Monday, February 1, 2021

HALLGARTEN & COMPANY

Pre-IPO Review

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NASCO Energie & Rohstoff

(WKN / ISIN: DE000A13SVH1/ A13SVH)

Production over Promotion

Key Metrics				
Price (EUR)	9.00 €			
12-Month Target Price (EUR)	12.20 €			
Upside to Target	36%			
Market Cap (EUR mn)	111.33 €			
Shares Outstanding (mns)	12.37			
	FY19	**FY20e**	**FY21e**	**FY22e**
Hallgarten EPS		0.03 €	0.74 €	1.48 €
Actual EPS	-0.01 €			
P/E	n/a	278.0	12.2	6.1

NASCO Energie

Production over Promotion

- + Few amongst the ranks of Helium wannabes can be taken seriously, but of those that are serious, NASCO is a standout as it has actually reached production
- + Located strategically in Arizona, the gasfields of NASCO are but a short distance from the pipeline and storage infrastructure of the Bureau of Land Management (BLM)
- + The company has substantial reserves and has not even begun to exploit more than its first deposit
- + Company has agreed 13-year take or pay agreement with Praxair/Linde
- + Despite being private the company has a base of ~2,200 shareholders
- + Soaring demand for Helium is being driven by its usage as a cooling agent in the burgeoning data centres that drive the internet and most specifically the Cloud, but also cryptomining
- + The BLM has long controlled the Helium stockpile of the US government and has been instrumental in creating the US dominance of the Helium space over the last century
- ✘ Being unlisted is a hindrance to greater investor interest and liquidity in the shares
- ✘ The US government is signaling a lower profile for its Helium "stockpile" or even the total elimination of this strategic asset
- ✘ The space (i.e. the end-market) has long been in the grip of a cartel of the super-large industrial gas players, who have been price setters
- ✘ Some carpetbaggers have invaded the promotorial end of the market and have little or no intention of reaching production, but may sour sentiments through disappointment

Helium – Avoiding the Bubble

Helium has become something of a minor sensation in recent times, with sceptics claiming it is a niche interest of a few promoters running short of ideas. The road to production in Helium is short indeed with licenses and environmental being the least of developers' worries, as most resources are pre-existing gasfields, with current or recent production. That there are a number of players that have been around for years and still have not reached production (or are vaguely near) frankly has the whiff of fakery and promotion. As the subject of this note shows, reaching production is not a bridge too far. Excepting the big diversified industrial gas majors, there is a dearth of accessible pure plays in the Helium space at the moment.

The curious paradox is that the upsurge of interest has occurred at a time when the US has signaled Helium as one of its critical elements, but is still proceeding with the rundown of its stockpiles of the gas. This makes an attractive scenario for new entrants to the production arena if one subscribes to the thesis that the soaring demand from the likes of server farms (for cooling) to support the burgeoning

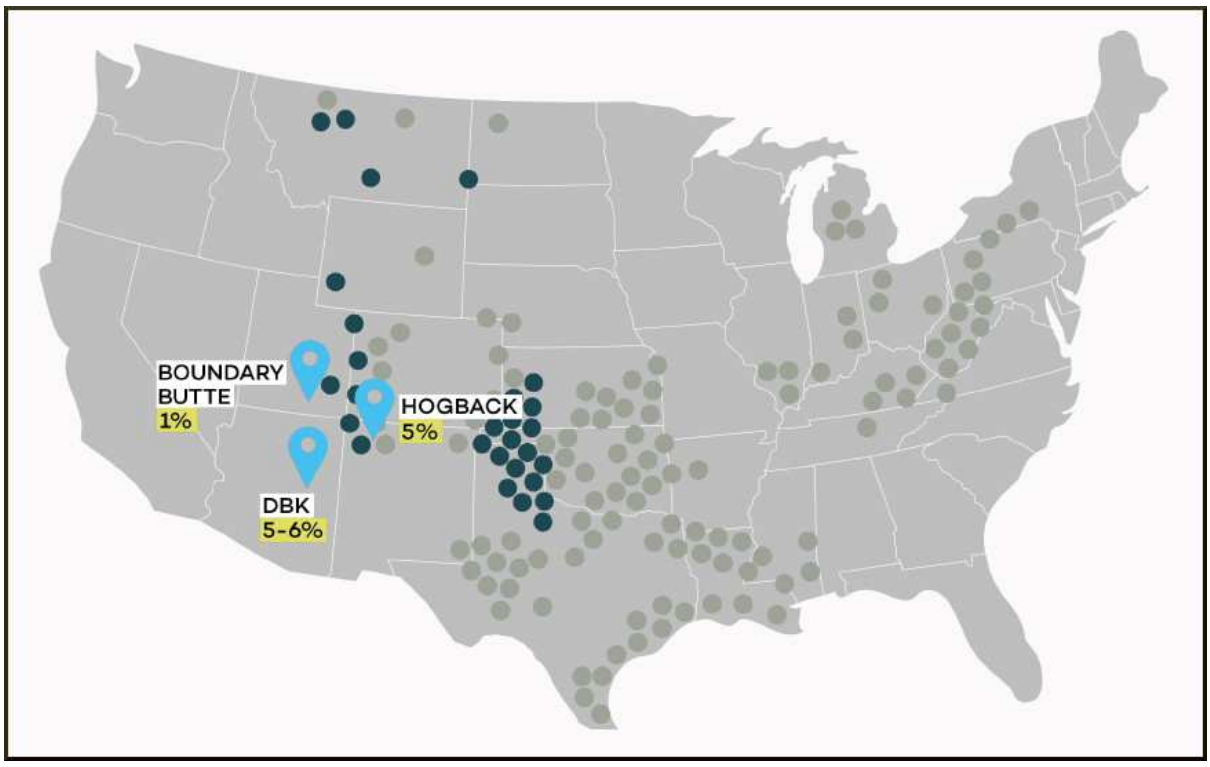
internet will provide an exponential rise in demand that far exceeds releases from the stockpile.

In this review we shall look at NASCO's operations (and ambitions) Helium and its dynamics, its sources, the state of play on the all-important US policy towards the element.

Some Background

The most real of the players we mention in in our previous review of the Helium space would appear to be a German company, NASCO Energie & Rohstoff AG with its headquarters in Hamburg. It has been developing its activities since 2014 and thus predates all the other new players. Despite its European origins, NASCO is the second largest US Helium producer, with all its assets located in the USA. NASCO drills, completes, refines and sells its own Helium.

Its current Helium production is at Dineh-bi-Keyah (a Navajo name) in northeast Arizona, in an area known as the Four Corners region. It also has two other development sites, also in the Southwest US.



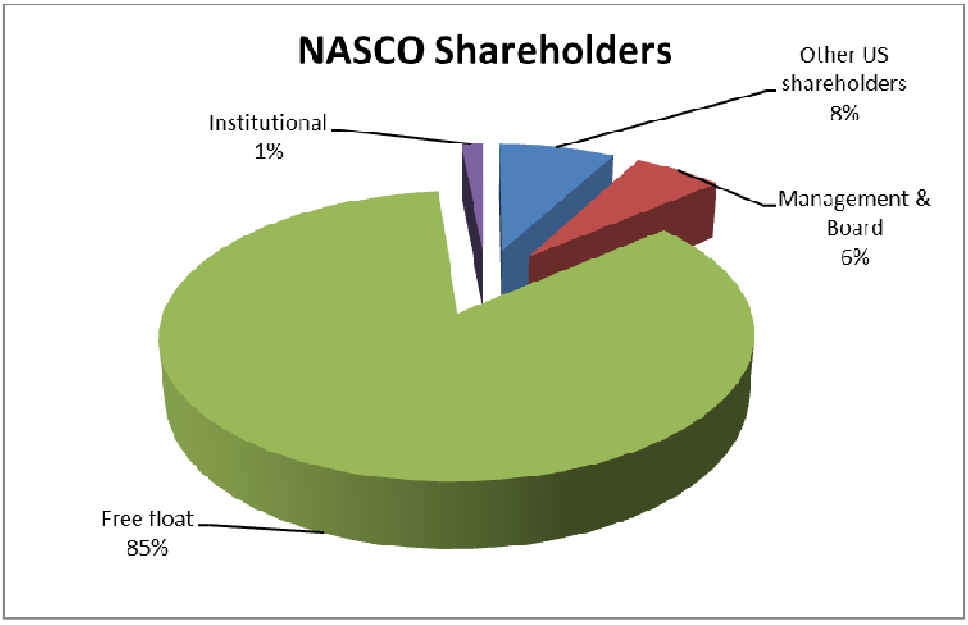
NASCO claims that the DBK field is remarkable due to its raw gas having an above-average helium content of more than 5%. Helium starts being economical to extract when it has Helium content of 0.5%.

The company's other two resources are the high-grade Hogback field (around 5%) and the Boundary Butte field in Utah with a grade of around 1%. As can be noted from the map above NASCO's fields are in the midst of the main US areas for Helium production.

Its revenue model is underpinned by a 13-year long-term supply contract with Linde/Praxair (NYSE - LIN), the leading industrial gas company in the USA.

Ownership

The pie-chart below shows the shareholder breakdown at NASCO. It is actually surprising for the size of its free float considering that it is still private.



Financing

In February 2020, NASCO moved into another league from the rank and file of the Helium space when it closed a US$83 million securitization transaction, featuring an investment-grade senior tranche. Guggenheim Securities, LLC served as Structuring Advisor and bookrunner on the transaction, which was sold to an investment group led by Nuveen, the New York-based investment firm and TIAA-Cref.

The debt is secured by the assets at the DBK Field in Arizona. The $83 million securitization transaction featured an investment grade rated senior tranche. The resulting reduction in interest rate is significant for NASCO's finances.

The DBK project is the first ABS transaction for a company that drills, completes, refines and sells its own Helium, underscored by a 13 year long term supply contract.

The investment-grade rating of the NASCO debt is profound and has the following implications:

- ✓ Validation and verification of the operational equipment and methodology in place via the external consultant's report that the rating agency will have utilized for the operational component of their review. This will have involved a detailed review of the DBK plant and all

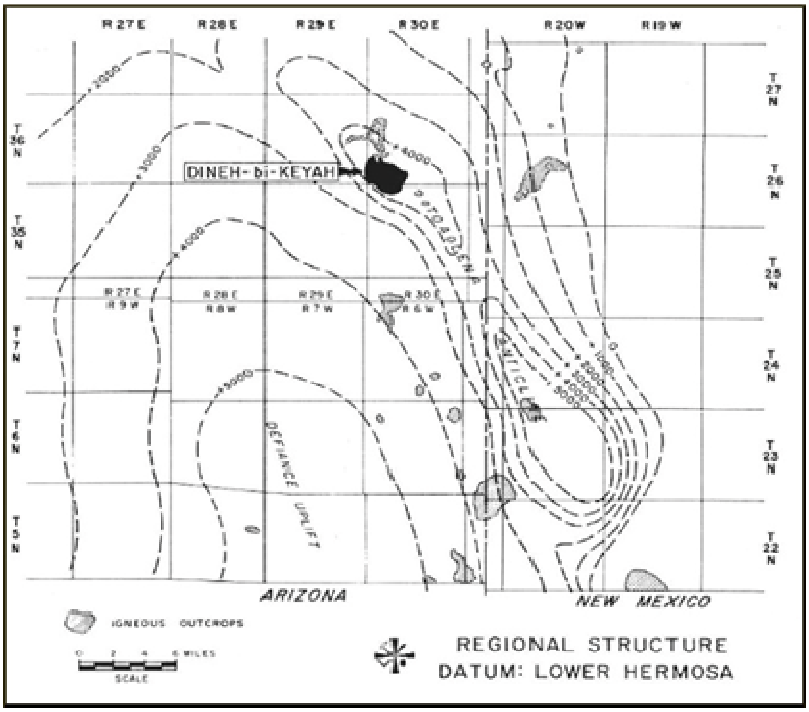
operational elements and associated infrastructure.

- ✓ Verification of the reserve and longevity of the reserve. The original report authored by DeGolyer will have been reviewed in detail and likely opined upon by a consultant engineer selected by the rating agency. De Golyer & Macnaughton are the nominated reserve engineers for the company.
- ✓ The offtake contract will have been scrutinized in detail for sustainability relative to the reserve and operational capability of the DBK facility. Plus, not least the creditworthiness of the end buyer will have been reviewed in detail. As the end buyer is Praxair / Linde this will have assisted in the investment-grade credit rating.

DBK Field.

NASCO is the controlling shareholder of the DBK Field with an 80% working Interest.

The Dineh- Bi-Keyah Field is unique in that it has historically produced hydrocarbons, but in recent years production has shifted to Helium production. The field is located on the northwestern portion of the Toadlena Anticline.

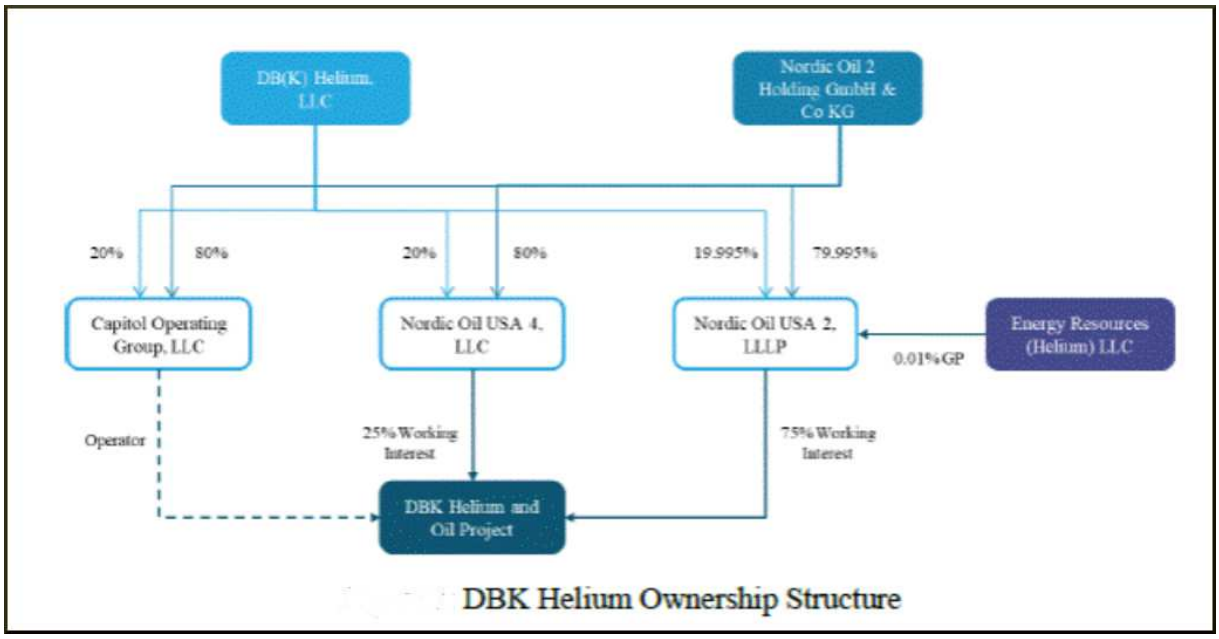


Structurally, the Toadlena Anticline is a double-plunging asymmetrical fold. Although the Dineh-BiKeyah Field is near the larger Defiance Uplift, the field is ultimately disjoined from the Uplift by the Chuska Syncline, which borders the Toadlena Anticline to the southwest. The Toadlena Anticline structure spans for 35 miles (56 km) in length and about 3-6 miles (5-10 km) in width. Although it is an immense structure, it is covered by a vast section of sedimentary rocks and eluded the eyes of explorers for many years.

Originally the Laramide orogeny created the Defiance Uplift as well as the Toadlena Anticline, but due to ensuing erosion on the fold, a significant unconformity developed, which was subsequently overlain by the Chuska Sandstone. There is roughly 450 ft (137 m) of structural closure in the Dineh-Bi-Keyah Field. Structural closures are present throughout the Toadlena Anticline and not exclusively in the Dineh-Bi-

Keyah locality. There is a striking maximum 5000 feet (1524 m) of structural relief, which persists for five miles (8km) on the eastern portion of the fold.

Below can be seen the ownership structure and working interest for the DBK asset. NASCO controls the majority of Capital Operating Group, which is the service company that is operating the DBK Field.



DBK Helium Ownership Structure

There had been an upgrade to the Cryogenic Production Facility at DBK, which came on online as of February 2019. Then NASCO increased to a WI of 80% as of April 2019. With the utilization of the Cryogenic facility the Lease Operating Expense (LOE) has been reduced significantly not least in electricity costs.

DBK's Helium content is estimated at 5-6% in the natural gas stream. After extensive modifications carried out by AMCS, a new Helium processing facility at DBK

commenced operation in February 2019 and the Helium production rate at DBK increased to approximately 320 -360 mcf/pd. The facility now has the ability to produce up to 411 mcf/pd at 98.8% purity. The estimated Helium lifting costs are around $40-$44 per mcf.

The company claims that there is significant upside potential, for volumes, as there are ~2.6 bcf of Helium reserves in DBK.

The commissioning of this plant concluded the development strategy that NASCO designed in late 2016 to more than double its Helium production from the field.

Hogback Field

The 4,480 acre Hogback field is located in north-western San Juan County, close to the Four Corners area, in New Mexico, USA. It is positioned in the US's main Helium producing region and is in the top 20 Helium fields in the US. There has been a proven 450 mn bbls of oil and current oil production in the field.

The purchase of this asset dates back to early August 2018 when NASCO acquired a 30% Working Interest in a newly formed company under a farm in agreement with Vision Energy Group, LLC, a subsidiary of Praxair Linde.

The partners initiated a drilling campaign in the Dakota Sandstone, with the first of six wells spudded in early August 2018. A 3D seismic survey was undertaken to get a better understanding about the reservoir.

Current estimates of Helium content in the natural gas mix range between 3% and 6% compared to an exploration industry average of 0.5% – 1%.

According to preliminary analysis and previously conducted drilling, probable reserves are estimated to be 50 bcf of Natural Gas and 2.5 bcf of Helium. Proved undeveloped reserves are expected to be 450 MBO of Crude Oil.

The partners carried on the first well to the casing point, with operations due

to commence in the Hogback Field in early 2021.

Boundary Butte Field

The Boundary Butte field area is located on the southern rim of the Paradox Basin, near the southeastern flank of the Monument uplift, in the Four Corners region of Utah. Extending into northeastern Arizona (Conley and Giardina, 1979), the Boundary Butte area is composed of underpressured, hydrodynamically driven oil and gas fields with historic and current production primarily from structurally complex, faulted anticlines.

Thirteen gas wells reported economic amounts of helium in the Boundary Butte field area (Stowe, 1972; Moore, 1982; Moore and Sigler, 1987), located entirely on Navajo Tribal Lands in extreme southeastern San Juan County.

The Boundary Butte helium prospects tested from 0.44% to 1.58% He with the majority of sampled wells completed in the Pennsylvanian Paradox Formation without testing the deeper formations.

NASCO owns a 60% Working Interest in its Boundary Butte field.

The company claims there is additional upside as it is negotiating a processing agreement with Paradox Resources that owns the Lisbon plant located in proximity to the Boundary Butte asset. The Helium content in the gas stream is in excess of 1%.

A contract was signed in 2020 with a regional refinery to deliver and process helium. Production began in the last quarter of 2020. There will be a planned increase in production up to 3-5 mcf feet of gas per day in 2021. By increasing the overall volumes up to those levels NASCO will be able to also start selling helium from the natural gas stream.

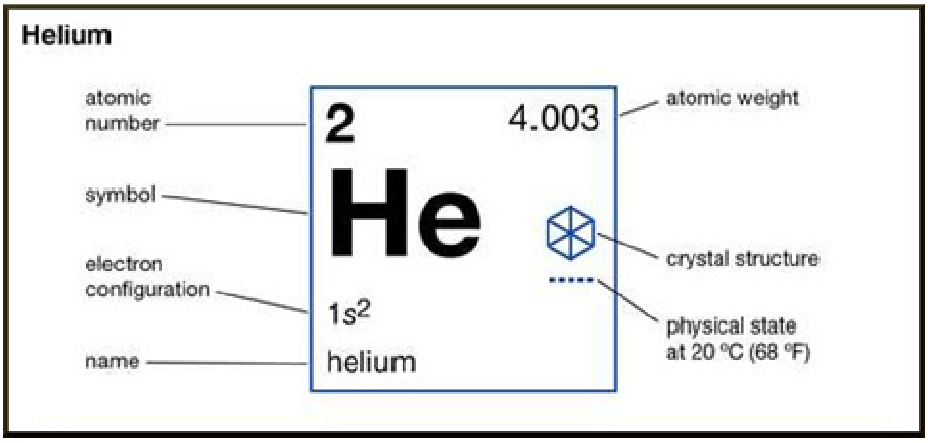
Helium & its Dynamics

Helium is named for the Greek Titan of the Sun, Helios. It is a chemical element with the symbol He and atomic number 2. It is a colorless, odorless, tasteless, non-toxic, inert, monatomic gas, the first in the noble gas group in the periodic table. Its boiling point is the lowest among all the elements.

Helium was first detected as an unknown, yellow spectral line signature in 1868. The formal discovery of the element was made in 1895 by two Swedish chemists, Per Teodor Cleve and Nils Abraham Langlet,

who found Helium emanating from the uranium ore, cleveite, a variety of uraninite.

Previously, terrestrial Helium (a non-renewable resource because once released into the atmosphere, it readily escapes into space) was thought to be in increasingly short supply. However, recent studies suggest that Helium produced deep in the earth by radioactive decay can collect in natural gas reserves in larger than expected quantities, in some cases, having been released by volcanic activity.



Uses

Helium's most well-known, but actually minor use, is as a lifting gas in balloons and airships.

Liquid Helium is used in cryogenics (its largest single use, absorbing about a quarter of production), particularly in the cooling of superconducting magnets, with the main commercial application being in MRI scanners. There is no substitute for Helium in cryogenic applications, where temperatures below –429 °F are required.

Hot on the heels of that application is the crucial role in microprocessor chip manufacture, creating and maintaining the environments for growing crystals to make silicon wafers. This is a battle ground for the near future with the US tightening the screws on China with regard to access to chip technologies.

Helium's other industrial uses include as a pressurizing and purge gas, as a protective atmosphere for arc welding, and in fibre optic cables, microscopes and airbags.

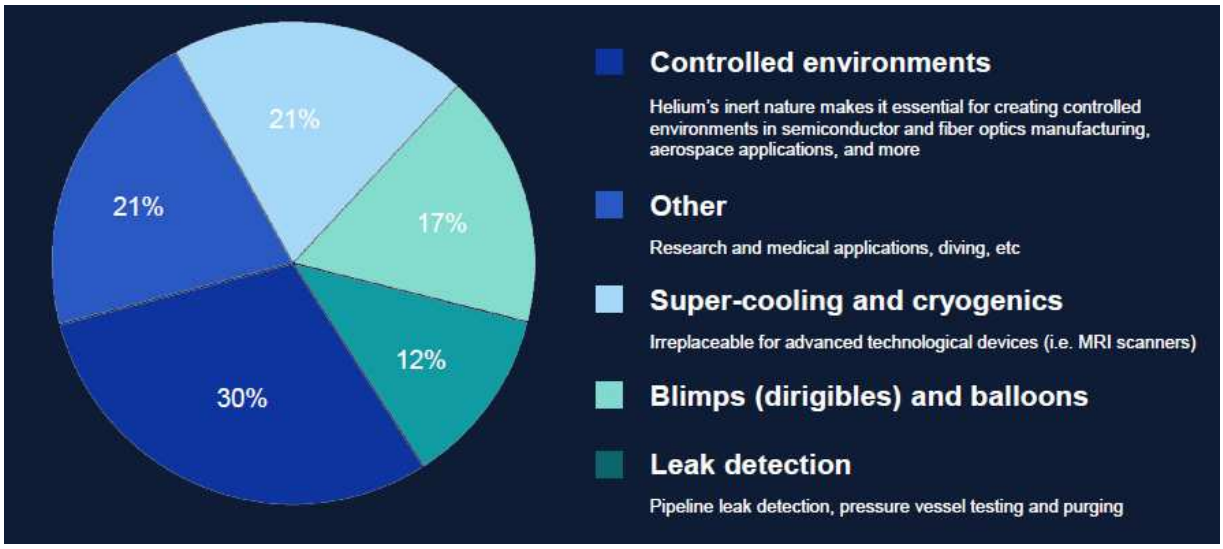
Helium has uses in the space industry, where it is used to keep satellite instruments cool and clean out rocket engines. Helium is used as a cooling medium for the Large Hadron Collider (LHC). A mixture of 80% Helium and 20% oxygen is used by deep-sea divers.

In scientific research, the behavior of the two fluid phases of Helium-4 (Helium I and Helium II) is important to researchers studying quantum mechanics (in particular the property of superfluidity) and to those looking at the phenomena, such as superconductivity, produced in matter near absolute zero.

Argon can be substituted for Helium in welding, and Hydrogen can be substituted for Helium in some lighter-than-air applications in which the flammable nature of Hydrogen is not objectionable. Hydrogen is also being investigated as a substitute for Helium in deep-sea diving applications below 1,000 feet.

Demand

Annual global demand for Helium reached 6.3 billion cubic feet (Bcf) year in 2018. Given the 2018 cessation on U.S. Bureau of Land Management (BLM) Helium sales, the global Helium market is expected to experience a prolonged deficit.



Source: Imperial Helium

Of these categories all look to have good growth prospects, and with controlled environments and supercooling having a combined 51% of the demand and both having extremely propitious outlooks, Helium manages to break the mold of those elements that have some usages growing and others shrinking.

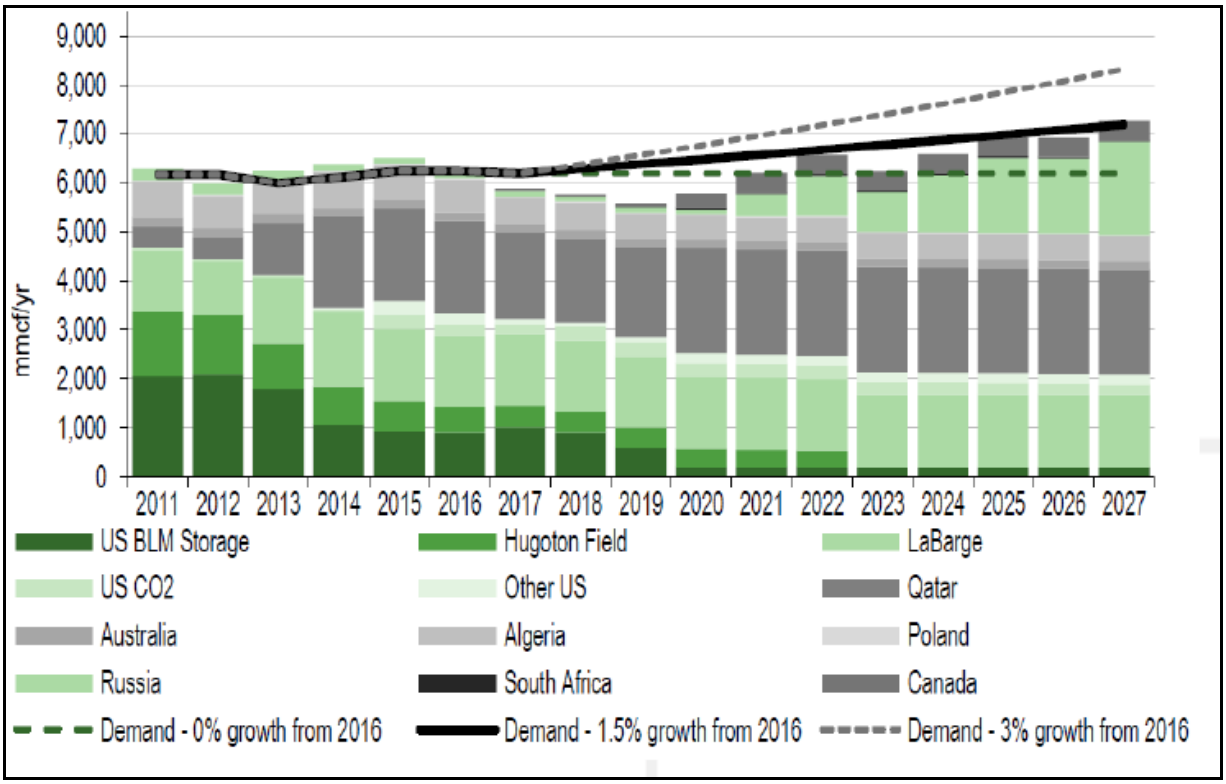
It is interesting to also consider the usages that the USGS claims that Helium was used for with magnetic resonance imaging at 30%; lifting gas at 17%; analytical and laboratory applications at 14%; welding at 9%; engineering and scientific applications at 6%; leak detection and semiconductor manufacturing at 5% each; and various other minor applications taking the remaining 14%.

Availability & Extraction

Helium is relatively rare at 5.2 ppm by volume in the atmosphere. As mentioned earlier, most terrestrial Helium today has been created by the natural radioactive decay of heavy radioactive elements (Thorium and Uranium). This radiogenic Helium is trapped with natural gas in concentrations as great as 7% by volume, from which it is extracted commercially by a low-temperature separation process, called

fractional distillation.

In 1903, large reserves of Helium were found in natural gas fields in parts of the United States. That discovery propelled the US into the role as the world's dominant producer of Helium for nearly 100 years and it remains so. A part of this dominance has been the Federal Helium Reserve (FHR) which was established in 1925. The FHR was originally set up as a strategic store for U.S. airships but since 2013 has auctioned its supplies annually. The last time the U.S. auctioned off Helium was in August 2018, with another auction not expected until 2021. US Federal Reserve closes 2021 (~13% of FY 2016 global supply).



Source: BLM/USGS

The sparseness of auctions resulted in a price surge. In some experts' opinions, the gas starts being economically worth extracting when it has helium content of 0.5%. It is notable that virtually no Helium is recycled.

Players – an Oligopoly

The Helium space is dominated, according to Kornbluth Helium Consulting, by the same old, same old that rule the roost in the industrial gases with Air Liquide, Linde (that merged with Praxair a couple of years ago) and Air Products controlling something like 85% of the market (each reputedly having between 17-35% of the market). Then it is said that Matheson Tri-Gas have around 5% market share and

the other names of much less weight are the Japanese companies, Iwatani and Taiyo Nippon Sanso (both with strong positions in Asia, but weak globally) and Uniper (with HQ in Germany) with all three having small market shares at the global level.

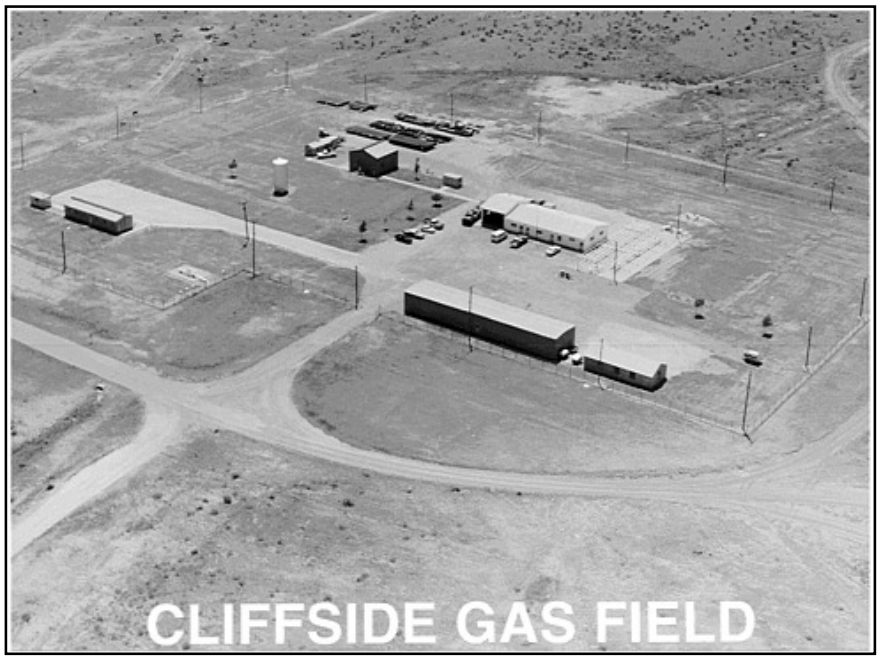
Of Helium distributors, the global major industrial gas companies hold semiconductor trade rights, such as Air Liquide, Linde/Praxair and Air Products, and vie with each other for market shares. However, after Linde and Praxair merged, the merged entity was believed to have become by far the market leader. The Japanese companies Taiyo Nippon Sanso and Iwatani also participate in this semiconductor market with an estimated total share of 20% to 30%.

The Chinese Helium market is almost an alternative universe but the country has been an importer of US-sourced Helium over the last decade and the Japanese companies have filling and distribution centres with China. We shall discuss this further along.

The US Stockpile

Under the Helium Stewardship Act of 2013, the Bureau of Land Management (BLM) manages the Federal Helium Program, which includes all operations of the Cliffside Field Helium storage reservoir, in Potter County, TX, and the government's crude Helium pipeline system. Private firms that sell Grade-A Helium to Federal agencies are required to purchase a like amount of (in-kind) crude Helium from the BLM. The law mandates that the BLM sell at auction Federal Conservation Helium stored in Bush Dome at the Cliffside Field.

The last auction was completed in the summer of 2018. Because the remaining conservation Helium is less than 83.2 million m^3, the law requires that the BLM begin disposal of all Helium assets including all operations of the Cliffside Field Helium storage reservoir and pipeline system and complete the sale by the end of 2021. In the meantime, the BLM will continue to make in-kind Helium available to Federal customers.



The Federally-owned facilities have a role in storing and moving around the product owned by the government and the private players. In FY

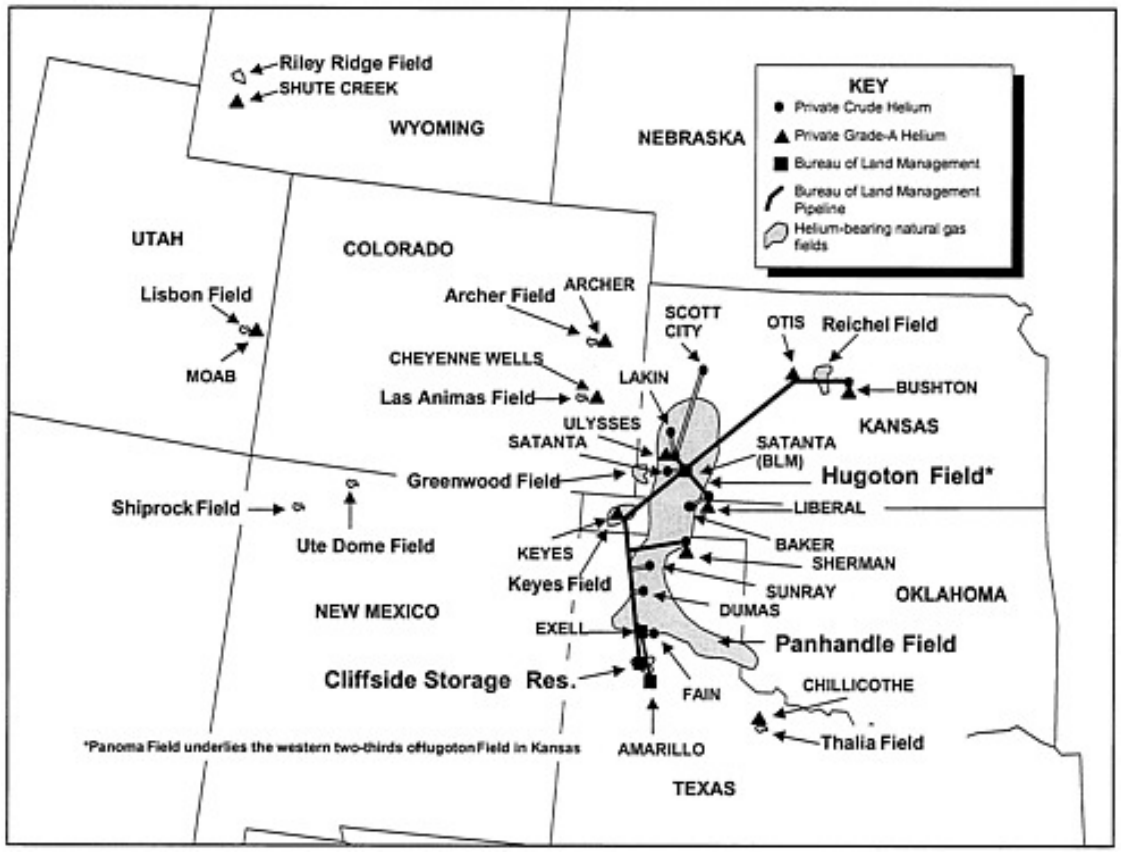
2019, privately owned companies purchased about 4.8 million m3 of in-kind crude Helium. During FY 2019, the BLM's Amarillo field office accepted around 3 million m3 of private Helium for storage and redelivered nearly 24.2 million m3. As of September 30, 2019, about 67.4 million m^3 of privately owned Helium remained in storage at Cliffside Field.

BLM Stockpile (in cubic metres) as at end Sept 2019

Inventory	Authorised for disposal	Disposal Plan FY2019	Disposals FY2019
68	51.4	4.8	4.8

US Dominance

We are on record as noting that the metal that the US unequivocally dominates is Beryllium and it has zealously guarded that status since WW2. However, in broadening from "metals" to "elements" one can also add Helium to the select components of the Periodic table where the US can call the shots.



The USGS maintains that there are around fourteen plants (one in Arizona, two in Colorado, five in

Kansas, one in Oklahoma, four in Texas, and one in Utah) that extracted, in 2019, Helium from natural gas and produced crude Helium that ranged from 50% to 99% Helium. One plant in Colorado and another in Wyoming extracted Helium from natural gas and produced Grade-A Helium. Three plants in Kansas and one in Oklahoma accepted crude Helium from other producers and the BLM pipeline and purified it to Grade-A Helium. Even in the Be-space, the US government played no role in production, but in the Helium space, interestingly, it does.

The USGS estimated in its 2020 report that the value of Grade-A Helium (99.997% or greater) extracted in the US during 2019, by private industry, was around $717 million.

Over and beyond its own production the US sources some product from imports of which the suppliers are: Qatar, 79%; Canada, 8%; Algeria, 5%; Portugal, 4%; and others for 4%.

The curious thing is that the US government has almost been working against the maintenance of the country's dominance in this element rather than encouraging. Under Democrat regimes one might expect this but the Trump Administration has done little to nothing to back up its rhetoric as far as Helium is concerned. A draft list of 35 critical minerals, including Helium, was released on February 16, 2018 as the result of President Trump's Executive Order 13817, which asked the U.S. Department of the Interior and the Secretary of Defense to publish a list of mineral commodities that are vital to U.S. interests. However, as noted earlier, sales from the stockpile have continued. By selling the stockpile it takes the edge off pricing (which probably suits Praxair & Air Products) but does little to encourage the development of new deposits or processing capacity.

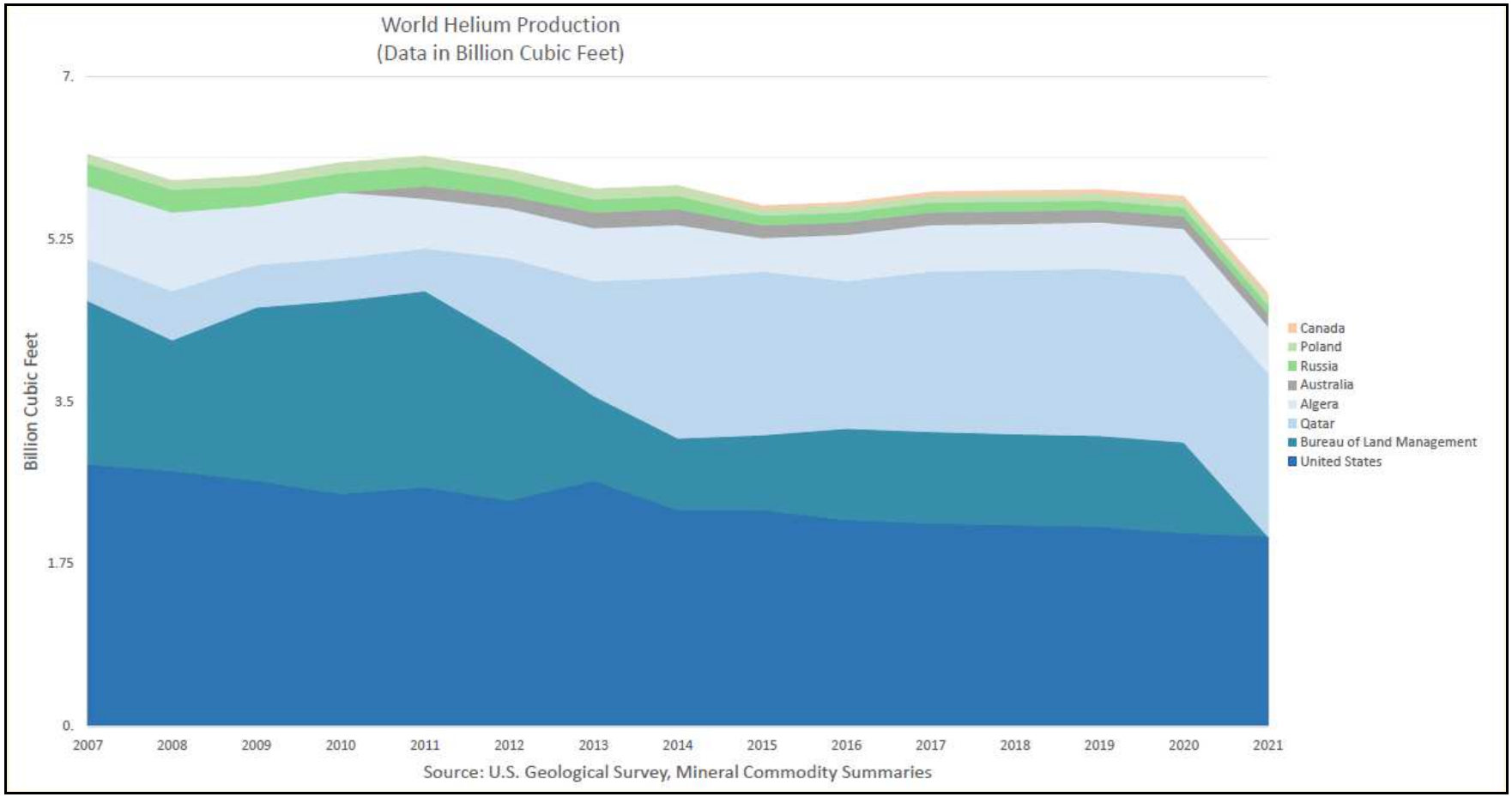
If the trend continues, ultimately the stockpile will be reduced to a rump that will essentially removes all influence from the US government on pricing.

Global Players?

The USGS estimates that the various Helium-endowed gas fields in the US contain around 3.9 billion metre^3 (140 billion cubic feet) of Helium. It then estimates that the Helium resources of the world, exclusive of the United States, were around 31.3 billion metre^3 (1.13 trillion cubic feet).

The locations and volumes of the major deposits are:

- Qatar 10.1 bn m^3
- Algeria 8.2 bn m^3
- Russia 6.8 bn m^3
- Canada 2.0bn m^3
- China 1.1bn m^3


World Helium Production
(Data in Billion Cubic Feet)
Billion Cubic Feet
7.
5.25
3.5
1.75
0.
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
Canada
Poland
Russia
Australia
Algera
Qatar
Bureau of Land Management
United States
Source: U.S. Geological Survey, Mineral Commodity Summaries

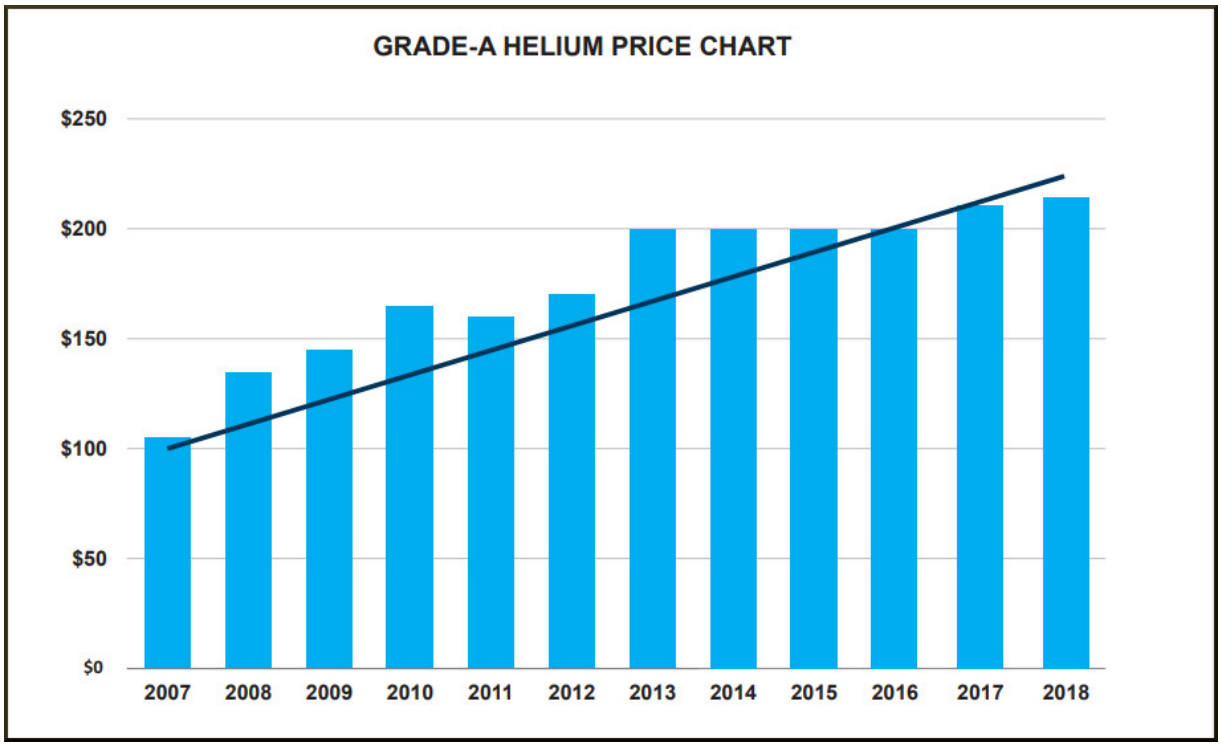
In essence there is no shortage of Helium reserves at the global level. The main differences are access to markets, processing capability and grade of the Helium within the broader natural gas resource.

Pricing

The price of Helium in the US market is essentially the force that sets the price in the rest of the world (though the US government seems determined to abdicate holding in its hand this important lever).

The Helium Privatization Act (HPA) of 1996 outlined plans for the BLM to sell off the majority of its helium reserves at a formula-driven sale price. This ended up being lower than the market price of helium which consequently encouraged overconsumption and discouraged new helium production.

The USGS reported that in FY19, the price for crude Helium to government users was \$3.10 per m^3 and to non-government users was \$4.29 per m^3. The price for the government-owned Helium is mandated by the Helium Stewardship Act of 2013 (Public Law 113–40) and determined through public auctions and industry surveys. The last year Helium prices were posted by the Federal Government was in 2018. The estimated price for private industry's Grade-A Helium was about \$7.57 per m^3, with some producers posting surcharges to this price.



Source: USGS

The market price of Helium (as compared to the sale price from the US stockpile) doubled between 2007 and 2016 as can be seen on the chart below. This was largely the product of organic growth in demand.

However, from 2018 a different dynamic came into play when prices in the US Government Crude Helium Auction increased from $119 to $280, representing a 135% increase YoY.

The Helium market is underpinned by inelastic global demand (to the downside) and consequently limited supply to market. Current pricing estimated to be around $230-$250 mcf Helium.

Results

Below can be seen the last reported results for NASCO:

NASCO P&L

in Euros	FY19	FY18
Sales	509,861	520,455
Other Income	24,126	
Gross Income	533,987	520,455
Cost of Materials	-	-
Staff costs	360,000	-
Depreciation	1,360	1,480
Other Operating Expenses	390,541	689,664
Operating result	(217,914)	(170,689)
Other financial income	(143,788)	(100,357)
Pertaining to affiliates	(122,446)	(100,349)
Other sources	(31,342)	-
Other Interest paid	22,699	17,864
Pertaining to affiliates	782	782
Post-tax Result	(96,824)	(73,713)

As a private company though results only come out once per annum and thus we have no metrics for FY20. Additionally the company has not published consolidated accounts, so the best we get to see are the results at the main company level with a contribution from the US activities being a simplistic "pertaining to affiliates" of negative $122K.

It is worth noting that the company benefits from a low tax regime. The US corporate tax base rate is 21%, with tangible and intangible deductions, giving NASCO a likely net tax rate in the mid-teens based on current US GAAP accounting deductions.

Valuation

What values to put upon a company, with no listing, that has not reported any numbers for the last twelve months in which it has been ramping up production? To some extent we are flying blind. The

comps in the space are not much help. The nearest parallel is Desert Mountain Energy (DME.v) but that stock with a market cap in the high $80mn range has no production and is still in the exploration phase.

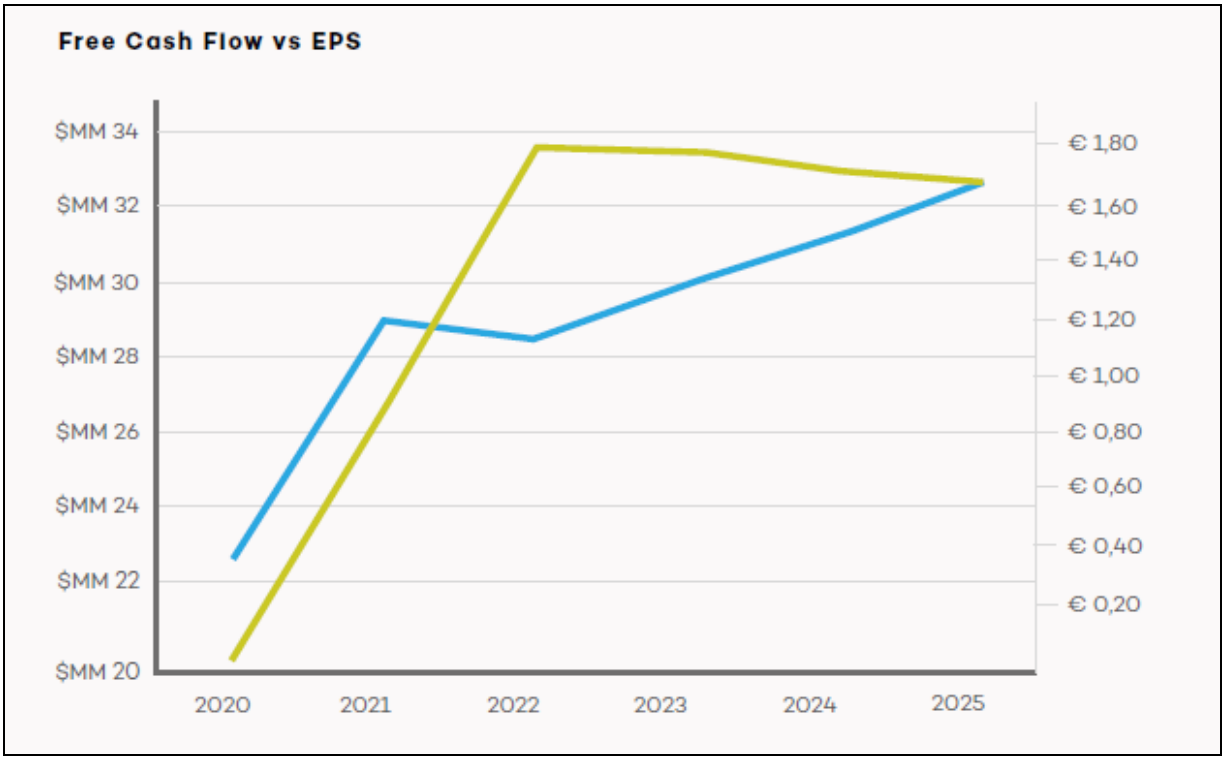
With a current production profile 300 to 340 mcf/pd at US$200 plus per mcf, annual revenues should amount to between $21.6mn and $24.5mn at the different daily production levels. At slightly higher prices revenues could be $30mn per annum.

If we were to posit EBITDA of $18mn to $21mn per annum this would imply EBITDA per share of $1.45 to $1.69.

With Boundary Butte now entering production and no obstacles to the addition of Hogback, the volumes produced and sold should rise substantially, while overhead costs remain largely fixed. The company's latest projections of its likely free cashflow and EPS in coming years is shown below.

Management's Earnings Outlook

	2020	2021	2022	2023	2024	2025
Free Cash Flow in US$mn	$22.99	$29.24	$28.79	$30.07	$31.40	$32.81
EPS	0.05 €	0.94 €	1.83 €	1.81 €	1.75 €	1.71 €



Utilising the company's projected 2022 earnings outlook we see that NASCO at a price of Euros 9 per share is trading at a Price/EBITDA ratio of between 4 and 5 times. As an unlisted company (for now) we would expect the company to become a substantial dividend payer (as it has around 2,200 shareholders to keep satisfied) from 2022 onwards, with this factor further underpinning possible stock price projections.

Management Structure

As a German company, NASCO has two boards: a Main Board and a Supervisory Board. The members of these are:

Main Board

- Jan Warstat, based in Seevetal, CEO
- David Burns, based in Lafayette, Louisiana, deputy CEO and COO

Supervisory Board

- Stefan Palaschinski, based in Hamburg. A partner at PJM Palaschinski Jacobi Möbius + PartnerPartG mbB
- Martin Tobies, based in Hamburg. General manager at Star Finanz-Software Entwicklung und Vertriebs GmbH
- Gunnar Dresen, based in Hamburg. General manager at Dresen Mall GmbH

Risks

The principal risks for NASCO might be:

- A decline in Helium prices
- Reputational damage caused by aggressive over-promoters
- Potential oversupply in the US market
- Failure to list, or secure an acquirer

The direction of Helium prices has been up in recent times as demand is strong in all markets and supply has been finite. Dare we say it, but there appears to be a cartel in the space. That ensures orderly markets (as we saw for a long time in Lithium) or can degenerate into disorderly markets (as we saw when the Tin cartel collapsed last century. For the moment the market is orderly and should remain so as we discount most of the Helium wannabes as they are really Don't Wannabes in it solely for the "promote". This factor then makes us suspect that there shall be a brake on potential oversupply…. but also a brake on over-heating of the price. Despite what promoters may think, cartels do not like overheating in prices as it upsets the apple cart and draws in more carpetbaggers. Thus we would expect

price rises to be muted unless there is some major outage or supply crisis.

The danger is always present to the fakers entering a hot sub-space and they have already reared their ugly heads here. We have seen some investors, who we thought knew better, rhapsodising over some of the most flimsy and non-serious in the space, equating strong market caps with an actual intention to move to production. A souring of sentiment caused by the demise, collapse or embarrassment of one of these fakers is an ever present danger. However, for those in production the kudos will possibly transfer to them at the point that "production is king" starts to be the motto in the Helium space.

NASCO is run by German lawyers. Do not expect jerky or swift movement here. It seems they are angling for a trade sale. Who would be a buyer? Probably not one of the "Helium cartel" members, they are already positioned and buying from NASCO anyway. One of the fakers? No, the fakers don't buy production because that is not what fakers want. They are probably telling investors that NASCO is likely to buy them… Oh, dear!

A listing seems the most acceptable and lucrative cash-out. This might be by backdooring into one of the proliferating SPAC structures that are so much of a flavour these days. Maybe Nuveen will ride to (intellectual) rescue and exert pressure to expedite this outcome.

Conclusion

In our Helium Review published in fourth quarter of 2020 we subtitled the note with the rhetorical question: "Hot Air.. or Not?". Since that time it has become clear that the "or Not?" was redundant as a blast of promotional guff blew across the markets.

That NASCO, which we reviewed in this note, is in production is not any sort of miracle, it is just a sign of seriousness. Getting to production in Helium is not some sort of Everest to be climbed, with massive Capex and long approval times. It is really quite simple with few barriers to entry, particularly if a company has an extant gasfield with existing production. Any company that says it will take them a few years to get to production are either lacking in resource or will. Capital should be no impediment.

Those (more than a few) Helium plays with market capitalisations of over $50mn that still claim they can't get into production because they are waiting for some non-existent "ducks to get in a row" are liars.

The prospect of changes in the way the US government stockpiles and manages the country's Helium resource is seen by an opportunity by a number of listed and unlisted wannabes. However the trend for the government to disengage from stockpiling of strategic resources is not new and goes back as far as the years of the Clinton Administration at the end of last century. When the subject was first broached it did not engender the type of enthusiasm that we have seen in recent years to create vehicles to enter the Helium space. Most of the recent players have appeared in the last three years and curiously have surfaced just as the US, under Trump, has been ramping up the mantra of resource security. Something seems contrary about all this.

Will whoever dominates the White House after January of 2021 be continuing with the disposal campaign? Will they speed it up, slow it down or stop it? In any case, at the current rate of disposals, the BLM stockpile will remain a feature in the marketplace for another 11 years, at least.

There is little in the way of obstacles to getting into production in the Helium space. If one can build a processing/separation plant then one is potentially off to the races. It doesn't give one access to the Helium pipeline if one isn't in close proximity. Grade matters for the economics, but little else stands in the way. The key determinant is going to be access to capital. One does not need a NI43-101 conjured up by mineral geologists, one instead needs reservoir engineers to opine on the potential size and grade of the gasfields under consideration. The separation itself is not rocket science.

NASCO has going for it that the US offers a low sovereign risk production environment and, non-stranded reserves, when compared to other potential sources of Helium.

Some of the new players are undoubtedly real (e.g. NASCO) and the others are at various points along the spectrum from being merely a marketing "twinkle in the eye" of promoters to being at a point where they have secured concessions with proven reserves and just need to fund processing plants and then begin extraction. As to which of the putative players with Helium in the name are dedicated to the gas in question or the mere production of hot air, only time will tell.

Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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