

Avanti Helium Corp. (AVN-V)

A Major Step in De-risking the Sweetgrass Project

Avanti announced that it has signed a midstream agreement with IACX Resources Montana LLC to have IACX build, finance, and operate a Helium Recovery Unit (HRU) for AVN's Sweetgrass pool in Montana. This is an important step for Avanti as it provides clarity for both capital and operating costs and is another important step in de-risking the path to helium production and sales.

IACX has considerable experience in the helium processing game as it operates 13 helium purification facilities across the U.S. and Canada. The Sweetgrass plant is to initially process 10 mmcf/d of raw gas with the option to increase to 15 mmcf/d. While we had expected a 15 mmcf/d raw gas plant out of the gate, the smaller size allows an expedited installation (initial components arrive on-site in Q4/23) and start-up of processing in Q1/24 and allows AVN to ensure the pool's capability. That said, we forecast the option to be exercised and the plant will get expanded to the 15 mmcf/d raw gas capacity in H2/24, which we understand requires adding PSAs and membranes. At 1.1% helium, that means 110 mcf/d initially and rising to 165 mcf/d when the plant's raw gas throughput is increased. These levels of helium should make AVN the largest producer of helium among its Canadian-listed peers.

The cost to process/liquify/transport the helium under the midstream agreement is set over the 7-year term at \$211/mcf for year 1, \$177/mcf for year 2 and \$163/mcf thereafter. As such, we forecast AVN to generate \$22.5 million of EBITDA in 2024.

Once the company is generating EBITDA in Q1/24, we expect it to resume its exploration drilling program on its Greater Knappen lands with the next well likely at its Keith property (see Exhibit 1) in H1/24. Drilling success should translate to another HRU installation by Q3/25 and would give AVN two producing areas by H2/25 with EBITDA for 2025 approaching \$40 million under that scenario.

The last pieces of the puzzle for the Sweetgrass project are financing for the required pipeline and power to the Sweetgrass site (~6 million) and possibly an offtake agreement. Avanti is working on both those and we expect to hear solutions over the coming months.

Conclusion & Recommendation: This latest agreement is a major de-risking step in AVN's path to production of liquified helium that should receive a price of US\$750/mcf or more. Based on our forecasts, AVN is trading at an EV/EBITDA multiple of 2.4x for 2024 and only 0.9x for 2025. With a compelling macro backdrop in the critical helium sector, we believe that multiple should be much higher. We maintain our price target of \$2.25, which is derived from a combination of a 5.5x EV/EBITDA multiple of our 2024 forecasts and our Risked Exploration NAV. We maintain our Spec Buy rating.

Helium Facility Agreement

Spec Buy (unch)
\$2.25 (unch)

Recent/Closing Price	\$0.72
12-month Target Price	\$2.25
Potential Return	213%
52 Week Price Range	\$0.44 - \$1.18

Estimates

YE: Dec 31	FY23E	FY24E	FY25E
Helium prod (mcf/d)	0	120	200
Revenue (\$M)	\$0.0	\$43.2	\$69.4
EBITDA (\$M)	(\$4.1)	\$22.5	\$39.5
FFOPS (FD)	(\$0.06)	\$0.27	\$0.49
EPS (FD)	(\$0.07)	\$0.22	\$0.41

Valuation

YE: Dec 31	FY23E	FY24E	FY25E
P/CF	neg	2.7x	1.5x
EV/EBITDA	neg	2.4x	0.9x
EV/mmcfd	-	\$452,909	\$178,049

Stock Data

Shares Outstanding	
Basic	77.1
Fully Diluted	109.5
Market Cap (CSM)	
Basic	\$55.5
Fully Diluted	\$78.9
Q1/23 Net Debt/(Cash) (\$M)	\$(1.3)
Enterprise Value (\$M)	\$54.2

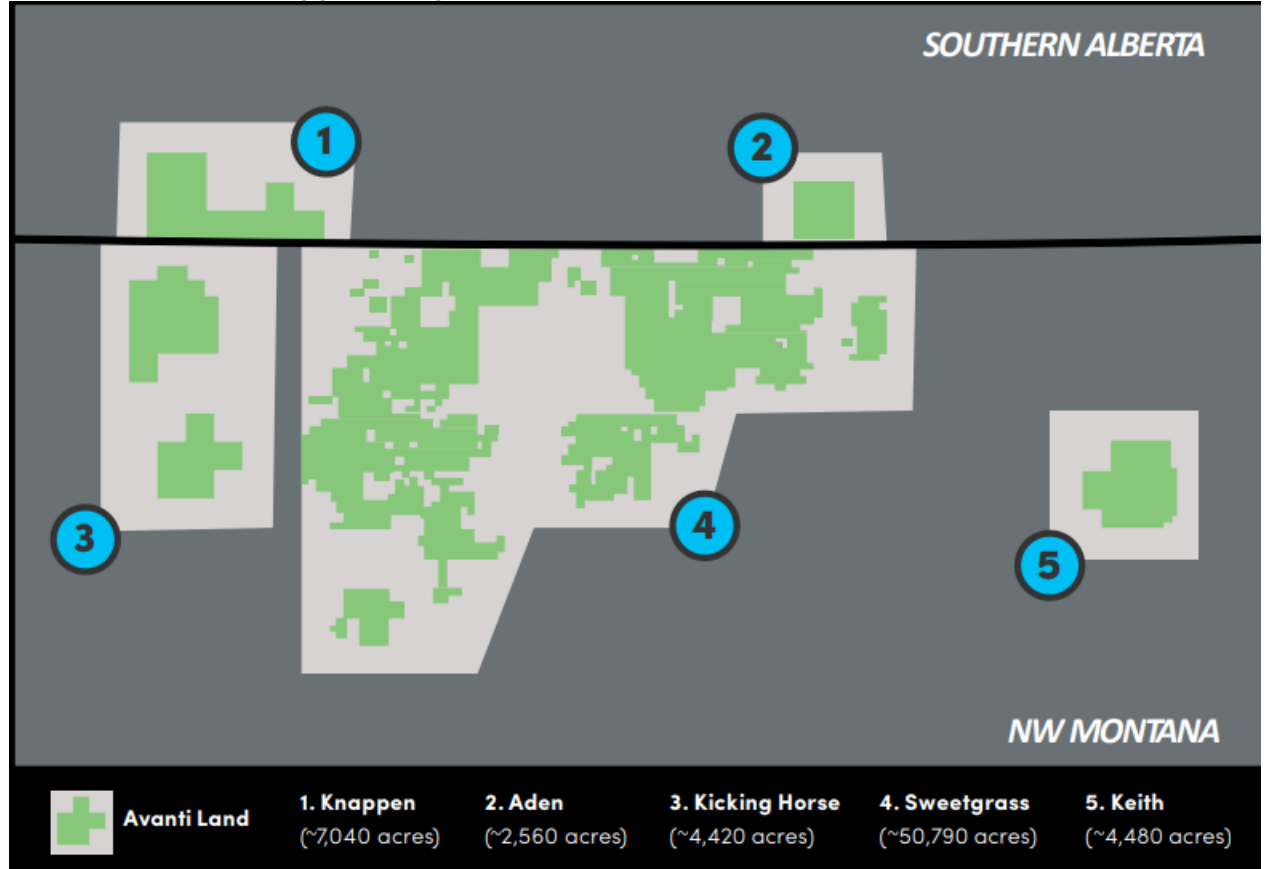
About the Company

Avanti Helium is focused on the exploration, development and production of helium across western Canada and the western United States via the deployment of its proprietary exploration model.

All prices in C\$ unless otherwise stated

Stock Performance



Exhibit 1. Greater Knappen Prospect Areas


Source: Company reports, Beacon Securities Limited

Operating & Financial Summary

AVANTI HELIUM CORP.
Recommendation: SPEC BUY
Target price: \$2.25

SHARE INFORMATION					VALUATION			2023E	2024E	2025E
Price				\$0.72	EV/EBITDA	neg	2.4x	0.9x		
Shares O/S – basic (mm)				77.1	P/FFO (diluted)	neg	2.7x	1.5x		
Shares O/S – float (mm)				66.9	P/E	neg	3.3x	1.7x		
Shares O/S – f.d. (mm)				109.5	EV/production (\$/mcf/d)	-	\$452,909	\$0		
Market cap (\$mm)				\$56	Price/ PDP NAV	-	-	-		
Enterprise value (\$mm)				\$54	Price/ 1P NAV	-	-	-		
52-week range				\$0.44 - \$1.18	Price/ 2P NAV	-	-	-		
Total projected return				213%						
COMMODITY PRICES					NETBACKS (\$/mcf)					
	2022A	2023E	2024E	2025E		2023E	2024E	2025E		
Helium (US\$/mcf)	-	-	\$750	\$750	Revenue	\$0.00	\$986.84	\$949.37		
Fx (C\$/US\$)	\$0.77	\$0.75	\$0.76	\$0.79	Royalties	\$0.00	(\$148.03)	(\$142.41)		
PRODUCTION					CASH FLOW					
	2022A	2023E	2024E	2025E		2023E	2024E	2025E		
Helium (mcf/d)	0	0	120	200	Operating & Trans	\$0.00	(\$216.00)	(\$196.02)		
He/MM Basic Shares	0.0	0.0	1.6	2.6	Operating Netback	\$0.00	\$622.82	\$610.95		
					G&A	\$0.00	(\$109.64)	(\$71.13)		
Production Growth	-	-	-	67%	Interest	\$0.00	\$0.00	\$0.00		
Prod Growth Per Share	-	-	-	67%	Other	\$0.00	(\$18.27)	(\$10.94)		
FINANCIAL (\$mm)					EARNINGS					
	2022A	2023E	2024E	2025E		2023E	2024E	2025E		
Revenue	0.0	0.0	43.2	69.4	Cash Flow Netback	\$0.00	\$494.90	\$528.87		
Royalties	0.0	0.0	(6.5)	(10.4)	DD&A	\$0.00	(\$50.00)	(\$50.00)		
Operating	0.0	0.0	(9.5)	(14.3)	Stock based compensation	\$0.00	(\$22.84)	(\$13.68)		
G&A	(4.4)	(4.1)	(4.8)	(5.2)	Other non-cash	\$0.00	\$0.00	\$0.00		
EBITDA	(4.4)	(4.1)	22.5	39.5	Deferred tax	\$0.00	(\$21.10)	(\$23.26)		
Interest	0.0	(0.0)	0.0	0.0	Earnings Netback	\$0.00	\$400.96	\$441.93		
DD&A	(0.0)	(0.0)	(2.2)	(3.7)						
Taxes	0.0	0.0	(0.9)	(1.7)						
Other	(4.2)	(1.7)	(1.8)	(1.8)						
Net Income	(\$8.6)	(\$5.8)	\$17.6	\$32.3						
					RESERVES (mmcf)					
						2022A	2023E	2024E		
FFO (mm)	(\$5.7)	(\$4.5)	\$21.7	\$38.7	PDP	-	-	-		
FFOPS (basic)	(\$0.10)	(\$0.06)	\$0.28	\$0.50	Proved (1P)	-	-	-		
FFOPS (diluted)	(\$0.10)	(\$0.06)	\$0.27	\$0.49	Proved + Probable (2P)	-	-	-		
EPS Fully Diluted	(\$0.15)	(\$0.07)	\$0.22	\$0.41	PDP NAV (\$/Share)	-	-	-		
Net Debt	\$1.3	\$9.0	(\$1.2)	(\$19.8)	1P NAV (\$/Share)	-	-	-		
D/EBITDA - trailing	NA	NA	NA	NA	2P NAV (\$/Share)	-	-	-		
D/EBITDA - forward	0.1x	0.2x								
Borrowing capacity	NA									
CAPITAL PROGRAM					2023 QRTL FORECASTS					
	2022A	2023E	2024E	2025E		Q1	Q2E	Q3E	Q4E	
Total Capex (mm)	\$12	\$9	\$12	\$20	Helium (mcf/d)	0	0	0	0	
% of cash flow	-208%	-190%	53%	52%	Revenue (\$MM)	\$0.0	\$0.0	\$0.0	\$0.0	
					EBITDA (\$MM)	-\$1.0	-\$1.0	-\$1.1	-\$1.0	
					FD FFO	-\$0.01	-\$0.01	-\$0.02	-\$0.01	
					FD EPS	-\$0.02	-\$0.02	-\$0.02	-\$0.02	
MANAGEMENT & BOARD										
					Chris Bakker	CEO & Director				
					Rob Gamley	President & Director				
					Genja Nadaraju	VP, Subsurface Geology				
					Cam Buss	VP, Engineering				
					Dr. Jim Wood	Director of Geoscience				
					Natasha Tsai	CFO				
					Greg Bronson	Director				
					Michael Leo	Director				

Source: Company reports, Beacon Securities Limited

Risks

- **Commodity Price Fluctuations** – The company has direct exposure to the price for helium, which is an opaque market. Downward movements in this commodity can adversely affect the financial performance of the company. To offset this risk, the company may enter into take-or-pay contracts to manage its exposure to commodity price fluctuations.
- **Financing** – Exploring for and developing helium may require a combination of debt and equity capital. Our models may incorporate fluctuations in net debt and while we have forecast additional equity, there is no certainty that the company can raise equity capital or that its bank lines will remain static or increase.
- **Foreign exchange & Interest Rates** – Any movement in either of these rates has the potential to adversely affect the company's financial performance.
- **Cost Overruns** – Unexpected drilling, completion and/or operational cost overruns can mitigate the operational and financial performance of the company.
- **Exploration risk** – Due to limited number of dedicated helium wells drilled on or in relative proximity to the company's lands, there may be a heightened level of risk associated with the company's exploration drilling.
- **Weather and Seasonal Factors** – Extreme weather conditions may influence results.
- **Change in Fiscal Regime** – A change in the royalty or tax rates as they relate to helium production may adversely affect cash flows.
- **Well Performance** – The company may have a higher than normal amount of risk associated with its wells or plays due to the early-stage nature of its asset base. Lower production volumes, higher decline rates and/or dry holes can adversely affect the results of the company, particularly from a potential negative reserve revision perspective. Past performance may not be indicative of future execution.

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As of June 30, 2023	#Stocks	Distribution		
BUY	72	76.6%	BUY	Total 12-month return expected to be > 15%
Speculative Buy	16	17.0%	Speculative Buy	Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	1	1.1%	Hold	Total 12-month return is expected to be between 0% and 15%
Sell	0	0.0%	Sell	Total 12-month return is expected to be negative
Under Review	4	4.3%	Under Review	
Tender	1	1.1%	Tender	Clients are advised to tender their shares to a takeover bid or similar offer
Total	94	100%		

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