

WWR / NYSE-Amer

**SPECULATIVE
BUY**

Unchanged

\$20.00

Unchanged

CAPITALIZATION

Shares Outstanding (5/10/22)	47.2 M
Recent Price (5/17/22)	\$1.17

Market Capitalization	\$ 55.2 M
+ Debt	-0- M
- Cash	116.0 M
Enterprise Value	(\$ 60.8) M

Book Value	\$139.0 M
Working Capital	\$108.6 M
Dividend	Nil

Balance sheet figures as of 3/31/22

MARKET DATA

Bid-Ask Spread, % Price	0.8%
52 Week High/Low	\$5.70 - \$1.00

Shares Outstanding	47.2 M
Inside Ownership	<1%
Institutional Ownership	12.0%
Estimated Flotation	46.7M

Average Daily Volume	3.27 M
Short Interest, % of Float	5.2%
Beta	1.38

Source: Bloomberg LP

INVESTMENT RETURNS

	WWR	Sector*
Return on Equity	Neg	21.41%
Return on Assets	Neg	10.37%
Return on Capital	Neg	13.57%

Source: Crystal Equity Research, CSI Markets

FINANCIAL PROFILE

	FY20	FY21
Sales	\$ 0.0 M	\$ 0.0 M
EBITDA	(\$11.2) M	(\$18.1) M
(L)EPS	(\$1.58)	(\$0.49)

Source: Company Reports

HIGHLIGHTS

- **First Quarter 2022.** Westwater Resources reported using \$2.7 million in cash resources to support operations and \$12.1 million for capital expenditures in the quarter ending March 2022.
- **2022 Year of the Balance Sheet.** Westwater Resources balance sheet at end of March 2022, begins reflecting the Company's production facility asset as 'construction in progress'. Asset expect to grow through the year.
- **Capital Raise.** In the first four months of the year 2022, the Company raised a total of \$24.5 million in new capital through sales of 11.8 million shares at an average of price \$2.07 per share.
- **Valuation.** In our view, trading at 0.38 times book value, WWR remains deeply undervalued against its mineral, property and cash assets.
- **Outlook.** WWR not immune to downdraft in U.S. equity market as shares struggle to recover from new 52-week low. Next few quarter reports expected to provide positive news on graphite processing facility construction and equipment installation.

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INDUSTRY: INDUSTRIAL, ENERGY MATERIALS

WWR: NYSE-Amer

RECENT DEVELOPMENTS

With its first quarter 2022 financial report, Westwater Resources revealed lower than expected cash usage by operations, totaling \$2.7 million. During the earnings conference call management confirmed the construction project is proceeding as scheduled to build a battery-grade graphite processing facility near the Company's natural flake graphite resource in Coosa County, Alabama. A total of 8.8% of the total project budget has been expended, nearly all of which has been capitalized as a new fixed asset called 'construction in progress' on the Company's balance sheet.

RECOMMENDATION

We continue to rate WWR at Speculative Buy with a \$20.00 price target. In our view, priced at 0.38 times net assets, the shares are even more deeply undervalued than ever. Despite considerable progress toward commercializing Westwater's proprietary graphite materials, the stock has met aggressive short-selling and limited bullish interest. The Company has perfected four graphite products and has in hand at least one indication of interest for commercial volumes from a battery or electric vehicle manufacturer. Additionally, the Company has applied for patent protection of its proprietary graphite materials purification process and commenced construction of a production facility with name plate capacity of 6,000 metric tons per year. In our view, those accomplishments should garner valuations closer to industry peers with similar objectives to build out an integrated graphite mining and processing operations.

VALUATION

Price/Sales	Neg
Price/Cash Flow	Neg
Price/EPS	Neg
Price/Book Value	0.40 X
Consensus EPS 2022	na
Forward PE	na

OPERATING PROJECTIONS

	2020A	2021A	2022E	2023E	2024E
Sales	\$ 0.0	\$ 0.0	\$ 0.0	\$21.1	\$28.1
Operating (Loss)	(\$11.2)	(\$18.2)	(\$15.9)	(\$ 9.8)	(\$ 6.0)
Net Inc (Loss)	(\$23.6)	(\$16.1)	(\$15.9)	(\$ 9.8)	(\$ 6.0)
CFO (U)	(\$15.2)	(\$16.9)	(\$15.9)	(\$13.9)	(\$ 2.7)
EPS (LPS)	(\$1.58)	(\$0.49)	(\$0.35)	(\$0.19)	(\$0.11)

Dollars in millions except per share earnings

Company Reports and Crystal Equity Research Estimates

Per share figures estimated 12/31/21



FIRST QUARTER REPORT

The second week in May 2022, Westwater Resources reported financial results for the first quarter ending March 2022. Still in a developmental stage, there remains no sales at the top-line. Operating expenses totaled \$2.8 million in the quarter, less than had been expected as the Company ramped up execution on a project to build a facility to product battery-grade graphite products from natural flake graphite. Product development costs totaled \$233,000 compared to \$1.8 million in the same quarter in the previous year as the Company was designing and constructing a pilot plant to test its proprietary process. General and administrative totaling \$2.4 million expenses in the quarter were also lower sequentially as well year-over-year. During the quarter, the Company used \$2.7 million in cash resources to support operations.

Balance Sheet

As the Company proceeds with construction of its graphite processing facility, much of Westwater's story will play out on its balance sheet. At the end of the first quarter, fixed assets designated at property, plant and equipment increased to \$31.8 million following the addition of \$17.1 million in a new asset category 'construction in progress.' Included in the addition to fixed assts is \$12.1 million in capital investments. During the earnings conference call management indicated the Company has spent \$17.8 million out of the \$202 million budget designated for its graphite facility under construction at the Lake Martin Regional Industrial Park near Kellyton, Alabama.

Cash on the balance sheet at the end of March 2022, was \$116.0 million. Cash balances were impacted by cash used for operations and capital expenditures totaling \$14.8 million as well as cash inflow from the sale of common stock totaling \$15.6 million. The Company sold 7.45 million shares at an average price of \$2.09 per share pursuant to an existing at-the-market stock offering agreement.

Subsequent to the quarter close, Westwater sold an additional 4.4 million shares to raise at additional \$9.0 million in new capital through the same stock purchase agreement. We estimate the shares were sold at an average \$2.07 per share. Based on spending and investment rates implied by the first quarter financial results, we estimate the cash balance will be approximately \$110.52 million at the end of May 2022. The share issuances in the first five months 2022, added 11.85 million shares to total outstanding common stock. Implied dilution for existing shareholders was an estimated 25%.

The Company reported that there remains \$31.6 million available under a stock purchase agreement with Cantor Fitzgerald. There is an additional capacity to sell 9.7 million shares remaining under another share purchase agreement with Lincoln Park Capital. During the earnings conference call management reiterated the possibility of continue use both of these agreements to fund the graphite processing facility construction project. However, the Company's chief accounting officer emphasized several times during the call the importance of seeking the lowest cost capital source.

UPDATED ESTIMATES

Our earnings model was updated to reflect reported results for the first quarter 2022. Based on reported spending for product development and management commentary related to product development, we have reduced the estimate for this operating cost category. The next effect of these two changes is to reduce the operating loss for the full year 2022 to \$15.9 million. The revised estimates are presented in Table I on page 6.

We continue to reflect a conservative estimate for revenue in the year 2023, the first year the Company is expected to begin selling its proprietary graphite materials. Our estimate is based on an anticipated selling price of \$5,000 per metric ton for *Coated Spherical Purified Graphite (CSPG)* and \$2,500 per metric ton for *Purified Micronized Graphite (PMG)*. Additionally, we have used the Company's plans for capacity expansion in two phases and a production mix of *CSPG* and *PMG*. Westwater is taking cues from potential customers, one of which has received a delivery of *PMG* for volume testing in alkaline batteries and a second which has given the Company an indication of interest in production quantities of *CSPG*.

There is upside to our revenue estimate related to graphite materials selling prices. It is acknowledged that selling prices for graphite materials fluctuate and that current economic conditions could drive prices higher. By 2030, just seven years hence, graphite demand is expected to be as much as three times current global production. Demand growth will be driven primarily by the adoption of electric vehicles, which use significant graphite material in the anodes of lithium-ion batteries. The average electric vehicle requires 70 kilograms of graphite materials. Accordingly, industry analysts such as S&P Global have estimated a deficit in global graphite supplies as early as 2023. Indeed, commodity consulting firm Benchmark Mineral Intelligence strikes an even more dire prognosis with an estimated deficit of as much as 20,000 metric tons beginning in 2022.

VALUATION

The stock recently set a new 52-week low price, trading largely in sympathy with the correction currently underway in the broader U.S. equity market. That said, we note that there has been increase in short-interest in the shares, bringing total short positions to 5.2% of the Company's flotation. We also believe that the prospect of dilution has been a deterrent for some investors as the Company raises capital through the sales of common stock to finance its graphite processing facility. Of course, one alternative to common stock issuance might be bank loans or notes, which would likely increase business risk and therefore reduce stock valuation.

Price action has left the stock trading at 0.38 times book value. Consequently, in our view WWR remains deeply undervalued against its mineral, property and cash assets. We note that two other graphite materials developers, Nouveau Monde Graphite (NMG: NYSE) and Syrah Resources Ltd. (SYR: ASX) trade at 3.97 times and 2.70 times book value, respectively. Like Westwater, both have plans to integrate forward from graphite mining to an integrated mining and processing business model.

Neither Nouveau Monde nor Syrah have produced revenue from the sales of battery-grade graphite materials and both are arguably on par or slightly behind Westwater in building out graphite processing capacity. Nouveau Monde is also at a pre-revenue stage and has just begun work on a graphite processing facility that will be about one-third the capacity of Westwater's facility. After reportedly carrying out limited toll processing at its Louisiana-based graphite

processing facility, Syrah Resources has recently shifted the focus to production of battery anodes. Syrah reported AU\$29.4 million in sales in the most recently reported twelve months primarily from the sale of graphite concentrate from its Mozambique mining operation.

OUTLOOK

Potential catalysts for the WWR price could come largely from upcoming quarter reports, at which time we expect management to confirm progress with the graphite processing facility construction project currently underway in Alabama. In September 2022, decision is expected by an international tribunal, which has heard Westwater's complaint against The Republic of Turkey for the revocation of uranium mining licenses in the at country. A favorable decision could give shareholders new confidence in the Company's financial capacity to execute on its strategic plans, even though there would likely be some lag between the decision announcement a payment of damages by Turkey. While unpredictable, announcements related to customer testing of Westwater products could also ignite new interest in the shares.

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

Table I: Historic and Projected Annual Financial Performance

Dollars in Thousands	2020A Year	2021A Year	2022E Year	2023E Year	2024E Year
Total revenue	-	-	-	21,056	28,074
Gross profit	-	-	-	12,633	18,248
Operating expenses:					
General and administrative	5,678	12,120	11,853	13,200	14,500
Product development and other	5,378	5,975	3,033	5,500	5,000
Depreciation and amortization	(55)	20	232	3,000	4,000
Mineral property expenses	34	110	773	750	750
Accretion of asset retirement obligations	201	-	-	-	-
Total operating expenses	11,236	18,225	15,891	22,450	24,250
Operating income (loss)	(11,236)	(18,225)	(15,891)	(9,817)	(6,002)
Other income and expenses					
Gain (loss) on sale of assets	(2,665)	2,057			
Other	(11)	24			
Total other income (expense)	(2,676)	2,081	-	-	-
Income (loss) before income taxes	(13,912)	(16,144)	(15,891)	(9,817)	(6,002)
Discontinued operations, net of taxes	(9,662)	-	-	-	-
Net income (loss)	(23,574)	(16,144)	(15,891)	(9,817)	(6,002)
Net EPS (LPS), comprehensive	\$ (2.68)	\$ (0.49)	\$ (0.35)	\$ (0.19)	\$ (0.11)
Wtd shares outstanding, diluted in 000s	8,799	32,653	44,939	53,000	53,000

Source: Company Reports and Crystal Equity Research Estimates

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ANALYST

Debra Fiakas, CFA is a seasoned, credentialed investment professional with a diversified and successful track record as a research analyst and as an investment banker. Her decade-plus career includes solid experience in all aspects of the equity capital markets with particular emphasis on emerging growth companies operating in the technology sectors. Ms. Fiakas is also the principal member of Crystal Equity Research, LLC.

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RATING SYSTEM

Buy	Price appreciation expected 10% or more over a 12-month period.
Hold	Price appreciation/depreciation expected between 10% and –10% over 12 months.
Sell	Price depreciation expected 10% or more over a 12-month period.

CRYSTAL RESEARCH UNIVERSE

Buys	70%
Holds	15%
Sells	<u>15%</u>
Total	100%

HISTORICAL RECOMMENDATIONS AND TARGET PRICE: Westwater Resources / WWR

<u>Report</u>	<u>Date</u>	<u>Price</u>	<u>Rating</u>	<u>Target Price</u>
Previous reports by request				
Update	2/24/2022	\$1.94	Buy	\$20.00
Update	4/29/2022	\$1.33	Buy	\$20.00
Update	5/17/2022	\$1.17	Buy	\$20.00

DISCLOSURES

<u>Name</u>	<u>Symbol: Exchange</u>	<u>Disclosures</u>
Westwater Resources, Inc.	WWR: NYSE/Amer	D

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- E The company has a convertible issue outstanding.
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