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 20.88/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.
Disclaimer

This Document has been prepared by H&P Advisory Limited (“H&P”). It is protected by international copyright laws and is for the recipient’s use in connection with considering a potential business relationship with H&P only. This Document and any related materials are confidential and may not be distributed or reproduced (in whole or in part) in any form without H&P’s prior written permission.

By accepting or accessing this Document or any related materials you agree to be bound by the limitations and conditions set out herein and, in particular, will be taken to have represented, warranted and undertaken that you have read and agree to comply with the contents of this disclaimer including, without limitation, the obligation to keep information contained in this Document and any related materials confidential.

This Document does not represent investment research for the purposes of the rules of the Financial Conduct Authority (“FCA Rules”). To the extent it constitutes a research recommendation, it takes the form of NON-INDEPENDENT research for the purposes of the FCA Rules. As such it constitutes a MARKETING COMMUNICATION, has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of dissemination of investment research.

The information contained herein does not constitute an offer or solicitation to sell or acquire any security or fund the acquisition of any security by anyone in any jurisdiction, nor should it be regarded as a contractual document. Under no circumstances should the information provided in this Document or any other written or oral information made available in connection with it be considered as investment advice, or as a sufficient basis on which to make investment decisions. This Document is being provided to you for information purposes only.

The distribution of this Document or any information contained in it and any related materials may be restricted by law in certain jurisdictions, and any person into whose possession this Document or any part of it comes should inform themselves about, and observe, any such restrictions.

The information in this Document does not purport to be comprehensive and has been provided by H&P (and, in certain cases, third party sources) and has not been independently verified. No reliance may be placed for any purposes whatsoever on the information contained in this Document or related materials or in the completeness of such information.

The information set out herein and in any related materials reflects prevailing conditions and our views as at this date and is subject to updating, completion, revision, verification and amendment, and such information may change materially. H&P is under no obligation to provide the recipient with access to any additional information or to update this Document or any related materials or to correct any inaccuracies in it which may become apparent.

Whilst this Document has been prepared in good faith, neither H&P nor any of its group undertakings, nor any of its or their respective directors, members, advisers, representatives, officers, agents, consultants or employees makes, or is authorised to make any representation, warranty or undertaking, express or implied, with respect to the information or opinions contained in it and no responsibility or liability is accepted by any of them as to the accuracy, completeness or reasonableness of any information or opinions or any other written or oral information made available to any party or its advisers. Without prejudice to the foregoing, neither H&P nor any of its group undertakings, nor any of its or their respective directors, members, advisers, representatives, officers, agents, consultants or employees accepts any liability whatsoever for any loss howsoever arising, directly or indirectly, from use of this Document and/or related materials or their contents or otherwise arising in connection therewith. This Document shall not exclude any liability for, or remedy in respect of, fraudulent misrepresentation.

All statements of opinion and/or belief contained in this Document and all views expressed and all projections, forecasts or statements regarding future events or possible future performance represent H&P’s own assessment and interpretation of information available to it as at the date of this Document. This Document and any related materials may include certain forward-looking statements, beliefs or opinions. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There can be no assurance that any of the results and events contemplated by the forward-looking statements contained in the information can be achieved or will, in fact, occur. No representation is made or any assurance, undertaking or indemnity given to you that such forward looking statements are correct or that they can be achieved. Past performance cannot be relied on as a guide to future performance.

This Document is directed at persons having professional experience in matters relating to investments in which Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (“FPO”) applies, or high net worth organisations to whom Article 49 of the FPO applies. The investment or investment activity to which this communication relates is available only to such persons and other persons to whom this communication may lawfully be made (“relevant persons”) and will be engaged in only with such persons. This Document must not be acted upon or relied upon by persons who are not relevant persons.

This Document is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. In particular, the information contained in this Document is not for publication, release or distribution, and may not be taken or transmitted into: (i) the United States or its territories or possessions, or distributed, directly or indirectly, in the United States, its territories or possessions or to any U.S. person as such term is defined in Regulation S of the Securities Act; or (ii) Australia, Canada, Japan, New Zealand or the Republic of South Africa. Any failure to comply with this restriction may constitute a violation of United States, Canadian, Australian or South African securities law. Further, the distribution of this Document in other jurisdictions may be restricted by law, and persons into whose possession this Document comes are required to inform themselves about, and observe, any such restrictions.

H&P may from time to time have a broking, corporate finance advisory or other relationship with a company which is the subject of or referred to in the Document. This Document may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor’s. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omission (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. Third party content providers give no express or implied warranties, including, but not limited to, any warranties of merchantability or fitness for a particular purpose or use. Third party content providers shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including lost income or profits and opportunity costs or losses caused by negligence) in connection with any use of their content including ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

In H&P’s view this material is considered as “acceptable minor non-monetary benefit” under MiFID II as it is either: (i) “non-substantive short-term market commentary”; and/or (ii) making a brief reference to existing H&P research and, as such, is in-and-of itself non-substantive; and/or (iii) paid for by a corporate issuer or potential corporate issuer as part of a contractual engagement with H&P.

H&P Advisory Ltd is registered in England No.11120795. Registered Office: 2 Park Street, London W1K 2HX. H&P Advisory Ltd is authorised and regulated by the Financial Conduct Authority ( Firm Reference Number 805667).