

Renergen Ltd  
**Nearing Phase One & Derisking Phase Two**

Share Code: REN – Market Cap: R2.7 – PE: -65.2x – DY: 0.0%

12m Target Price	5850cps
Share Price	2470cps
Implied Return	136%

Resources | [South Africa](#)

**FY 21 Results: Smaller than Expected Preproduction Loss**

- Renergen’s operating loss was smaller than expected despite a small revenue miss as lost production (due to the lockdown) was offset costs.
- The Group spent R125.7m on assets under construction, capitalized R21.5m intangible assets and made a second draw down on its US International Development Finance Corporation (DCF) loan to the tune of \$12.5m. The Group’s short-term unencumbered cash reserves sit at R130m.

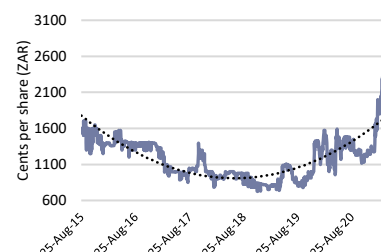
**Progress Updates: Almost Entire Positive**

- The Group has concluded a partnership with Total SA as LNG distribution is set up down the key N1 route.
- Drilling of P007 & MDR1 both reflect strong resource, flow & helium concentration data, highlighting potentially better-quality resources and/or lower capex intensity of Phase Two.
- The Group has concluded its first helium sales agreement with a global tier-one automotive supplier for Phase Two.
- Finally, The Group’s innovative cold chain storage solution (Cryo-Vacc™) made its first sale, moving post-revenue.

**Forecast, Valuation and Implied Return: Appears Undervalued**

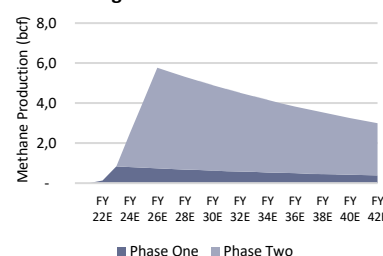
- Since our Initiation, our major assumptions remain the same, albeit we have updated our model for the latest spot prices that, in general, have moved in Renergen’s favour.
- Our DCF-driven sum-of-the-parts (SOTP) valuation for Renergen implies Phase One & Two—offset by central costs, debt and (potential) dilution—are worth 4149cps (previously 3539cps). After options for Evander and Cryo-Vacc are added, we see Renergen’s share as potentially worth 4978cps (previously 4247cps).
- Rolled-forward by CoE, our 12m TP is 5850cps (previously 4977cps) or over double what the current share price is.

Renergen’s Share Price



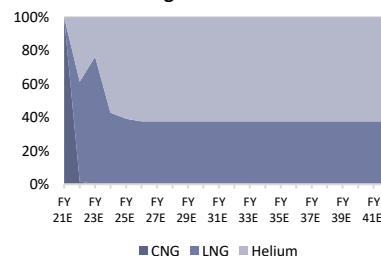
Sources: Profile Media, Blue Gem Research

Renergen’s Forecast Production Profile



Source: Blue Gem Research

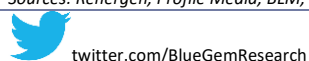
Renergen’s Forecast Revenue Split



Source: Blue Gem Research

Production:	FY 20	FY 21A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
LNG - Phase One (Giga Joules)	-	-	150 000	750 000	864 000	829 440	796 262
LNG - Phase Two (GJ)	-	-	-	-	1 800 000	3 600 000	5 400 000
Helium - Phase One (thousand cubic feet)	-	-	9 707	23 298	22 366	21 471	20 612
Helium - Phase Two (mcf)	-	-	-	-	258 865	517 730	776 596
Gas Reserves:							
Natural Gas - 1P (billion cubic feet)	40,8	40,8	40,6	39,8	37,3	33,2	27,4
Helium - 1P (bcf)	1,0	1,0	1,0	1,0	0,7	0,2	-0,6
Financials (R'000's):							
Revenue	2 635	1 925	71 026	281 847	1 730 163	3 134 976	4 540 289
Net Profit	-52 619	-42 620	-14 464	54 579	933 388	1 673 372	2 393 896
HEPS (cps)	-46,0cps	-36,3cps	-12,3cps	39,2cps	579,2cps	1038,4cps	1485,6cps
Price Earnings (x)	-53,8x	-68,1x	-200,5x	63,0x	4,3x	2,4x	1,7x
Return on Assets (%)	-8%	-5%	-4%	2%	15%	22%	24%

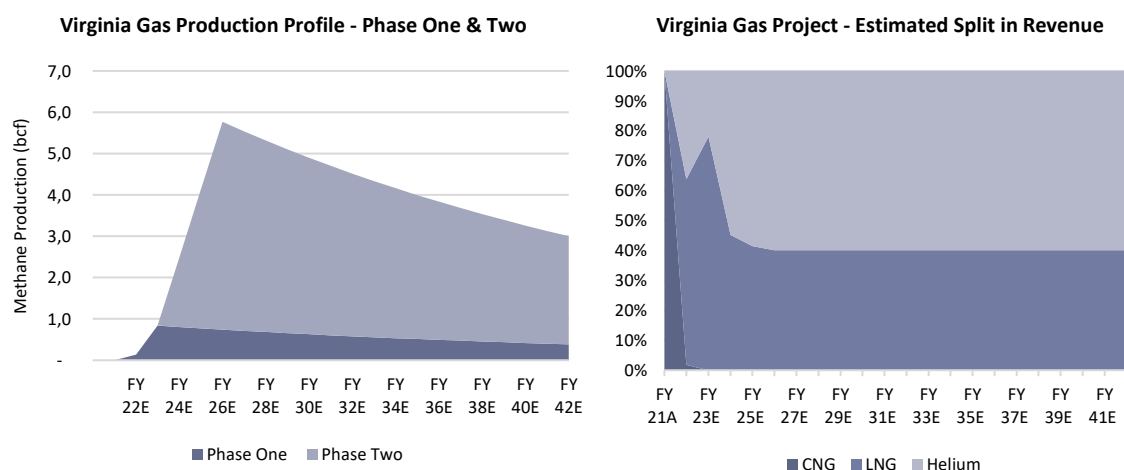
Sources: Renergen, Profile Media, BLM, MHA, various company reports & Blue Gem Research workings & assumptions



BLUE GEM RESEARCH

Summary & Forecast:	FY 20	FY 21A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
<b>Production:</b>							
LNG - Phase One (Giga Joules)	-	-	150 000	750 000	864 000	829 440	796 262
LNG - Phase Two (GJ)	-	-	-	-	1 800 000	3 600 000	5 400 000
Helium - Phase One (thousand cubic feet)	-	-	9 707	23 298	22 366	21471	20 612
Helium - Phase Two (mcf)	-	-	-	-	258 865	517 730	776 596
<b>Gas Reserves:</b>							
Natural Gas - 1P (billion cubic feet)	40,8	40,8	40,6	39,8	37,3	33,2	27,4
Natural Gas - 2P (bcf)	139,0	139,0	138,9	138,0	135,5	131,4	125,6
Natural Gas - 3P (bcf)	284,2	284,2	284,0	283,2	280,7	276,6	270,8
Helium - 1P (bcf)	1,0	1,0	1,0	1,0	0,7	0,2	-0,6
Helium - 2P (bcf)	3,4	3,4	3,4	3,4	3,1	2,6	1,8
Helium - 3P (bcf)	6,9	6,9	6,9	6,8	6,5	6,0	5,2
<b>Financials (R'000's):</b>							
Revenue	2 635	1 925	71 026	281 847	1 730 163	3 134 976	4 540 289
Gross Profit	-667	-917	53 043	188 240	1 498 526	2 667 592	3 794 482
Operating Profit	-67 305	-46 773	-8 160	159 677	1 438 490	2 601 715	3 722 661
<b>Net Profit</b>	<b>-52 619</b>	<b>-42 620</b>	<b>-14 464</b>	<b>54 579</b>	<b>933 388</b>	<b>1 673 372</b>	<b>2 393 896</b>
Issued Shares (000's)	117 427	117 427	117 427	161 142	161 142	161 142	161 142
Weighted Shares (000's)	109 799	117 427	117 427	139 284	161 142	161 142	161 142
EPS (cps)	-47,9cps	-36,3cps	-12,3cps	39,2cps	579,2cps	1038,4cps	1485,6cps
HEPS (cps)	<b>-46,0cps</b>	<b>-36,3cps</b>	<b>-12,3cps</b>	<b>39,2cps</b>	<b>579,2cps</b>	<b>1038,4cps</b>	<b>1485,6cps</b>
Price Earnings (x)	<b>-53,8x</b>	<b>-68,1x</b>	<b>-200,5x</b>	<b>63,0x</b>	<b>4,3x</b>	<b>2,4x</b>	<b>1,7x</b>
Total Assets	626 491	780 271	738 847	3 494 239	6 051 509	7 731 958	10135754
Property, Plant & Equipment	350 824	475 558	869 537	834 604	1 797 656	3 521 060	4 30 218
Intangible Assets	89 223	112 155	126 155	133 155	182 155	273 155	364 155
Equity	247 230	206 408	191 944	1 326 273	2 259 661	3 933 034	6 326 929
<b>Return on Equity (%)</b>	<b>-21%</b>	<b>-21%</b>	<b>-8%</b>	<b>4%</b>	<b>41%</b>	<b>43%</b>	<b>38%</b>
Total Liabilities	379 261	573 954	546 903	2 167 966	3 791 847	3 798 924	3 808 825
Total Debt	351 182	534 293	534 293	2 153 918	3 773 543	3 773 543	3 773 543
<b>Return on Assets (%)</b>	<b>-8%</b>	<b>-5%</b>	<b>-4%</b>	<b>2%</b>	<b>15%</b>	<b>22%</b>	<b>24%</b>
<b>Return on Capital (%)</b>	<b>-11%</b>	<b>-6%</b>	<b>-2%</b>	<b>7%</b>	<b>38%</b>	<b>39%</b>	<b>43%</b>

**Production & Revenue Profile:**



Sources: Renergen, Profile Media, Bloomberg, BLM, MHA, various company reports & Blue Gem Research workings & assumptions

## FY 21 Results

Renergen (code: REN) reported their FY 21 results that include the COVID-19 lockdown disruption and a ramp-up in activity pre-Phase One production. Management expects Phase One production to occur in Q4:22 and we have modelled two months of production for FY 22E. Due to these facts, these financial results are relatively inconsequential.

Because the company is moving up the development curve from greenfields to a producing gas business, a range of qualitative developments over this period are arguably more important than these short-term, noisy financial results. We will touch on these developments and their implications in the “Progress Update” section.

Here are the pertinent financial metrics reported in the FY 21 results:

- The Group’s operating loss was smaller than expected despite a small revenue miss:
  - Revenue slid -27% y/y to R1.9m (FY 20: R2.6m) shy of our expectations of R2.2m and was negatively impacted by the South African lockdowns. This revenue was generated by the Group’s Compressed Natural Gas (CNG) pilot project and we have modelled in a recovery to a normal level for FY 22E, though being largely replaced by Phase One volumes as it comes into production.
  - Costs also came in lower than we expected as some share-based payments dropped and listing fees did not recur in the period (Renergen listed on the ASX during FY 20).
  - The Group reported a HEPS loss of -36.29cps (FY 20: -47.92cps), encouragingly better than our expected loss of -57.6cps as the opex and net finance charges were not as onerous as we had modelled. This has created a positive base for some of our line items and rolls into a slightly better cost-base in FY 22E and sees us lowering our expected HEPS loss somewhat.
- Given that the Group is pre-production on its key Phase One project, capex and balance sheet considerations are more important than the income statement right now:
  - The Group spent R125.7m on assets under construction and capitalized R21.5m under intangible assets as it developed its gas resource.
  - To fund this and the operating loss, the Group has made a second draw down on its US International Development Finance Corporation (DCF) loan to the tune of \$12.5m.
  - The Group’s short-term unencumbered cash reserves sit at R130m and most of its project milestones remain on time and in budget (though management emphasis that the current global supply chain challenges across industries make this both a risk and a day-to-day management focus).

## Progress Update

**Note:** See the Group’s milestones section of their website here for near-real time updates - [LINK](#)

### Phase One

- Quick summary of key milestones:
  - **Design of Plant:** Completed 18 August 2020 (22 days ahead of schedule).
  - **Plant batch 1 FOB:** Completed 24 March 2021 (on time).
  - **Pipeline:** Completed 8 April 2021 (delayed by COVID but now completed).
  - **Plant batch 2 FOB:** Completed 14 April 2021 (on time).
  - **Site establishment for plant:** Expected 17 May 2021 (ongoing).
  - **Plant utilities commissioned:** Expected 30 September 2021 (ongoing).
  - **Gas to plant:** Expected 7 October 2021 or c.Q4:22.

- The Group has further derisked its Liquid Natural Gas (LNG) production from Phase One through a significant partnership with Total SA:
  - This partnership gives Renergen access to Total’s strategic N1 distribution as a key corridor for the logistics customers the Group has signed.
  - The Group has further continued to sign logistics operators with a significant portion of the initial production already allocated.
  - Given the value proposition along with the distribution benefits of Total’s partnership, we see minimal risk that Renergen won’t have its full Phase One LNG off-take allocated before production.
- Overall, we are extremely happy with how Phase One is progressing and, other than the below spot prices that have been updated, we have not altered our Phase One forecasts:
  - **Diesel price:** Updated to 1412.7cents/litre (H1:21 – 1294.7c/l)
  - **USD/ZAR:** Updated to R14.43 (H1:21 – R14.66)
  - **AUD/ZAR:** Updated to R11.16 (H1:21 – R11.60)
  - **South African 10-year bond yield:** Updated to 9.26% (H1:21 – 8.94%)

### Phase Two

- Three major developments have further derisked Phase Two’s potential:
  - A wild cat well, P007, was drilled and showed immense success with strong flow rates and, a high (4.38% ~ our model assumes a helium concentration of *only* 3.0%) helium concentration. Not just the gas and helium concentration but the location of the well is important as it is *outside* Phase One’s reserves and *close* to its gathering system.
  - A previously abandoned well, MDR1, was successfully redrilled with strong recovering flow rates at a high helium concentration (3.15% ~ once again, above our assumed concentration). Importantly, this well is located only 600m from Phase One and highlights the potential for reduced well spacing *without* negatively impacting on production (this is an important point as the cost of connecting wells is nearly a *third* of the drilling capex and, thus, if this spend can be reduced by placing wells nearer together then it has materially value accretive NPV consequences).
  - The Group has concluded its first helium sales agreement with a global tier-one automotive supplier that will see helium sold directly to the end-customer from Phase Two. We expect more announcement in this regard over the next year as Phase One proves production and end-customers start to scramble for helium supply.

### Cryo-Vacc™

- The Group’s innovative cold chain storage solution (Cryo-Vacc™) made its first sale:
  - The Group agreed to sell 110 Cryo-Vacc™ cases to DPD Laser in a combination of all three available sizes,
  - The cases will be delivered in May 2021 (i.e. this month), &
  - While not significant in terms of revenue, it does mean that this effectively “venture capital” innovation is now *post*-revenue and, potentially, may start contributing positively to the Group’s bottom line.
- For now, we continue to value Cryo-Vacc™ as an embedded option into Renergen’s valuation, though, depending on how this product plays out, it may be worth building a separate valuation for it (but only once some firm numbers are on the table).

### Other

- The Group replaced the previous CFO with Brian Harvey:
  - Harvey has previously worked at companies including Anglo American, Royal Bafokeng Holdings, Weir Minerals Africa and Middle East, & Resource Generation.

- Importantly—given Renergen’s dual-listed status—Harvey’s background includes extensive experience in ASX and JSE reporting.
- That background coupled with the big corporate and gas-specific experience makes Harvey a good candidate for Renergen as the Group matures into production.

## Forecast & Valuation

### Methodology & Universal Assumptions

Other than the spot price adjustments noted in the “Phase One” section above (repeated below), we have not adjusted any assumptions around our methodology or models.

See our “Initiation of Coverage” ([LINK](#)) for more details on our valuation approach & universal assumptions (other than the changes noted below).

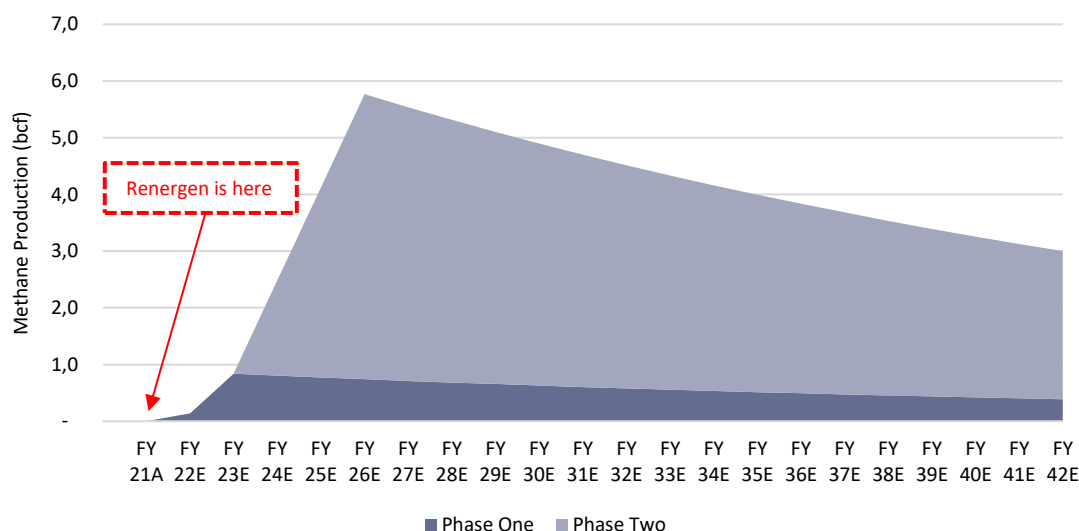
Assumptions & spot price changes:

- **Diesel price:** Updated to 1412.7cents/litre (H1:21 – 1294.7c/l)
- **USD/ZAR:** Updated to R14.43 (H1:21 – R14.66)
- **AUD/ZAR:** Updated to R11.16 (H1:21 – R11.60)
- **South African 10-year bond yield:** Updated to 9.26% (H1:21 – 8.94%)

### The Virginia Gas Project: Graphical Representation

The combination of our assumptions united with the different targeted (and guided-for) production rates and capex results in the below visual graphs illustrating the quantum, timing and production of the Virginia Gas Project’s Phase One *and* Two.

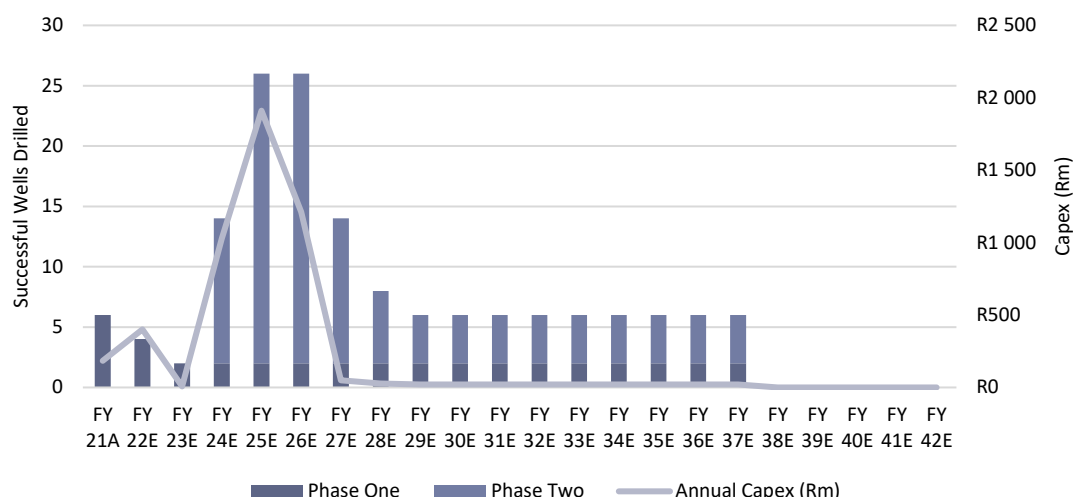
Figure 1: Our Expected (Methane) Production Profile for the Virginia Gas Project



Sources: Renergen, MHA, & Blue Gem workings and assumptions

Figure 1 remains unchanged from our Initiation of Coverage, likewise, Figure 4’s capex profile also reflects no major assumption changes.

Figure 4: Our Expected Capex Profile for the Virginia Gas Project



Sources: Renergen, MHA, & Blue Gem workings and assumptions

### The Virginia Gas Project: Phase One

We see Phase One’s NPV at c.R807m (previously R493m). While the risk-free rate in South Africa has risen since we last updated this valuation, all the other spot prices have moved in its favour. I.e. Inflation has fallen and the diesel price has risen significantly (despite the ZAR strength).

Table 1: Virginia Project Phase One’s Summarized Discounted Free Cash Flow (DCF) Model

Phase One (Rm)	FY 21A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	...	FY 42E
LNG GJ's Produced (GJ)	-	150 000	750 000	864 000	829 440	796 262	764 412	...	414 377
Helium Produced (mcf)	-	9 707	23 298	22 366	21 471	20 612	19 788	...	10 727
Revenue	-	69,74	281,85	312,84	300,32	288,31	276,78	...	150,04
EBITDA	-	55,53	224,92	257,97	247,45	237,34	227,63	...	120,99
Tax	-	-19,99	-89,48	-97,54	-93,45	-89,53	-85,78	...	-45,18
Capex	-184,08	-400,89	-7,00	-7,00	-7,00	-7,00	-7,00	...	-
Working Capital	-	-6,97	-28,18	-31,28	1,25	1,20	1,15	...	0,63
Assessed Loss	-	19,99	89,48	97,54	-	-	-	...	-
<b>Free Cash Flow</b>	<b>-184,08</b>	<b>-352,33</b>	<b>189,73</b>	<b>219,69</b>	<b>148,24</b>	<b>142,00</b>	<b>136,01</b>	...	<b>76,43</b>
Discount Rate	-	0,9	0,8	0,8	0,7	0,7	0,6	...	0,2
<b>PV</b>	<b>R0,00</b>	<b>-R323,85</b>	<b>R160,30</b>	<b>R170,60</b>	<b>R105,81</b>	<b>R93,17</b>	<b>R82,02</b>	...	<b>R13,02</b>
<b>NPV</b>									<b>R807m</b>

Sources: Renergen, various company reports, MHA, Profile Media, Bloomberg, & Blue Gem Research assumptions and workings

At the higher diesel price, we now expect an Internal Rate of Return (IRR) for this project of 26.6% (previously 19.8%).

### The Virginia Gas Project: Phase Two

Given that Phase Two is more sensitive to the helium price (which we have left unchanged), we see Phase One’s NPV remaining static at c.R6.8bn (previously R6.7bn).

Table 2: Virginia Project Phase Two’s Summarized Discounted Free Cash Flow (DCF) Model

Phase Two	FY 21A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	...	FY 42E
LNG GJ's Produced (GJ)	-	-	-	1 800 000	3 600 000	5 400 000	5 184 000	...	2 810 176
Helium Produced (mcf)	-	-	-	258 865	517 730	776 596	745 532	...	404 143
Revenue	-	-	-	1417,33	2834,65	4251,98	4081,90	...	2212,74
EBITDA	-	-	-	1290,73	2586,72	3882,71	3726,56	...	2010,49
Tax	-	-	-	-430,83	-835,81	-1228,86	-1178,62	...	-634,59
Capex	-	-	-	-1022,00	-1904,00	-1204,00	-42,00	...	-
Working Capital	-	-	-	-141,73	-283,47	-425,20	17,01	...	9,22
Assessed Loss	-	-	-	-	-	-	-	...	-
<b>Free Cash Flow</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-303,83</b>	<b>-436,55</b>	<b>1024,64</b>	<b>2522,95</b>	...	<b>1385,12</b>
Discount Rate	-	0,9	0,8	0,8	0,7	0,7	0,6	...	0,2
<b>PV</b>	<b>R0,00</b>	<b>R0,00</b>	<b>R0,00</b>	<b>-R203,50</b>	<b>-R255,82</b>	<b>R525,34</b>	<b>R1131,74</b>	...	<b>R83,74</b>
<b>NPV</b>									<b>R6754m</b>

Sources: Renergen, various company reports, MHA, Profile Media, Bloomberg, & Blue Gem Research assumptions and workings

Our NPV for Phase Two generates an IRR of 139.5% (previously 133.4%) while the entire Phase One & Two (given that Phase One front-loads some of Phase Two’s capex) has an IRR of 66.8% (previously 56.3%).

### Sum-of-the-Parts (SOTP), 12m TP, Implied Return & Sensitivity Matrix

Taking our Phase One and Phase Two DCF’s, calculating an NPV for Group overheads (i.e. a discount) and factoring in debt and (potential) future dilution, we arrive at a SOTPs for Reenergen that indicates that the stock is worth 4149cps (previously 3539cps). If we assume Cryo-Vacc and Evander both add +10% to the Group, this boosts our SOTPs to a fair value of 4978cps (previously 4247cps), which rolled-forward at our (nominal) Cost of Equity implies a 12m TP of 5850cps (previously 4977cps).

**Table 3: Reenergen’s Sum-of-the-Parts (SOTP) Valuation**

ZAR	Value
<b>Virginia Gas Project (Estimated NPV)</b>	
- Phase One	R807 019 707
- Phase Two	R6 754 222 023
<b>Head Office NPV (i.e., Discount to SOTP)</b>	-R302 804 753
<b>Enterprise Value</b>	<b>R7 258 436 976</b>
Less: Net Debt	-R569 764 000
<b>Equity Value (undiluted)</b>	<b>R6 688 672 976</b>
<i>Issued Share Capital</i>	<i>117 508 067</i>
<i>Potential Phase Two Dilution*</i>	<i>43 714 575*</i>
<b>Fair Value (ZAR cps)</b>	<b>4149cps</b>
Add: Cryo-Vacc Option	10%
Add: Evander Gas Asset Option	10%
<b>Fair Value (ZAR cps)</b>	<b>4978cps</b>
<b>12m TP (ZAR cps)</b>	<b>5850cps</b>

Sources: Reenergen, various company reports, MHA, Profile Media, Bloomberg, & Blue Gem Research assumptions and workings; \* Assuming Phase Two needs a rights issue of c.R1bn and this is placed at a price of 2470cps (previously was 1952cps ~based on the Group’s current ruling prices on the JSE).

### Key risks to our valuation

The key risks to our above valuation methodology, its related assumptions & its resulting answer are:

- **Spot prices:**
  - The USD/ZAR,
  - The Oil price in how it affects the domestic diesel price (*including taxes*), &
  - The helium price.
- **Yields, flow-rates & resource risk:**
  - The purity (see below) & flow-rates (we have assumed a 4.0% y/y decline from point of peak production over the life of the gas right) of natural gas from the Virginia Gas Project,
  - And, how much of it is methane (we have assumed 90%) relative to helium (we have assumed 3%; some wells have much higher concentrations, e.g. P007 & MDR1), &
  - If all the resource that we *think* is there is *actually* there (i.e. the so-called ‘below the ground’ risk).
- **Other risks:**
  - If the Group cannot gain traction in the local trucking industry for conversion of LPG fleet into LNG fleet (see **Appendix B**),
  - Inflation and how it may affect both future opex and future capex costs,
  - Interest rates and how it may change borrowing costs and discount rates,
  - Potential future dilution (e.g. from Phase Two and, possibly, Evander), &
  - South African sovereign risk.

**Disclaimer**

**Confused by this report? View our [methodology](#), [FAQ](#) and [this disclaimer](#).**

*\* Market prices in this report predominantly set to intra-day prices noted on the 3 May 2021.*

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