

Avanti Energy Inc. (AVN-V)

Encouraging DST Results On WNG 11-22 Helium Exploration Well

Event: Avanti has completed the initial testing on its WNG 11-22 well, the second helium exploration well on the Montana side of its Greater Knappen project. An open hole logging and DST (drill stem test) was performed on the well with very encouraging results, albeit still at an early stage of the exploration process.

The company confirmed that the WNG 11-22 well has excellent reservoir quality in the three target zones, that being the deep Basal Cambrian and the uphole middle and lower Souris River (previously identified as the upper and lower Beaverhill Lake). Specifically, the Basal Cambrian zone has porosity of up to 16% over a 35-foot net pay section and the two Souris River intervals have porosity up to 18% over a combined 42 feet of net pay. Formation water does not appear to be an issue in any of the three zones.

The DST results indicate that helium concentrations are likely economic in all three zones; in other words, the He % looks to be in the range that AVN previously suggested in its analysis of the area (generally between 0.76%-2.0+%). More concrete data will become available once the company completes the two wells drilled so far (Rankin 01-17 and WNG 11-22). The plan is to undertake those completions next and forego additional drilling until that process is finished. We expect results post-completions to be available in 6-8 weeks.

We re-iterate that the Cambrian zone has high impact potential in terms of helium production as both He concentrations and raw gas flow rates could be at elevated levels. At the end of the day, production of 50 mcf/d of helium per well would be highly economic at a top line of US\$300-US\$500 per mcf with a payout of only a few months and IRRs in the 200%-400% range.

Conclusion & Recommendation: Avanti will now move to the completions stage for its first two helium exploration wells, meaning we are only weeks away from news that may potentially have a large impact in terms of solidifying the value proposition for the Greater Knappen area. We maintain our \$3.80 target price, which is derived from a 5.0x EV/EBITDA multiple of our 2023 forecasts, and our Spec Buy rating.

WNG 11-22 Initial Results

Spec Buy (unch)	\$3.80 (unch)
Recent/Closing Price	\$1.60
12-month Target Price	\$3.80
Potential Return	138%
52 Week Price Range	\$0.95 - \$3.17

Estimates

YE: Dec 31	FY21E	FY22E	FY23E
Helium prod (mcf/d)	0	53	330
Revenue (\$M)	\$0.0	\$7.2	\$48.9
EBITDA (\$M)	(\$4.2)	\$2.8	\$37.6
FFOPS (FD)	(\$0.13)	\$0.05	\$0.62
EPS (FD)	(\$0.21)	\$0.02	\$0.44

Valuation

YE: Dec 31	FY21E	FY22E	FY23E
P/CF	neg	32.3x	2.6x
EV/EBITDA	neg	33.6x	1.9x
EV/MMCFPD	neg	\$1,439,827	\$167,164

Stock Data

Shares Outstanding	
Basic	48.8
Fully Diluted	54.8
Market Cap (C\$M)	
Basic	\$78.1
Fully Diluted	\$87.8
Net Debt/(Cash) (\$M)	\$(5.6)
Enterprise Value (\$M)	\$72.5

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

Stock Performance



Operating & Financial Summary

AVANTI ENERGY INC.
Recommendation: SPEC BUY
Target price: \$3.80

SHARE INFORMATION					VALUATION					
Price				\$1.60	EV/EBITDA				33.6x	1.9x
Shares O/S – basic (mm)				48.8	P/CF (diluted)				32.3x	2.6x
Shares O/S – float (mm)				38.6	P/E				71.2x	3.6x
Shares O/S – f.d. (mm)				54.8	EV/production (\$/mcf/d)				\$1,439,827	\$167,164
Market cap (\$mm)				\$78	Price/ PDP NAV				-	-
Enterprise value (\$mm)				\$73	Price/ 1P NAV				-	-
52-week range				\$0.95 - \$3.17	Price/ 2P NAV				-	-
Total projected return				138%						
COMMODITY PRICES					NETBACKS (\$/mcf)					
	2020A	2021E	2022E	2023E	Revenue	2020A	2021E	2022E	2023E	
Helium (US\$/mcf)	-	-	\$300	\$325	Royalties	-	-	(\$15.94)	(\$17.27)	
Fx (C\$/US\$)	\$0.75	\$0.80	\$0.80	\$0.80	Operating & Trans	-	-	(\$50.00)	(\$50.00)	
PRODUCTION					Operating Netback	-	-	\$309.06	\$338.98	
	2020A	2021E	2022E	2023E	G&A	-	-	(\$165.63)	(\$26.57)	
Helium (mcf/d)	-	-	53	330	Interest	-	-	\$0.00	(\$0.73)	
He/MM Basic Shares	-	-	1.0	5.6	Other	-	-	\$0.00	\$0.00	
					Cash Flow Netback	-	-	\$143.43	\$311.69	
Production Growth	-	-	-	523%	DD&A	-	-	(\$60.00)	(\$60.00)	
Prod Growth Per Share	-	-	-	468%	Stock based compensation	-	-	(\$10.35)	(\$1.66)	
FINANCIAL (\$mm)					Other non-cash	-	-	\$0.00	\$0.00	
	2020A	2021E	2022E	2023E	Deferred tax	-	-	(\$7.94)	(\$25.00)	
Revenue	-	0.0	7.2	48.9	Earnings Netback	-	-	\$65.14	\$225.03	
Royalties	-	0.0	(0.3)	(2.1)						
Operating	-	0.0	(1.0)	(6.0)	RESERVES (mmcf)	2020E	2021E	2022E	2023E	
G&A	-	(4.2)	(3.2)	(3.2)	PDP	-	-	-	-	
EBITDA	-	(4.2)	2.8	37.6	Proved (1P)	-	-	-	-	
Interest	-	0.0	0.0	(0.1)	Proved + Probable (2P)	-	-	-	-	
DD&A	-	(0.0)	(1.2)	(7.2)	PDP NAV (\$/Share)	-	-	-	-	
Taxes	-	0.0	(0.2)	(3.0)	1P NAV (\$/Share)	-	-	-	-	
Other	-	(4.3)	(0.2)	(0.2)	2P NAV (\$/Share)	-	-	-	-	
Net Income	-	(\$8.5)	\$1.3	\$27.1	2022 QRTL FORECASTS	Q1E	Q2E	Q3E	Q4E	
					Helium (mcf/d)	0	0	60	150	
FFO (mm)	-	(\$5.5)	\$2.8	\$37.5	Revenue (\$MM)	\$0.0	\$0.0	\$2.1	\$5.2	
FFOPS (basic)	-	(\$0.14)	\$0.05	\$0.63	EBITDA (\$MM)	-\$0.8	-\$0.8	\$0.9	\$3.5	
FFOPS (diluted)	-	(\$0.13)	\$0.05	\$0.62	FD FFO	-\$0.01	-\$0.01	\$0.02	\$0.06	
					FD EPS	-\$0.01	-\$0.01	\$0.01	\$0.04	
EPS Fully Diluted	-	(\$0.21)	\$0.02	\$0.44	MANAGEMENT & BOARD					
Net Debt	(\$1.8)	(\$5.6)	(\$1.9)	(\$22.9)	Chris Bakker	CEO & Director				
D/EBITDA - trailing	NA	NA	NA	NA	Rob Gamley	President & Director				
D/EBITDA - forward	NA	NA	NA	NA	Genja Nadaraju	VP, Subsurface Geology				
Borrowing capacity	NA	NA	\$0.0		Ali Esmail	VP, Engineering				
					Dr. Jim Wood	Director of Geoscience				
					Natasha Tsai	CFO				
					Greg Bronson	Director				
					Michael Leo	Director				
CAPITAL PROGRAM										
	2020A	2021E	2022E	2023E						
Total Capex (mm)	\$0	\$5	\$15	\$17						
% of cash flow	n.a.	n.a.	541%	44%						

Source: Company reports, Beacon Securities Limited

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As of January 31, 2022	#Stocks	Distribution
BUY	72	76.6%
Speculative Buy	18	19.1%
Hold	2	2.1%
Sell	0	0.0%
Under Review	2	2.1%
Tender	0	0.0%
Total	94	100%

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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