

## Avanti Energy Inc. (AVN-V)

### Q2 Sets Up Avanti For Exploration Drilling In Near Term

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**Event.** Avanti reported its Q2/21 results that were somewhat uneventful from a financial POV as the company remains in a pre-production stage. That said, AVN did see an overhaul of the management team and a significant increase in its helium exploration lands both in Alberta and Montana. After a \$5 million private placement and capex of \$0.4 million in the quarter, AVN finished with a net cash position of \$7.9 million on June 30, 2021. With another \$4 million private placement in early Q3, AVN appears to have its financial position in order to undertake its 2021 exploration drilling.

Avanti continues to make progress toward initial drilling on its lands in Alberta and Montana. Technical work, including a seismic program, is refining the drilling locations on both sides of the 49<sup>th</sup>. Recall that AVN has identified a 4-way closure on its Aden property in southern Alberta with about 75 meters of structural relief in the Precambrian and Beaverhill Lake formations where offset wells have shown between 0.6%-2.2% helium content as well as 86%-98% nitrogen.

Drilling of the first Montana well should begin in early Q4 where AVN is in the process of finalizing due diligence and title review on its land holdings. Our expectation of 3 exploratory wells in Q4/21 remains unchanged.

**Conclusion & Recommendation:** Avanti has delivered on the early stage of its exploration process, that being initial G&G work and identifying/securing over 75,000 acres in Alberta and Montana. Soon the rubber hits the road as exploration drilling begins, which could prove up some of the highest helium concentrations in its peer group. With success, we continue to forecast initial production in H2/22. We maintain our \$3.80 target price and our Spec Buy rating.

#### Q2/21 Results

SPEC BUY (unch)	\$3.80 (unch)
Recent Price	\$1.64
12-month Target Price	\$3.80
Potential Return	132%
52 Week Price Range	\$0.17 - \$3.17
FYE	Dec 31

Assumptions	2020A	2021E	2022E	2023E
Helium price (US\$/mcf)	-	-	\$300	\$325
US\$/CDN\$	\$0.75	\$0.80	\$0.80	\$0.80

Production	2020A	2021E	2022E	2023E
Helium (mcf/d)	-	-	53	330
HE/MM Basic shares	-	-	1.0	5.4

Financial (\$MM, except Per Share item)	2020A	2021E	2022E	2023E
EBITDA	\$0.0	(\$2.2)	\$4.8	\$39.2
FFO	\$0.0	(\$2.9)	\$4.8	\$39.1
CAPEX	\$0.0	\$6.2	\$15.0	\$16.5
YE Net Debt (cash)	(\$1.8)	(\$5.8)	(\$5.5)	(\$28.2)
Net Debt/CF	n.a.	n.a.	n.a.	n.a.
FFOPS - Fully Diluted	\$0.00	(\$0.07)	\$0.08	\$0.63
EPS - Fully Diluted	\$0.00	(\$0.10)	\$0.05	\$0.46

Valuation	2020A	2021E	2022E	2023E
P/CF	n.a.	19.8x	2.6x	
EV/EBITDA	n.a.	19.8x	1.8x	
EV/MCFPD	n.a.	\$1,429,490	\$160,658	

Stock Data	Value
Shares Outstanding, Basic (MM)	49.5
Shares Outstanding, Diluted (MM)	54.2
Insider Holdings, Basic	21%
Market Capitalization (MM)	\$81.2
Enterprise value (MM)	\$70.6

#### About the Company

Avanti Energy 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



## Operating & Financial Summary

**AVANTI ENERGY INC.**

Recommendation: SPEC BUY

Target price: \$3.80

SHARE INFORMATION					VALUATION				
	2020E	2021E	2022E	2023E	2020E	2021E	2022E	2023E	
Price				\$1.64	EV/EBITDA		n.a.	19.8x	1.8x
Shares O/S – basic (mm)				49.5	P/CF (diluted)		n.a.	19.8x	2.6x
Shares O/S – float (mm)				39.3	P/E		n.a.	30.0x	3.6x
Shares O/S – f.d. (mm)				54.2	EV/production (\$/mcf/d)		n.a.	\$1,429,490	\$160,658
Market cap (\$mm)				\$81	Price/ PDP NAV		-	-	-
Enterprise value (\$mm)				\$71	Price/ 1P NAV		-	-	-
52-week range				\$0.17 - \$3.17	Price/ 2P NAV		-	-	-
<b>Total projected return</b>				<b>132%</b>					
COMMODITY PRICES					NETBACKS (\$/mcf)				
	2020E	2021E	2022E	2023E	2020E	2021E	2022E	2023E	
Helium (US\$/mcf)	-	\$300	\$300	\$325	Revenue	-	-	\$375.00	\$406.25
Fx (C\$/US\$)	\$0.75	\$0.80	\$0.80	\$0.80	Royalties	-	-	(\$15.94)	(\$17.27)
PRODUCTION					OPERATING & TRANS				
	2020E	2021E	2022E	2023E					
Helium (mcf/d)	0	0	53	330	Operating Netback	-	-	\$309.06	\$338.98
Production Growth	-	-	-	523%	G&A	-	-	(\$62.11)	(\$13.28)
Prod Growth Per Share	-	-	-	470%	Interest	-	-	\$0.00	(\$0.73)
					Other	-	-	\$0.00	\$0.00
					<b>Cash Flow Netback</b>	-	-	<b>\$246.95</b>	<b>\$324.98</b>
					DD&A	-	-	(\$60.00)	(\$60.00)
					Stock based compensation	-	-	(\$10.35)	(\$1.66)
					Other non-cash	-	-	\$0.00	\$0.00
					Deferred tax	-	-	(\$14.15)	(\$26.33)
					<b>Earnings Netback</b>	-	-	<b>\$162.44</b>	<b>\$236.98</b>
FINANCIAL (\$mm)					RESERVES (mmcf)				
	2020E	2021E	2022E	2023E	2020E	2021E	2022E	2023E	
Revenue	0.0	0.0	7.2	48.9	PDP	-	-	-	-
Royalties	0.0	0.0	(0.3)	(2.1)	Proved (1P)	-	-	-	-
Operating	0.0	0.0	(1.0)	(6.0)	Proved + Probable (2P)	-	-	-	-
G&A	0.0	(2.2)	(1.2)	(1.6)	PDP NAV (\$/Share)	-	-	-	-
<b>EBITDA</b>	<b>0.0</b>	<b>(2.2)</b>	<b>4.8</b>	<b>39.2</b>	1P NAV (\$/Share)	-	-	-	-
Interest	0.0	0.0	0.0	(0.1)	2P NAV (\$/Share)	-	-	-	-
DD&A	0.0	(0.0)	(1.2)	(7.2)					
Taxes	0.0	0.0	(0.3)	(3.2)					
Other	0.0	(2.1)	(0.2)	(0.2)					
<b>Net Income</b>	<b>\$0.0</b>	<b>(\$4.4)</b>	<b>\$3.1</b>	<b>\$28.5</b>					
FFO (mm)	\$0.0	(\$2.9)	\$4.8	\$39.1					
FFOPS (basic)	\$0.00	(\$0.07)	\$0.09	\$0.64					
<b>FFOPS (diluted)</b>	<b>\$0.00</b>	<b>(\$0.07)</b>	<b>\$0.08</b>	<b>\$0.63</b>					
<b>EPS Fully Diluted</b>	<b>\$0.00</b>	<b>(\$0.10)</b>	<b>\$0.05</b>	<b>\$0.46</b>					
Net Debt	(\$1.8)	(\$5.8)	(\$5.5)	(\$28.2)					
D/CF - trailing	NA	2.0x	NA	NA					
D/CF - forward	0.6x	NA	NA						
Borrowing capacity	\$0.0	\$0.0							
CAPITAL PROGRAM					2022 QRTL FORECASTS				
	2020E	2021E	2022E	2023E		Q1E	Q2E	Q3E	Q4E
Total Capex (mm)	\$0	\$6	\$15	\$17	Helium (mcf/d)	0	0	60	150
% of cash flow	n.a.	-215%	314%	42%	Revenue (\$MM)	\$0.0	\$0.0	\$2.1	\$5.2
					EBITDA (\$MM)	-\$0.3	-\$0.3	\$1.4	\$4.0
					FD FFO	-\$0.01	-\$0.01	\$0.03	\$0.06
					FD EPS	-\$0.01	-\$0.01	\$0.02	\$0.05
					MANAGEMENT & BOARD				
					Chris Bakker	CEO & Director			
					Rob Gamley	President & Director			
					Genja Nadaraju	VP, Subsurface Geology			
					Ali Esmail	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 at July 31, 2021	#Stocks	Distribution
BUY	70	74.5%
Speculative Buy	20	21.3%
Hold	2	2.1%
Sell	0	0.0%
Under Review	1	1.1%
Tender	1	1.1%
<b>Total</b>	<b>94</b>	<b>100%</b>

BUY Total 12-month return expected to be > 15%  
 Speculative Buy Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss  
 Hold Total 12-month return is expected to be between 0% and 15%  
 Sell Total 12-month return is expected to be negative  
 Under Review  
 Tender Clients are advised to tender their shares to a takeover bid or similar offer

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