

Energy Fuels Inc.

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Energy Fuels is making a bold bet on uranium and vanadium — investors are taking notice

The mining industry has been a difficult place to make a living over the past five to eight years. But one player has seen its stock more than double since April 2018, and now is betting that it can continue to reward its shareholders by hoarding its uranium inventory and establishing itself as a significant player in the vanadium industry.

On November 5, 2018, Lakewood, Colorado, uranium miner Energy Fuels Inc (NYSE: UUUU) released its third-quarter 2018 results, and the stock exploded nearly 18% higher on three times its average daily volume. But the \$325 million company's soaring share price had nothing to do with the prior quarter's profits, and everything to do with future expectations.

Let me explain what I mean.

Energy Fuels reported \$5.5 million in total revenue for 3Q 2017, but that figure dropped to \$451,000 for 3Q 2018. And the company's net loss ballooned from \$4.9 million in 3Q 2017 to nearly \$14 million in the most recent quarter. For 3Q 2018 the company reported no scheduled uranium contract sales and elected not to sell any uranium at the spot market. The company's approximately \$450,000 in revenue came from fulfilling alternate feed contracts.

Suffice it to say that from a numbers standpoint, Energy Fuels' latest results look terrible. But, again, investors didn't bid the stock up 18% based on the prior quarter's figures. Investors reacted to what the CEO Mark S. Chalmers said about the company's prospects.

Energy Fuels nudges higher as it outlines opportunities to lift uranium output Chalmers is making a bold bet that he can sell the company's uranium inventory for more money in future quarters. Here's what Chalmers had to say regarding his decision to hang on to his company's uranium:

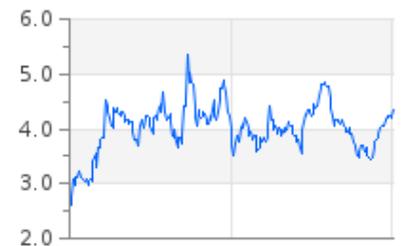
"At the end of the quarter, we held about 385,000 pounds of U3O8 inventory; all U.S. origin. At today's uranium spot price of \$28, we could have sold this material on the spot market, and perhaps allowed the company to realize over \$10 million in revenue for the quarter. However, we made the conscious decision not to sell any of our inventory, as we believe it will be worth more in the future due to improving uranium market conditions. And, U.S.-origin uranium could be worth considerably more if relief is granted under Section 232. Therefore, we continue to build unhedged uranium inventory until the end of the year, giving us the ability to benefit from the future uranium price increases we expect quickly."

Now, to understand why Chalmers is rolling the dice on higher uranium prices, let's go back to January 2018 and explain what Section 232 is and what specifically Energy Fuels is doing to try and affect the price of US-origin uranium.

Price: C\$4.03

Market Cap: C\$376.79M

1 Year Share Price Graph



June 2018 December 2018 June 2019

Share Information

Code: EFR

Listing: TSX

52 week High Low
C\$5.38 C\$2.59

Sector: Mining

Website: www.energyfuels.com

Company Synopsis:

Energy Fuels is a leading, US-based, integrated producer of uranium - the fuel for carbon-free, emission-free nuclear energy.

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Uranium Trade Petition

On January 17, 2018, Energy Fuels and Ur-Energy (NYSE: URG) jointly requested that the Department of Commerce investigate uranium imports.

In the petition, the two companies assert that US national security is at risk because state-owned and state-subsidized companies from Russia, Kazakhstan, Uzbekistan, and China currently supply a substantial amount of uranium and nuclear fuel to U.S. companies and US interests. Energy Fuels and Ur-Energy proposed that 25% of the U.S. nuclear market be reserved for U.S. uranium miners and that U.S. government utilities and agencies be required to buy their uranium from U.S. producers.

Energy Fuels and Ur-Energy chose to file their petition under Section 232 of the Trade Expansion Act of 1962, which was created to protect critical national security industries that had become threatened by imports.

US Secretary of Commerce Wilbur Ross accepted the petition and said the following on July 18, 2018: "Our production of uranium necessary for military and electric power has dropped from 49 percent of our consumption to five percent. The Department of Commerce's Bureau of Industry and Security will conduct a thorough, fair, and transparent review to determine whether uranium imports threaten to impair national security."

Unfortunately, while the Trump administration does favor an "America First" approach, Energy Fuels and its shareholders will need to be patient.

The DOC initiated its investigation on July 18, 2018. And with 270 days to prepare and deliver their report to President Trump, this is not an issue that's likely to be cleared up quickly.

Vanadium: an underappreciated asset

While investors lack certainty regarding the future spot pricing of uranium and whether President Trump will opt to protect US-origin uranium, Energy Fuels has another revenue source that's expected to come online in 4Q 2018 and that investors are only just beginning to appreciate.

On September 27, 2018, Energy Fuels announced plans to resume vanadium production at their White Mesa Mill mine in mid-November 2018 and expects to be producing significant quantities of a saleable product by the end of 2018.

When you consider that Vanadium prices have risen over 150% on a year-to-date basis to more than \$26 per pound, and Energy Fuels is sitting on four million pounds of recoverable vanadium in its pond solutions at the White Mesa Mill mine, you begin to appreciate the profits just waiting to be picked up.

Here's what Chalmers said regarding his company's Vanadium program on November 5, 2018:

"I'm currently most excited about Energy Fuels becoming the newest vanadium producer in the world in the next few weeks. We believe we have four million pounds of recoverable vanadium dissolved in our pond solutions at the White Mesa Mill. We plan to produce 200,000 to 225,000 pounds of V₂O₅ per month for 6-20 months, subject to market conditions, costs, and recoveries. This production should coincide very well with today's strong vanadium prices, which as of today have risen over 150% year-to-date to \$26.25 per pound.

We look forward to Energy Fuels taking its place as the only primary producer of V₂O₅ in North America."

Source: TC 2000

From a technical perspective, there's not much to dislike about Energy Fuels' chart. While the stock is up sharply since early April 2018, it has also been consolidating those gains since early August.

Barring a weekly reversal back below \$2.50 to \$2.75, the path of least resistance appears to be higher, toward \$5.20.

The bottom line is Energy Fuels' is rolling the dice. The company is betting that uranium prices, which are already up 40% on a year-over-year basis, will continue to rebound. And they're further betting that President Trump will lean on his Buy American policy and strengthen the US uranium mining industry.

But thanks to the company's soon-to-come-online vanadium production, investors appear willing to bet on its future success.

At the time of publication, Bob Byrne had no positions in the stocks mentioned.

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