	49%	7%	42%	37%
Payable Zinc Production, Mlb	232.7	211.7	10%	12%	207.8
Payable Copper Production, Mlb	25.8	22.5	15%	43%	18.0
Payable Zinc in Concentrate Sold, Mlb	214.5	211.7	1%	22%	175.2
Payable Copper in Concentrate Sold, Mlb	24.7	22.5	10%	72%	14.4
Total Zinc Cash Cost (Cu co-product), US\$/lb sold	\$0.81	\$0.83	(2%)	(16%)	\$0.97
Total Zinc Cash Cost (Cu by-product), US\$/lb sold	\$0.64	\$0.66	(4%)	(27%)	\$0.88
Total Copper Cash Cost (net of credits), US\$/lb sold	\$1.53	\$1.53	(0%)	(11%)	\$1.72

Source: Company Reports, Haywood Securities (prior quarters not restated)



Nevsun Resources Ltd. (NSU-T)

Rating: BUY Risk: High

Target Price: C\$4.00

Metric: Sum of Parts: 2.9x EV/CF (50%) & 1.0x NAV (50%)

Target Price, C\$ \$4.00
 Current Price, C\$ \$3.43
 Return, % 17%
 52-Week High / Low, C\$ \$3.57 / \$2.49
 Daily Volume (100-day avg) 813,100

Shares O/S, million 302.3
 Shares F/D, million 309.9
 Market Capitalization, US\$M \$805.4
 Company CEO Peter G. Kukielski
 Company Web Site www.nevsun.com

Balance Sheet and Capitalization		Q1'18A			
	US\$M	US\$ / O/S Share	C\$M	C\$ / O/S Share	
Market Capitalization	\$ 805	\$ 2.66	\$ 1,037	\$ 3.43	
Current Cash	\$ 150	\$ 0.49	\$ 193	\$ 0.64	
Working Capital	\$ 188	\$ 0.62	\$ 242	\$ 0.80	
Total Debt	\$ -	\$ -	\$ -	\$ -	
Book Value (excl. non-controlling interest)	\$ 800	\$ 2.65	\$ 1,030	\$ 3.41	
Non-Controlling Interest	\$ 155	\$ 0.51	\$ 199	\$ 0.66	
Enterprise Value (EV)	\$ 811	\$ 2.68	\$ 1,044	\$ 3.45	

*Balance sheet figures reflect last reported period C\$/US\$ FX Rate: \$1.29

Financial Forecast			
	2018E	2019E	2020E
Forecast Copper Price, US\$/lb	\$3.10	\$3.20	\$3.25
Forecast Zinc Price, US\$/lb	\$1.50	\$1.40	\$1.30
Forecast Gold Price, US\$/oz	\$1,300	\$1,400	\$1,400
Forecast Silver Price, US\$/oz	\$18.00	\$20.00	\$20.00
C\$/US\$ FX Rate	\$1.25	\$1.26	\$1.26
Shares O/S, millions	302	365	365
Revenue, US\$M	\$393	\$373	\$360
Operating Income, US\$M	\$96	\$141	\$134
EBITDA, US\$M	\$129	\$172	\$164
Attributable Earnings, US\$M	\$2	\$22	\$21
Attributable EPS, US\$	\$0.01	\$0.07	\$0.06
Operating Cash Flow, US\$M	\$131	\$167	\$157
CFPS, US\$	\$0.43	\$0.50	\$0.43
Free Cash Flow, US\$M	\$72	\$60	(\$6)
FCFPS, US\$	\$0.24	\$0.18	(\$0.02)
CAPEX, US\$M	\$59	\$107	\$163

Valuation Ratios			
	2018E	2019E	2020E
EV / Revenue	2.1x	2.2x	2.3x
EV / EBITDA	6.3x	4.7x	5.0x
EV / Operating Cash Flow	6.2x	4.9x	5.2x
EV / Free Cash Flow	11.2x	13.5x	-
P / Attributable Earnings	350.6x	39.9x	47.1x
P / Operating Cash Flow	6.1x	5.3x	6.2x
P / NAV	0.5x		

Bisha Mine Production Profile (100% basis; 60% owned)			
	2018E	2019E	RLOM
Ore Milled, tonnes millions	2.5	2.5	14.8
Ore Milled, tonnes per operating day	6,869	6,944	6,868
Strip Ratio	7.3	6.7	5.2
Zinc Grade Milled, %	5.53%	5.55%	5.84%
Copper Grade Milled, %	0.98%	0.97%	1.04%
Zinc Recovery, %	80%	80%	80%
Copper Recovery, %	52%	35%	35%
Payable Zinc Production, Mlb	233	231	1,449
Payable Copper Production, Mlb	26	17	115
Operating Cost, US\$/tonne milled	\$75.15	\$51.65	\$51.18
Total Zinc Cash Cost (Cu co-product), US\$/lb sold	\$0.81	\$0.65	\$0.67
Total Zinc Cash Cost (Cu by-product), US\$/lb sold	\$0.64	\$0.45	\$0.49
Total Copper Cash Cost (net of credits), US\$/lb sold	\$1.53	\$0.44	\$0.82

Timok Production Profile (100% basis)			
			RLOM
Ore Milled, tonnes millions			27.1
Ore Milled, tonnes per operating day			7,533
Copper Grade Milled, %			3.30%
Gold Grade Milled, g/t			2.2
Payable Copper Production, Mlb			1,733
Payable Gold Production, koz			464
Operating Cost, US\$/tonne milled			\$32.42
Total Copper Cash Cost (net of credits), US\$/lb sold			\$0.51

Share Capital						
	As of	Number	Avg. Price	Proceeds	ITM	Expiry
Shares Outstanding	Mar-18	302.3M	-	-	-	-
Dilutive Securities	Apr-18	7.6M	C\$3.36	C\$25.4M	C\$25.4M	Jan-00 - Jan-00
Fully Diluted Shares	Mar-18	311.8M	-	-	-	-

*Shares outstanding reflects last reported period (Management estimates there are currently 302.3M shares outstanding)

Corporate NAV Summary and Sensitivity							Spot
Forecast Copper Price, US\$/lb	Haywood Model	\$ 2.00	\$ 2.50	\$ 3.00	\$ 3.50	\$ 3.13	
Forecast Zinc Price, US\$/lb		\$ 1.00	\$ 1.25	\$ 1.50	\$ 2.00	\$ 1.41	
Corporate Adjustments, US\$M	\$145	\$205	\$257	\$309	\$361	\$323	
Bisha Mine After-Tax NPV (60% Ownership) (10.0%), US\$M	\$368	\$207	\$326	\$445	\$667	\$413	
Timok After-Tax NPV (100% Ownership) (10.0%), US\$M	\$1,173	\$183	\$535	\$887	\$1,239	\$982	
Additional Exploration Credit, US\$M	\$50	\$50	\$50	\$50	\$50	\$50	
Corporate NAV, US\$M	\$1,736	\$644	\$1,168	\$1,692	\$2,318	\$1,768	
Corporate NAV, C\$ / F/D share	\$7.10	\$2.47	\$4.38	\$6.30	\$8.63	\$6.55	
Target Price / Corporate NAV	0.4x	1.3x	0.7x	0.5x	0.4x	0.5x	
2018E CFPS, US\$	\$0.43	\$0.13	\$0.28	\$0.44	\$0.72	\$0.40	
2019E CFPS, US\$	\$0.50	\$0.17	\$0.37	\$0.56	\$0.92	\$0.51	

Model shares F/D (fully financed): 310M

Peer-Group Comparables							
	Share Price	Corp NAV	Price/Nav	2018E P/CFPS	2019E P/CFPS	2018E EV/CF	2019E EV/CF
Capstone Mining Corp. (TSX:CS)	C\$1.16	US\$ 1.70	0.5x	2.6x	2.4x	4.7x	4.4x
Copper Mountain Mining Corporation (TSX:CMC)	C\$1.36	US\$ 1.82	0.6x	2.4x	2.2x	6.0x	5.4x
Hudbay Minerals Inc. (TSX:HBM)	C\$9.11	US\$ 9.18	0.8x	3.6x	3.4x	4.9x	4.7x
Lundin Mining Corporation (TSX:LUN)	C\$8.15	US\$ 7.59	0.8x	7.0x	6.5x	6.1x	5.6x
Taseko Mines Limited (TSX:TKO)	C\$1.58	US\$ 2.40	0.5x	3.5x	2.8x	5.9x	4.8x
Trevali Mining Corporation (TSX:TV)	C\$1.19	US\$ 1.11	0.8x	2.9x	2.8x	3.3x	3.2x
Group Average			0.7x	3.7x	3.4x	5.2x	4.7x
Group Average (excluding high/low)			0.7x	3.2x	2.9x	5.4x	4.8x
Nevsun Resources Ltd. (Haywood) (TSX:NSU)	C\$3.43	US\$ 5.07	0.5x	6.1x	5.3x	6.2x	5.4x

C\$/US\$ FX Rate: \$1.29

Major Shareholders		
	O/S (millions)	O/S (%)
BlackRock, Inc.	50.6	17%
Franklin Resources, Inc.	11.7	4%
FIL Limited	10.5	3%
Dimensional Fund Advisors L.P.	9.7	3%
The Vanguard Group, Inc.	6.4	2%
Jennison Associates LLC	3.3	1%
Total	92.2	31%

Recent Financings	
February 16, 2010 - C\$117M non-brokered private placement (11.5M shares @ C\$2.85 per share)	
October 25, 2005 - C\$40M bought deal financing (17.8M units @ C\$2.25; 1 unit = 1 share + 0.5 warrant exercisable at C\$3.00 for 3 years)	
June 29, 2005 - C\$20M bought deal financing (8M units @ C\$2.50; 1 unit = 1 share + 0.5 warrant exercisable at C\$3.25 for 3 years)	
February 28, 2003 - C\$17M private placement (5.5M shares @ C\$3.10 per share)	

Metal Inventory - Model Mineable, Reserve, and Resource						
	Tonnes (000's)	Cu Grade (%)	Zn Grade (%)	Copper (Mlb)	Zinc (Mlb)	EV/lb CuEq (US\$/lb)
Haywood Bisha Model Mineable (100%)	14,836	1.04%	5.84%	341	1,912	\$ 0.57
Total P&P Reserve	22,201	1.13%	5.28%	552	2,583	\$ 0.38
Attributable P&P Reserve	13,321	1.13%	5.27%	331	1,548	\$ 0.64
Total Measured Resource	1,300	1.09%	6.37%	31	183	\$ 6.08
Total Indicated Resource	32,480	1.00%	4.24%	716	3,036	\$ 0.33
Total Inferred Resource	30,430	0.97%	4.95%	654	3,319	\$ 0.32
Total Reserve and Resource	87,601	1.03%	4.72%	1,991	9,123	\$ 0.11
Attributable Reserve and Resource	52,561	1.03%	4.72%	1,195	5,474	\$ 0.19

Measured and indicated resource is additional to proven and probable reserve.

Source: Company Reports, Capital IQ, and Haywood Securities



Investment Thesis

- **Bisha production targets for 2018 increase YoY for zinc and copper.** This year, the Company expects to produce 210 Mlb to 240 Mlb of zinc, and 20 Mlb to 30 Mlb of copper. The Bisha plant has achieved incremental improvements in the production of its two desired types of concentrate, reducing the activation of zinc sphalerite ore in the copper circuit. The improved separation is also leading to increased amounts of zinc concentrate being produced in the zinc circuit, with less production of bulk concentrate.
- **Timok is one of the highest grade copper-gold development projects in the world.** The economics of the project, which feature an IRR of 50% and payback in less than 2 years, are robust. The deposit contains (1) a high-grade Upper Zone, a high-sulphidation semi-massive sulphide zone containing epithermal pyrite and copper sulphide, and a much larger lower grade Lower Zone, a porphyry target. The Upper Zone, which is 100% owned, contains a Measured and Indicated resource of 28.7Mt grading 3.7% copper and 2.4 g/t gold, in addition to an Inferred resource of 1.6Mt grading 1.6% copper and 0.9g/t gold. The Lower Zone, which will be owned 46% by Nevsun after completion of the feasibility study of the Upper Zone, is much larger and lower grade.

Risks

Significant Investment Risks

The investment to which this report relates carries various risks, which are reflected in our Overall Risk Rating. We consider the following to be the most significant of these investment risks:

- **Healthy balance sheet, but significant spending ahead.** Nevsun ended Q1/18 with working capital of \$188M, including \$150M in cash and equivalents. However, capital expenditures will grow as the Company develops the Timok deposit.
- **Execution risks at Timok.** Nevsun is progressing with its development plans for Timok, however, there is a risk of delay to construction if property acquisitions are not completed in time. Nevsun continues to refine its mine plan, which includes sub-level caving.
- **Political risk and human rights abused.** We rate Eritrea as one of the more socio-politically sensitive countries in the world for a mining company to operate in: the country is a one party state in which national legislative elections have been repeatedly postponed, according to Human Rights Watch, and the Eritrean government's human rights record is considered among the worst in the world.

*For further information on our Risk Rating please visit:
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	TSX:CMMC	Copper Mountain Mining Corp.			X		X			
	TSX:HBM	Hudbay Minerals, Inc.			X	X				
	TSX:LUN	Lundin Mining Corporation			X					
	TSX:NSU	Nevsun Resources Ltd.		X	X					
	TSX:TV	Trevali Mining Corporation			X					
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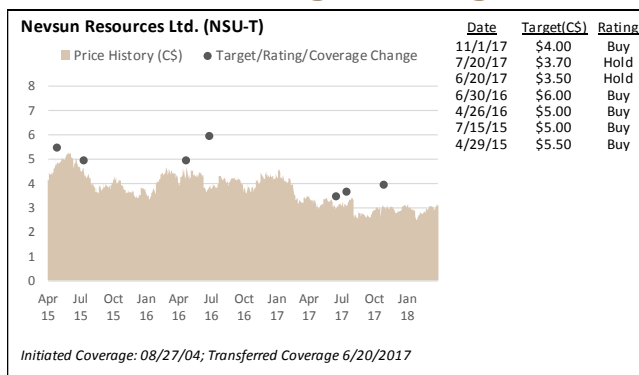
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	%	#	IB Clients (TTM)
Buy	70.7%	70	92.0%
Hold	13.1%	13	4.0%
Sell	1.0%	1	0.0%
Tender	1.0%	1	4.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
Dropped (TTM)	14.1%	14	0.0%

Price Chart, Rating and Target Price History (as of April 27, 2018)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review
 Source: Capital IQ and Haywood Securities

Nevsun Resources Ltd.

NSU-TSX | NSU-NYSE MKT

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Mining | Base Metals & Minerals

April 27, 2018 | 3:36 pm EDT

Company Comment

Market Perform 3 C\$4.00 target price ↑

old: C\$3.50

Current Price (Apr-27-18)	C\$3.43
Total Return to Target	17%
52-Week Range	C\$3.57 - C\$2.49
Suitability	High Risk/Growth

Market Data	
Market Capitalization (mln)	C\$1,037
Current Net Debt (mln)	-US\$165
Enterprise Value (mln)	US\$797
Shares Outstanding (mln, basic)	302.0
10 Day Avg Daily Volume (000s)	839
Dividend/Yield	nm/0.0%

Key Financial Metrics			
	2017A	2018E	2019E
P/E	-15.4x	5.1x	7.1x
P/NAV		0.70x	NA
Consolidated Production (Cu Tonnes)			
Old	7,900	12,600	12,600
New	7,900	15,980	15,840
Copper (\$/lb)			
	US\$2.80	US\$3.15	US\$3.25
EBITDA (mln)			
Old	US\$(52)	US\$162	US\$102
New	US\$(52)	US\$155	US\$112
CFPS			
Old	US\$0.00	US\$0.41	US\$0.23
New	US\$0.00	US\$0.39	US\$0.25
Capex (mln)			
Old	US\$31	US\$69	US\$67
New	US\$31	US\$56	US\$67
Shares Outstanding (mln, f.d.)			
	312	312	312

Strong Start to the Year; Well Positioned to Raise Guidance

Recommendation

Nevsun posted a strong operating quarter at Bisha in 1Q18 as mining operations benefited from equipment purchased in late-2017 while the plant posted significant increases in recoveries for both zinc and copper after applying a new reagent scheme. As a result, both zinc and copper production are ahead of the guided pace after 1Q, and, with recoveries set to trend higher than expected, we believe there is strong potential for NSU to increase its annual production guidance with 2Q results. At the Timok project, development remains ongoing following the receipt of the exploration decline permit and release of the PFS in 1Q. As a result of the progress in 1Q, we are increasing our target price to C\$4.00/share (from C\$3.50/share).

Analysis

- ◆ **Operations – Production beat:** Zinc production of 72Mlbs and copper production of 9Mlbs were both above our estimates of 67Mlbs and 6.8Mlbs, respectively. Copper and zinc production are trending well with regards to full-year guidance at 36% and 32% of the mid-range, respectively. The company announced that cash costs for the quarter were \$0.79/lb payable zinc sold (co-product), in-line with full-year guidance of \$0.70-\$0.90/lb.
- ◆ **Balance Sheet – QoQ increase on operating performance:** NSU exited the quarter with \$150 mln in net cash, consisting of cash and equivalents of \$150 mln and no debt. The QoQ increase came from a strong operating quarter at Bisha. We anticipate a modest decline in cash through the remainder of 2018.
- ◆ **Earnings – Slight miss on timing of sales:** NSU reported 1Q18 adjusted earnings of a loss of \$0.01/share versus our estimate of a gain of \$0.04/share and consensus of a gain of \$0.02/share. The slight miss was primarily driven by timing of sales at Bisha. The company produced more than it sold and we expect the difference to be offset in coming quarters.
- ◆ **2Q Catalysts and News Flow:** At Timok, a maiden resource estimate at the Timok Lower Zone is expected at mid-year. At Bisha, the company will continue upgrading the processing plant throughout 2Q to improve recoveries going forward.

Valuation

We maintain our Market Perform rating and are increasing our target to C\$4.00/share (from C\$3.50/share). Our target is based on a 80/20 weighting of i) a 0.8x multiple to our NAVPS estimate of \$3.81; and ii) a 6.0x EV/NTM EBITDA multiple to our NTM EBITDA forecast of \$141 mln, in-line with the base metal producer peer group (see Exhibit 3).

EPS	1Q	2Q	3Q	4Q	Full	Revenues	NAVPS
	Mar	Jun	Sep	Dec	Year	(mln)	
2017A	US\$0.00	US\$0.08	US\$0.00	US\$(0.01)	US\$0.07	US\$289	
Old 2018E	0.04	0.02	0.02	0.02	0.11	421	US\$3.60
New 2018E	(0.01)A	0.02	0.02	0.02	0.05	431	US\$3.81
Old 2019E	0.02	0.02	0.00	0.01	0.04	359	NA
New 2019E	0.02	0.02	0.00	0.01	0.04	392	NA

Source: Raymond James Ltd., Thomson One

Company Description

Nevsun is 60% owner of the precious and base metal Bisha Mine in Eritrea, East Africa and 100% owner of the Upper Zone of the Timok Project in Serbia.

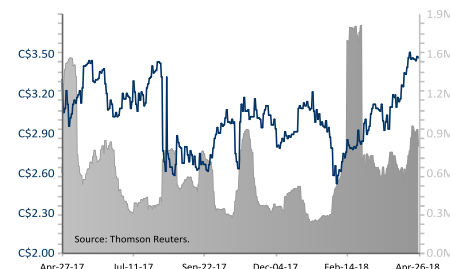


Exhibit 1: Nevsun Resources Operating Summary

Mine	1Q18 Actual	2018 Guidance	% of Mid-Range Guidance
Copper Production (Mlb)	9	20-30	36%
Zinc Production (Mlb)	72	210-240	32%
C1 Cash Cost (\$/lb zinc)	\$0.79	\$0.70-\$0.90	99%

Source: Nevsun Resources Ltd., Raymond James Ltd.

Exhibit 2: Nevsun Resources Balance Sheet

	3Q17A	4Q17A	1Q18A
Cash (US\$ mln)	151	125	150
Debt (US\$ mln)	0	0	0
Net Debt/Cash (US\$ mln)	(151)	(125)	(150)

Source: Nevsun Resources Ltd., Raymond James Ltd.

Exhibit 3: Nevsun Resources Operation and Financial Summary

Nevsun Resources Ltd.

Rating:	MP3	(NSU-TSX, NSU-US)
6-12 Mth Target	C\$ 4.00	NAVPS \$3.81
Projected Return:	17%	YR-END: Dec. 31

Investment Thesis

With the decision to pare back capital spending at Bisha and shorten the remaining mine life to four years, it is apparent to us that the development of Timok will be the primary focus of the company moving forward. While we think Timok is a desirable asset, with potential first production not until 2022 and a lower output expected from Bisha in the interim, we do not see many short-term potential catalysts for the stock.

Key Attributes:

- High-grade copper project could be in production by 2022.
- Strong balance sheet.
- Generating free cash flow.

Key Concerns:

- Short mine life at operating asset.
- Requires external financing to fund development asset.

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Management	
Peter G. Kukielski	CEO
Ryan MacWilliam	CFO

Reporting Currency: US\$ 27-Apr-18

Market Statistics			
Share Price	\$3.43	Shares Basic (mln)	302
52 Week High/Low	3.57 / 2.49	Shares Fully Diluted (mln)	312
Market Cap. (mln)	\$1,037	Free Float (%)	99%
Enterprise Value (mln) pro-forma	\$797	Avg. Daily Vol. ('000):	1341
Dividend	\$0.00	Div Yield %	0.0%

Financial Metrics	2016A	2017A	2018E	2019E	2020E
Income statement					
Revenue (\$mln)	231	289	431	392	364
EBITDA (\$mln)	109	-52	155	112	110
EBIT (\$mln)	47	-96	84	78	76
Net earnings (\$mln)	-1	-15	17	13	9
EPS (US\$)	0.00	0.07	0.05	0.04	0.03
Cash flow statement					
Operating Cash Flow (\$mln)	53	-20	122	76	69
CFPS (US\$) (oper., pre-W/C adj)	0.33	0.00	0.39	0.25	0.23
Investing Cash Flow (\$mln)	-256	-33	-59	-67	-155
Financing Cash Flow (\$mln)	-32	-22	-54	396	-4
FCF (\$mln)	10	-51	66	9	-86
FCF per share	0.04	-0.17	0.22	0.03	-0.29
Balance sheet					
Cash (\$mln)	199	125	135	539	449
Working capital (\$mln)	201	162	172	577	487
Total Debt (\$mln)	0	0	0	450	450
Common Equity (\$mln)	896	804	822	836	846

Valuation Metrics	2016A	2017A	2018E	2019E	2020E
EBITDA margin (%)	47.2%	-17.9%	36.0%	28.5%	30.2%
EV/EBITDA (x)	7.3x	nm	5.1x	7.1x	7.3x
P/CF (x)	8.2x	nm	6.8x	10.6x	11.8x
FCF Yield	0.9%	-3.9%	5.0%	0.7%	-6.5%
P/E (x)	nm	nm	nm	nm	nm
Current ratio (x)	3.1x	3.4x	3.6x	9.7x	8.4x
Price/book (x)	1.2x	1.3x	1.3x	1.2x	1.2x
Debt/(Debt + Equity) (%)	0.0%	0.0%	0.0%	30.3%	30.3%
Net Debt/LTM EBITDA (x)	nm	nm	nm	nm	nm
ROE (%)	-0.1%	-1.8%	2.1%	1.6%	1.1%
ROIC (%)	1.6%	-4.6%	4.7%	4.0%	3.3%

Valuation	US\$ mln	\$/share	% of minesite NAV
Bisha	8%	173	0.55 15%
Timok	8%	970	3.11 85%
Minesite NAV	1,143	3.66	100%
Investments	0	0.00	
Corporate	(102)	-0.33	
Cash	150	0.48	
Debt	0	0.00	
Net Asset Value	1,191	3.81	

Valuation Measures	Weight	Target
Price / NAVPS*	80%	0.8x
EV/EBITDA	20%	6.0x
Valuation		\$3.00

Target Price C\$: \$4.00

*Target multiple is applied to the mining assets, with net cash included at par

Reserve & Resource	Tonnes	Cu	Zn	Cu	Zn
	(Mt)	(%)	(%)	(Mt)	(Mt)
Total Reserves	36	2.7	1.5	1.0	0.5
Total M&I Resource	37	1.4	4.0	0.5	1.5
Total Inferred Resource	45	1.2	3.6	0.5	1.6
Total Resource	83	1.3	3.8	1.0	3.1

Assumptions	2016A	2017A	2018E	2019E	2020E
R/L Copper Forecast US\$/lb	2.21	2.80	3.15	3.25	3.00
R/L Zinc Forecast US\$/lb	0.95	1.31	1.49	1.33	1.20
R/L Gold Forecast US\$/oz	1,248	1,258	1,307	1,300	1,300
R/L Silver Forecast US\$/oz	17	17	17	18	19

Operating Summary	2016A	2017A	2018E	2019E	2020E
Cu Production (kt)	25.3	7.9	16.0	15.8	15.7
Zn Production (kt)	40.9	95.4	118.9	115.7	115.7

Production

Operating NAV breakdown by Geography and Commodity

Serbia
85%

Cu
82%

Relative Performance (NSU vs. Cu)

NAV Sensitivity to long-term commodity price assumptions

Source: Nevsun Resources Ltd., Raymond James Ltd.

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Raymond James & Associates (U.S.) definitions: Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months. Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months. Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months. Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold. Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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	Coverage Universe Rating Distribution*			Investment Banking Distribution		
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Underperform (Sell)	5%	5%	15%	10%	7%	0%

* Columns may not add to 100% due to rounding.

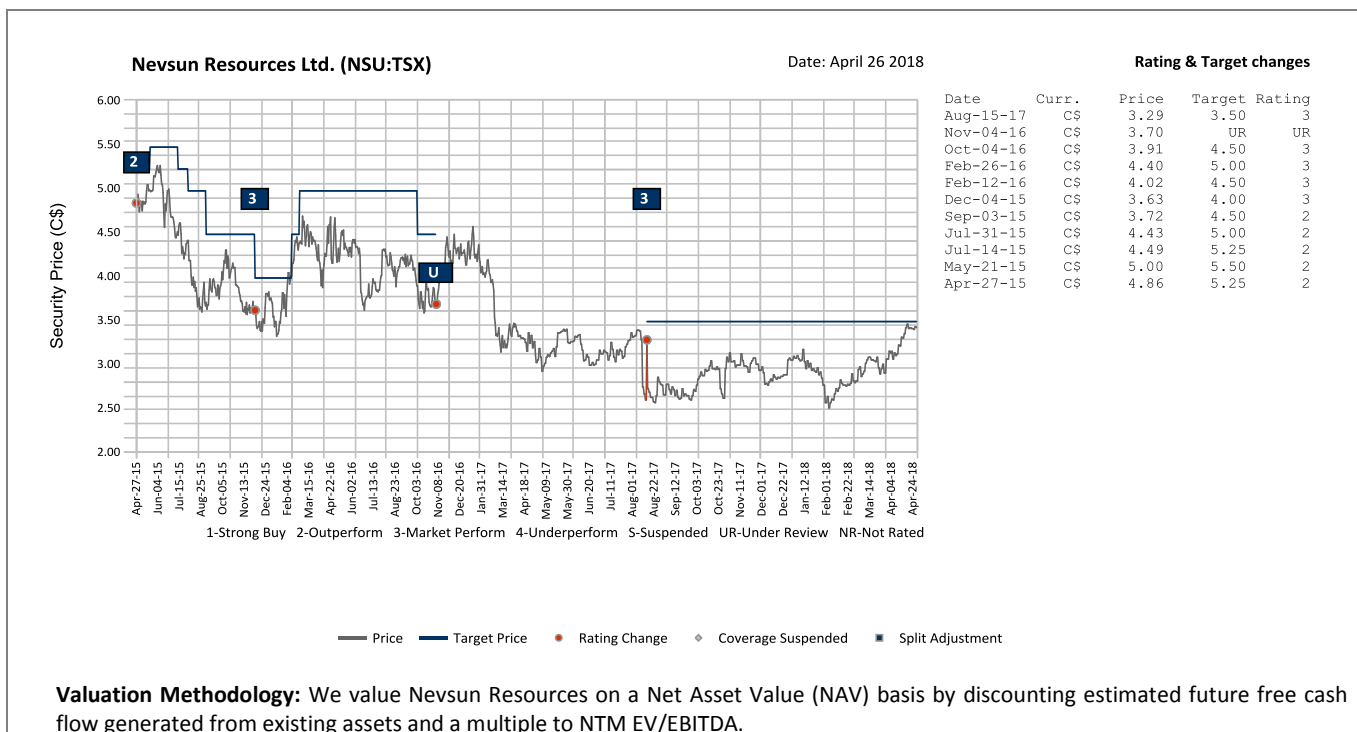
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Risks - Nevsun Resources Ltd.

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