Quantum Helium

QHE-GB **Target**

2p **6.4p**

Encouraging update

OAK Securities
90 Jermyn Street | London | SW1Y 6JD

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Rec: High-Conviction BUY

NAV:

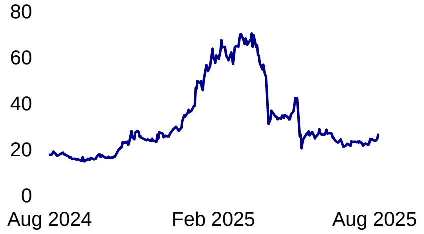
Risked target price:	6.4p
Upside to target price:	120%

Market Data:

Market cap:	£m
EV:	£m

Share price:

Change 1m:	%
Change 3m:	%
Change 12m:	%



Shares outstanding:	499.9m

Research:

Peter Hitchens
+44 7921 262 627

Corporate Broking:

Jerry Keen
+44 207 468 7964

Henry Clarke
+44 7775 672 425

Damion Carruel
+44 7775 516745

Tim Dainton
+44 7976 830453

Richard McGlashan
+44 7879 646641

Hugh Rich
+44 7581 286981

Mungo Sheehan
+44 7788 266844

Email: peter.hitchens@oak-securities.com

Quantum Helium has issued an encouraging update on its activities in Colorado. This covers the finalising of the engineering assessment following the initial Sagebrush-1 EPT (Extended Production Test). The discovery of an oil play at this well has opened up additional drilling targets within its acreage. Although we are not changing our valuation, there is growing additional potential which could create significant shareholder value.

Extended Production Test

Quantum successfully carried out an initial EPT on the Sagebrush-1 well. This demonstrated helium concentrations of 2.5% (similar to the initial discovery well). On top of this, the EPT found strong reservoir connectivity and rapid pressure recovery which are encouraging signs. Management is now looking at a further testing programme aimed at improving reservoir contact and sustained flow performances which should further derisk the project.

Additional drilling targets

Oil was unexpectedly found in the Leadville formation during the testing of the Sagebrush-1 well. This has opened up further plays in, and around, its acreage. Quantum has identified five new drilling opportunities – two near term oil targets and three larger helium and oil prospects. Permit applications are being prepared on the two most advanced oil targets – Little UTE SE and Yellow Jacket SE – which lie within the Sagebrush acreage. Management is also looking to build up additional acreage in the area which would add to the drilling portfolio.

Valuation

We derive a valuation for Quantum of 6.4p/share which is derived from a RENAV (Risked Exploration Net Asset Value). This uses a helium price US$500/mcf. This does not include the additional targets identified. These could provide additional upside and these will be added once we have a better idea of the size of the prospects and the timing of the wells. As the company progresses the operations, we believe that many of the risks should start to be mitigated.

Overview

This should prove to be an exciting time for shareholders as the company looks to become a major US helium explorer and producer. This is important at a time when supplies appear to be tight and demand continues to rise.

Update

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Oak Securities

90 Jermyn Street
London SW1Y 6JD
United Kingdom

Tel: +44 203 973 3678
Email: info@OAK-securities.com
Web: www.OAK-securities.com