

Helium One Global

Oversubscribed equity raise will allow acceleration of development on exploration success

Helium One raises £10mm in placement to potentially accelerate development
Helium One last week raised £10mm in a significantly oversubscribed placing at 10p/sh. The main reason for the raise was to put the funds in place for HE1 to move quickly in the event of a discovery with its upcoming 3 well drilling campaign. This will save time and money on the appraisal and development planning process. Exploration drilling is expected to commence in around a month's time. As a result of the raise, we have factored in a derisking of the commercialisation of the project and have increased our chance of commercialisation to 85% from 75%. Over all this offsets the dilution from the raise so our risked NAV remains unchanged at 11p/sh.

Rukwa project has the potential to be a material helium producer

Helium One's key asset is its Tanzanian licence, Rukwa, which is a globally unique large-scale, high-grade, primary helium project. Most helium is produced as a by-product in large gas developments but Rukwa is one of very few helium projects that could be produced from non-hydrocarbon sources. To put it in context each of the wells is targeting the equivalent of around a year's global helium demand. The total prospect inventory is 138bcf unrisked (P50), the largest primary helium resource in the world. HE1 has a first mover advantage in Tanzania, with attractive fiscal terms for helium extraction and low exploration drilling costs.

Exploration drilling in Q2 2020 targeting 18bcf worth £1.02/sh unrisked

HE1 intends to drill three exploration wells (on the Kasuku, Itumbula and Mbuni prospects) within the Rukwa licence in Q2'21. Each well should take a month to drill but helium shows in the mudlogs could be reportable prior to hole completion. We carry 34p/sh of unrisked and 3p/sh of risked value on average for each well. A substantial part of the overall risking relates to the "play" risk, which is the same for all prospects. Therefore, if one well is successful, it would derisk HE1's other targets. We estimate that it could double the overall chance of success for the other prospects.

Helium market investment dynamics versus oil & gas

Helium has several unique properties that make it an essential element for many industries, which cannot be synthesised or manufactured, and with no substitutes. There has been a shortage of helium in recent years leading to a significant increase in prices. Helium is an extremely highly-valued commodity with a price around 100x that of natural gas, meaning even small amounts or low concentrations can be highly economic. Given the smaller footprint of a helium development, a standalone helium production facility can be developed quicker and much more cost effectively than a conventional greenfield oil and gas discovery that would normally take five-plus years and potentially cost billions of dollars to develop. A concentrated market also confers a competitive advantage to the current participants. HE1 expects to produce helium from resources that do not have associated hydrocarbon accumulations, allowing HE1 to produce carbon emission-free helium, unlike most of the global supply that is a by-product of natural gas operations. Listed helium companies have soared in value over the last year, in stark contrast to oil and gas companies.

Valuation: >7x upside on an unrisked basis; peers +650% in 2020

In our base case scenario, we use a helium price of US\$250/mcf long-term flat from 2021 and a 14% discount rate from 1/1/2021. Our risked NAV is 11p/sh, which implies 5% upside from the current share price. On an unrisked basis, we have a NAV of £0.88/sh or >7x upside. Further to this are the follow-on prospects that are not included in our NAV and its other exploration areas. Helium focused E&P companies, especially those akin to Helium One that focus on primary helium have seen their shares rise by >650% in 2020, demonstrating the market's interest in the helium sector. Also a US\$50/mcf increase in the helium price would increase our risked NAV by 2p/sh.

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|------------------------------|---------------|
| GICS Sector | Energy |
| Ticker | LN:HE1 |
| Market cap 16-Apr-21 (US\$m) | 89 |
| Share price 16-Apr-21 (GBP) | 10.8 |

NAV summary (p/sh)

| Asset | Unrisked | Risked |
|------------------|-----------|-----------|
| Kasuku | 25 | 3.1 |
| Itumbula | 26 | 2.3 |
| Mbuni | 34 | 2.9 |
| Cash/other | 3 | 3 |
| Total NAV | 88 | 11 |

Source: H&P estimates

US\$762mm

Unrisked value of the 3 prospects planned to be drilling in H1'21

>650%

Share price performance of the 3 primary helium E&P companies in 2020

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