

Helium Disruption Is a Break for Some

Scarcity of the industrial gas will mean better pricing for suppliers

The Iran war has cut off about a third of the world's supply of helium from Qatar. This has been a double-edged sword for helium-supplier stocks. Among them, there is at least one clear beneficiary.

Air Liquide, Linde and Air Products and Chemicals are the three largest suppliers of the industrial gas, which is crucial for chip making. Air Liquide and Linde are based in France and the U.K., respectively, while Air Products and Chemicals is based in the U.S.

The supply disruption's impact on the companies depends on where they source the helium and how big their exposure is to the gas. Air Products and Chemicals' shares rose 5.4% in March, while Linde's and Air Liquide's share prices fell 2.4% and 2.6%, respectively.

For Air Liquide, the disruption is a mixed bag because it depends so much on Qatar for its helium. The country accounts for as much as 75% of the company's supply, compared with about 25% for its two competitors, according to a report from BMO Capital Markets. These two companies rely more on other sources such as the U.S. and Algeria.

Air Liquide subsidiary Airgas declared force majeure last month and told one customer that the company would only meet as much as half of its normal monthly helium demand, as The Wall Street Journal reported. The company also added a surcharge to its contracted price.

Air Products and Chemicals has the biggest potential to profit from rising helium prices. The gas accounts for 5% to 7% of the company's revenue, compared with 1%



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to 2% exposure for Linde, according to BMO. Helium accounts for about 3% of Air Liquide's revenue, according to Citi.

Air Products and Chemicals also has modestly higher exposure to spot markets, according to analysts at Citi. Spot helium prices have more than doubled since the war began, according to Phil Kornbluth, president of Kornbluth Helium Consulting.

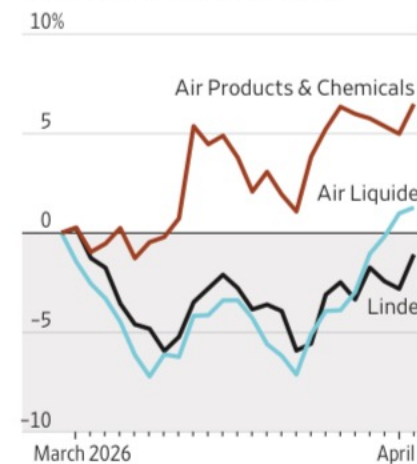
The majority of helium is sold through long-term contracts, but companies with helium in storage might be able to profit from rising

spot prices. Air Liquide has close to a year's worth of supply in its German storage cavern, according to Citi. Linde and Air Products both have helium storage capacity in the U.S.

The longer the Strait of Hormuz remains disrupted, the more bullish conditions will be for industrial-gas providers that can still source the helium. Industrial-gas suppliers are also relatively shielded from rising energy prices because these costs are typically passed through to end customers.

In particular, Air Products and Chemicals' shares could have room to run further if the disruption continues. The company's stock has underperformed its peers over the past year. Helium had been a drag on its earnings because the market was oversupplied before the Iran war disrupted Qatar supply. At an industry conference last month, Air Products and Chemicals Chief Executive Eduardo Menezes said the company has a better chance to renew contracts at better terms as a result of the Qatar supply disruption.

Share-price performance since the start of Iran conflict



Source: FactSet

Even if the waterway reopens, it will take time for Qatar's supply to return to normal because the Ras Laffan complex—where helium is produced—was damaged by Iranian strikes. Qatar has said that the damage cut its annual helium exports by 14% and that repairs could take as long as five years.

Plus, the helium supply chain typically involves long distances with transport often taking several weeks or more, according to BMO, implying that the market could stay tight for a while after helium production resumes in Qatar. Users of the gas, conscious of the supply risk, will be motivated to lock in long-term contracts.

A gas few thought about before the war is now front-of-mind in key industries. That could be to the lasting benefit of at least some of the companies that supply it.

—Jinjo Lee