

WWR / NYSE-Amer

**SPECULATIVE  
BUY**

Unchanged

**\$20.00**

Unchanged

**CAPITALIZATION**

Shares Outstanding (11/9/22)	48.1 M
Recent Price (1/10/23)	\$1.00

Market Capitalization	\$ 48.1 M
+ Debt	-0- M
- Cash	100.3 M
Enterprise Value	(\$ 52.2) M

Book Value	\$143.1 M
Working Capital	\$ 80.1 M
Dividend	Nil

Balance sheet figures as of 9/30/22

**MARKET DATA**

Bid-Ask Spread, % Price	2.1%
52 Week High/Low	\$2.46 - \$0.77

Shares Outstanding	48.1 M
Inside Ownership	1.8%
Institutional Ownership	15.0%
Estimated Flotation	47.8 M

Average Daily Volume	346 K
Short Interest, % of Float	1.35%
Beta	1.51

Source: Bloomberg LP

**INVESTMENT RETURNS**

	WWR	Sector*
Return on Equity	Neg	15.89%
Return on Assets	Neg	7.91%
Return on Capital	Neg	10.28%

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**

- **ULTRA-PMG interest.** Westwater entered into a letter of intent to sell of as much as 25% of annual ULTRA-PMG production to an undisclosed buyer; could result in orders for an estimated 925 metric tons if a final agreement is signed.
- **Unsolicited buyout offer.** The Company's leadership has rejected an overture to buyout all common stock shares by a gold mining operation based in Idaho. Lack of an offer price and no details on how the purchase would be financed were cited as drawbacks to a deal.
- **Undervaluation.** WWR is currently trading at one-third book value despite a license to mine natural flake graphite currently nearing supply shortages as electric vehicle battery demand heats up.
- **Price catalyst.** Westwater is expected to report financial results for the fourth quarter and year ending December 2022, in late February or early March 2023, providing shareholders a welcome update on the Company's financial capacity to complete a graphite processing plant now under construction in Alabama.

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INDUSTRY: INDUSTRIAL, ENERGY MATERIALS

WWR: NYSE-Amer

## RECENT DEVELOPMENTS

Investors may have concerns about Westwater's financial position against the \$202 million price tag for a natural flake graphite processing plant the Company is building near Kellyton, AL, but the marketing and sales team is not letting the hand wringing slow them down. A new prospective customer has signed a letter of intent with the Company to provide an estimated 925 metric tons of ULTRA-PMG once the Kellyton plant is operational by the end of 2023. Details on the prospective buyer and its products were not disclosed and the exact timing of orders and shipments probably may not be known until a final agreement is signed. Nonetheless, the development is a boost for Westwater potential revenue streams. It could also support management's efforts in seeking additional financing to bridge any gap between cash resources and the Company's capital budget.

Indeed, Westwater reported \$100.3 million in total cash at the end of September 2022, the last reported financial results. The apparently plump cash kitty may have been enough to attract a suitor. Last month Idaho Strategic Resources (IDR: NYSE) announced its interest in acquiring all Westwater Resources common stock. Neither the offering price nor the purchase consideration were specified. Apparently, Westwater leadership declined the offer by letter and suggested an introductory meeting or call, but at the time of this report IDR had not responded.

## RECOMMENDATION

We continue to rate WWR at Speculative Buy. While the stock does not always respond dramatically to quarter financial reports, we believe the fourth quarter and year-end 2022 report expected in the next few weeks could be an exception. After a lengthy period of price suppression by year-end 2022 tax loss selling and other macroeconomic and political worries that weigh on the valuation of all U.S. equities, WWR may be poised to rebound on encouraging news related to its capital position as well as progress with the construction project in Kellyton, AL. The Company regularly posted images of the construction activities on the corporate website, demonstrating the project is on schedule for completion yet in 2023. Confirmation that the project is also on budget could be comfort to shareholders concerned about capital adequacy.

## VALUATION

Price/Sales	Neg
Price/Cash Flow	Neg
Price/EPS	Neg
Price/Book Value	0.34 X
Consensus EPS 2023	na
Forward PE	na

## OPERATING PROJECTIONS

	<u>2020A</u>	<u>2021A</u>	<u>2022E</u>	<u>2023E</u>	<u>2024E</u>
Sales	\$ 0.0	\$ 0.0	\$ 0.0	\$21.1	\$28.1
Operating (Loss)	(\$11.2)	(\$18.2)	(\$13.9)	(\$ 9.8)	(\$ 6.0)
Net Inc (Loss)	(\$23.6)	(\$16.1)	(\$13.9)	(\$ 9.8)	(\$ 6.0)
CFO (U)	(\$15.2)	(\$16.9)	(\$13.6)	(\$13.9)	(\$ 2.7)
EPS (LPS)	(\$1.58)	(\$0.49)	(\$0.30)	(\$0.19)	(\$0.11)

*Dollars in millions except per share earnings*

*Company Reports and Crystal Equity Research Estimates*

*Per share figures estimated 9/30/22*

**BUSINESS PIPELINE - letter of intent with new prospective customer**

Westwater Resources started out the new year with a welcome 'shot in the arm' in the form of a new prospective customer relationship. The Company announced a letter of intent with an unnamed buyer for its *ULTRA-PMG* product. The disclosure was bare bones in terms of the buyer's location, final product or markets. Management suggests that battery manufacturers and others interested in highly purified graphite are particularly concerned about tipping off their competition to product improvements by disclosing sources for proprietary materials.

The announcement was also silent on the timing of potential orders, but did provide an estimate of the quantity under discussion. The buyer apparently needs supplies near 25% of annual *ULTRA-PMG* production slated for the first phase of Westwater's graphite processing plant now under construction near Kellyton, Alabama. Current plans are to dedicate half of the annual 7,400 metric ton production capacity to *ULTRA-PMG*. Accordingly, we estimate the order under discussion is near 925 metric tons (7,400 x 50% x 25%).

The announcement brings to four the number of potential customer relationships at an advanced stage. It also tips the total potential sales of *ULTRA-PMG* to over 1,000 metric tons as the graphite processing facility heads toward completion by the end of 2023.

- August 19, 2019 - announcement that major battery manufacturer requested a bulk sample of one metric ton of *ULTRA-PMG* product for further testing; update in June 2020, one metric ton sample shipped and customer qualification underway, possibly for alkaline battery designs.
- November 17, 2021 - letter of intent to sell 125 to 250 metric tons of *Coated Spherical Purified Graphite (CSPG)* to a developer of lithium-ion batteries beginning in 2023; with an option on an additional 16,000 metric tons for delivery in 2025.
- August 15, 2022 - letter of intent with an unnamed battery manufacturer for unspecified volumes of *ULTRA-PMG* to be delivered beginning in 2023, from Westwater's commercial-grade graphite processing in Kellyton, AL; negotiations for definitive agreements expected in coming months.
- January 5, 2023 - letter of intent with an unnamed prospect for approximately 925 metric tons of *ULTRA-PMG* materials for use in an unspecified product; quality control and packaging criteria are expected in a future definitive agreement.

Management appears confident that its business pipeline can generate additional orders, some of which could first be disclosed to shareholders and investors as letters of intent. One of the many benefits of such preliminary agreements is to demonstrate each party's commitment to a transaction, an important step in the graphite market where supplies of purified materials are limited.

## **STRATEGIC COMBINATION - surprise overture**

In mid-December 2022, the gold mining company Idaho Strategic Resources (IDR: NYSE) disclosed that it had submitted a non-binding proposal to Westwater Resources to acquire all outstanding shares of Westwater's common stock. Apparently, no price was specified and the proposal provided no indication of how Idaho Strategic Resources would fulfill the purchase price or terms. Subsequent to the IDR announcement, Westwater Resources disclosed that the proposal had been declined through a letter from Westwater's executive chairman to IDR.

The most recently reported financial results for Idaho Strategic Resources is for the quarter ending September 2022, at which time the company had \$2.3 million in cash on its balance sheet. IDR also reported long-term debt totaling \$2.2 million, of which \$897,509 was due within twelve months. IDR achieved \$6.1 million in total sales of gold concentrate in the first nine months of 2022, but is not profitable at that scale. The company used \$2.0 million of its cash resources to support operations in that nine-month period. IDR sold a total of \$4.7 million in common stock and warrants during the first months of 2022, to keep its doors open and its cash kitty leveled off.

In our view, it is not surprising that Westwater leadership declined to engage in any further discussion of a buyout proposal with a buyer that has relatively 'thin' balance sheet. At its recent cash usage rate, IDR has cash resources only sufficient to support its own operations for another nine months. Furthermore, it appears that IDR does not have any recent success in raising significant amounts in new capital. Thus, there is considerable question as to whether IDR can follow through with its intentions.

We also note that no member of IDR's current management team has experience in graphite mining or processing. IDR's current business model and by all appearances the entire experience of the current management team, while extensive, involves mining and sale of mineral concentrate to a distributor or mineral aggregator. This represents a dramatically different business model than that of Westwater, which has evolved to include the production of a highly refined, proprietary material that is marketed directly to end users through a complex, engineered sales process.

## **VALUATION and OUTLOOK**

In our view, bringing yet another prospective customer to the 'letter of intent stage' is a plus for Westwater Resources on several levels. Of course, there is the obvious contribution to future revenue and operating profits. Additionally, it provides proof of a viable market for the Company's proprietary graphite materials, validates Westwater's marketing and sales program and encourages other prospects to action. Furthermore, prospective customers are likely strong references for any financing effort the Company might be undertaking. While little is made available publicly about any of the prospective buyers of Westwater's products, it is typical for additional non-disclosure pledges enable disclosure of details to private debt or equity investors.

In our view, the letter of intent to *ULTRA-PMG* provides a strong reason to revalue the shares higher. The shares are currently trading at one-third of book value, a valuation that suggests a lack of confidence in management's ability to realize asset values and furthermore the graphite license is not marketable in the event of a sale. We are concerned investors cannot see the forest for a few weeds out front. In our view, the stock is dramatically oversold.

- First, we are reluctant to declare defeat for Westwater's management team in the capital markets. Additional financing is needed to complete the Kellyton graphite processing plant and begin commercial production - over \$40 million by our estimate - but we believe the team still has several months of 'runway' using existing cash resources. There is time for a capital raising effort before the project would be slowed for lack of cash resources.
- Second, in a sector that is on the verge of a supply shortage, it is more reasonable to view the graphite license is worth well more than the book value on Westwater's balance sheet. Indeed, Benchmark Mineral Intelligence anticipates a natural flake graphite supply deficit to develop in 2023 as battery anode demand accelerates. Thus, even a premium price to book value multiple could be justified rather than the 66% discount reflected in the current share price.

Management has indicated the Company will report on-time the financial results for the fourth quarter and year ending December 2022. Thus, by late February or early March 2023, shareholders could have an update on cash resources and the remaining cash requirement to complete the graphite processing plant in Alabama. We also expect management to be a bit more forthcoming on its business pipeline following the recent success in placing a significant portion of the *PMG* production.

We believe the stock price has been suppressed by year-end tax loss selling. Furthermore, the stock has not been immune from negative macroeconomic and political conditions that have weighed on all U.S. equities. Encouraging news in Westwater's year-end 2022 financial report could provide some comfort to the market and could trigger new buying.

**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	11,143	13,200	14,500
Product development and other	5,378	5,975	1,957	5,500	5,000
Depreciation and amortization	(55)	20	179	3,000	4,000
Mineral property expenses	34	110	610	750	750
Accretion of asset retirement obligations	201	-	-	-	-
Total operating expenses	11,236	18,225	13,889	22,450	24,250
Operating income (loss)	(11,236)	(18,225)	(13,889)	(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)	(13,889)	(9,817)	(6,002)
Discontinued operations, net of taxes	(9,662)	-	-	-	-
Net income (loss)	(23,574)	(16,144)	(13,889)	(9,817)	(6,002)
Net EPS (LPS), comprehensive	\$ (2.68)	\$ (0.49)	\$ (0.30)	\$ (0.19)	\$ (0.11)
Wtd shares outstanding, diluted in 000s	8,799	32,653	46,076	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	65%
Holds	10%
Sells	15%
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
Update	8/22/2022	\$1.50	Buy	\$20.00
Update	11/17/22	\$1.12	Buy	\$20.00
Update	1/11/23	\$1.00	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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- D Crystal Equity Research, LLC received compensation for research coverage from the company or one of its agents. The fees are paid in advance in cash.
- E The company has a convertible issue outstanding.
- F The securities covered in this report can be optioned.
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**ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST**

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