

Renergen Ltd
Positive Developments

Share Code: REN – Market Cap: R2.4bn – PE: -55.6x – DY: 0.0%

12m Target Price	5330cps
Share Price	1999cps
Implied Return	166%

Resources | [South Africa](#)

Discovery of Helium at Evander & Other Wells; Pipeline Update

- Renergen has found world-class helium concentrations at the MDR1 (3.15%) and P007 (4.38%) wells along with intersecting gas at R2D2. These wells all either point towards a better/larger resource and/or higher well density potential (i.e. lower capex/well) that incrementally adds upside to the Group's existing Phase I and II of its Virginia Gas Project.
- Helium has now also been found at the Group's Evander Exploration Right prospect at 1.1% concentrations. While this is lower than Virginia, 1.1% is still a world-class concentration and adds a further 52,000 hectares of exploration rights to the Group's already exciting gas resource.
- Finally, the Virginia Gas Project's pipeline has been completed and performance tested with very pleasing results (+7% higher than planned flow rate; 30% less power consumption) that should have positive operational and valuation impact.

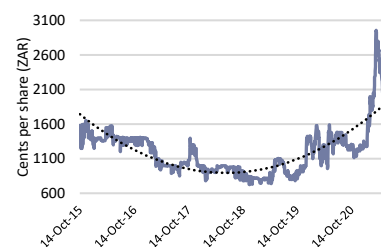
Incremental Capital Raise Strongly Supported

- Renergen has placed c.5.6m shares (c.4.8% dilution to c.117.5m shares in issue) at c.1910cps (c.9.5% discount to the 30-day VWAP) with two key considerations to this placement:
- It was quickly and fully subscribed, adding 3 South African and 9 Australian institutional investors, and, somewhat, derisking the likely Phase II capital raise through the process, &
- Funds will debottleneck the Group's exploration of the Virginia Project, Feasibility Studies for Phase II & offer some working capital runway for existing operations.

Forecast, Valuation and Implied Return: Updated for Spot Changes

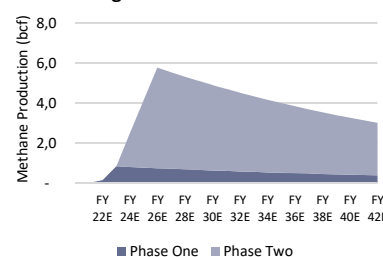
- Leaving our model unchanged and *only* updating it to reflect current spot prices (ZAR, Diesel, & lower share price), we see REN's fair value as 4535cps (previously: 4978cps) and its 12m TP as 5330cps (previously: 5850cps).

Renergen's Share Price



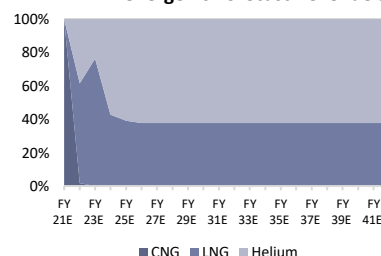
Sources: Profile Media, Blue Gem Research

Renergen's Forecast Production Profile



Source: Blue Gem Research

Renergen's Forecast Revenue Split



Source: Blue Gem Research

	FY 19	FY 20	FY 21A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
Production:								
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	40,8	40,6	39,8	37,3	33,2	27,4
Helium – 1P (bcf)	1,0	1,0	1,0	1,0	1,0	0,7	0,2	-0,6
Financials (R'000's):								
Revenue	2987	2635	1925	69988	278465	1698446	3075260	4452569
Net Profit	-44976	-52619	-42620	-14966	55085	914029	1633298	2331746
HEPS (cps)	-47,3cps	-46,0cps	-36,3cps	-12,7cps	38,1cps	533,1cps	952,7cps	1360,1cps
Price Earnings (x)	-42,3x	-43,5x	-55,1x	-156,9x	52,4x	3,7x	2,1x	1,5x
Return on Assets (%)	-19%	-8%	-5%	-4%	2%	15%	21%	24%

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



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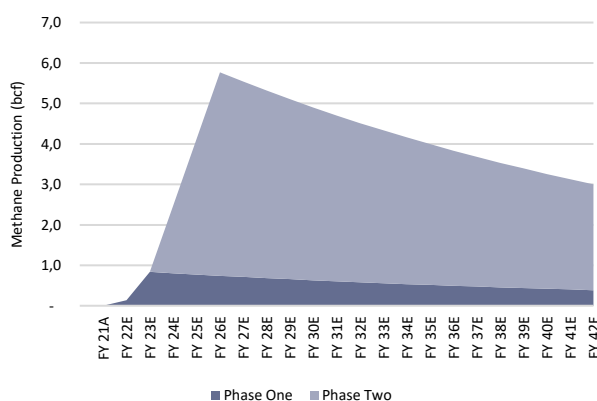


BLUE GEM RESEARCH

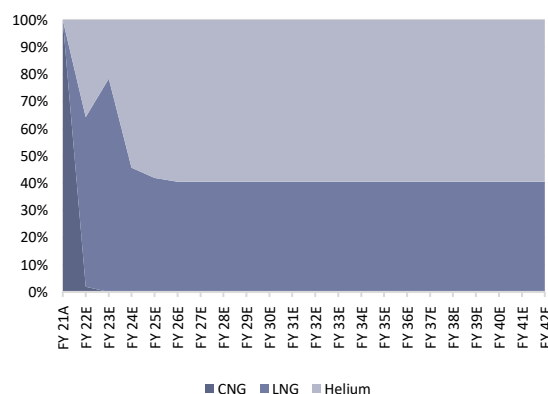
Summary & Forecast:	FY 19	FY 20	FY 21A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
Production:								
LNG - Phase One (Giga Joules)	-	-	-	150 000	750 000	864 000	829 440	796 262
LNG - Phase Two (GJ)	-	-	-	-	-	1800 000	3600 000	5400 000
Helium - Phase One (thousand cubic feet)	-	-	-	9 707	23 298	22 366	21 471	20 612
Helium - Phase Two (mcf)	-	-	-	-	-	258 865	517 730	776 596
Gas Reserves:								
Natural Gas - 1P (billion cubic feet)	40,8	40,8	40,8	40,6	39,8	37,3	33,2	27,4
Natural Gas - 2P (bcf)	139,0	139,0	139,0	138,9	138,0	135,5	131,4	125,6
Natural Gas - 3P (bcf)	284,2	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	1,0	0,7	0,2	-0,6
Helium - 2P (bcf)	3,4	3,4	3,4	3,4	3,4	3,1	2,6	1,8
Helium - 3P (bcf)	6,9	6,9	6,9	6,9	6,8	6,5	6,0	5,2
Financials (R'000's):								
Revenue	2987	2635	1925	69988	278465	1698446	3075260	4452569
Gross Profit	-210	-667	-917	52277	186491	1468376	2609381	3708207
Operating Profit	-46014	-67305	-46773	-8926	157928	1408340	2543504	3636386
Net Profit	-44976	-52619	-42620	-14966	55085	914029	1633298	2331746
Issued Shares (000's)	100135	117427	117427	117427	171442	171442	171442	171442
Weighted Shares (000's)	86997	109799	117427	117427	144434	171442	171442	171442
EPS (cps)	-47,0cps	-47,9cps	-36,3cps	-12,7cps	38,1cps	533,1cps	952,7cps	1360cps
HEPS (cps)	-47,3cps	-46,0cps	-36,3cps	-12,7cps	38,1cps	533,1cps	952,7cps	1360cps
Price Earnings (x)	-42,3x	-43,5x	-55,1x	-156,9x	52,4x	3,7x	2,1x	1,5x
Total Assets	225110	626491	780271	738345	3494243	6032154	7672529	10014176
Property, Plant & Equipment	37757	350824	475558	846756	813456	1778075	3502984	4363588
Intangible Assets	70494	89223	112155	126155	133155	182155	273155	364155
Equity	164233	247230	206408	191442	1326278	2240307	3873605	6205351
Return on Equity (%)	-27%	-21%	-21%	-8%	4%	41%	42%	38%
Total Liabilities	60877	379261	573954	546903	2167966	3791847	3798924	3808825
Total Debt	39647	351182	534293	534293	2153918	3773543	3773543	3773543
Return on Assets (%)	-19%	-8%	-5%	-4%	2%	15%	21%	24%
Return on Capital (%)	-33%	-11%	-6%	-3%	7%	37%	39%	42%

Production & Revenue Profile:

Virginia Gas Production Profile - Phase One & Two



Virginia Gas Project - Estimated Split in Revenue



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

Cumulative News Update

Since the Group's results, Renergen (code: REN) has put out a steady trickle of positive news flow that is collectively worth touching on:

Discovery of Helium at Evander & Other Wells; Pipeline Update

- Renergen has found world-class helium concentrations at the MDR1 (3.15%) and P007 (4.38%) wells along with intersecting gas at R2D2.
 - These wells all either point towards a better/larger resource and/or higher well density potential (i.e. lower capex/well) that incrementally adds upside to the Group's existing Phase I and II of its Virginia Gas Project.
 - Our current model for Renergen's Phase I and II Virginia Gas Project assumes only a 3.0% helium concentration, thus these results further indicate possible upside risk to our fair value.
 - Also, this further highlights that Renergen is predominantly a helium play with LPG as a by-product (and not the other way round).
- Helium has now also been found at the Group's Evander Exploration Right prospect at 1.1% concentrations:
 - While this is lower than Virginia, 1.1% is still a world-class concentration and adds a further 52,000 hectares of exploration rights to the Group's already exciting gas resource.
 - In our valuation of the Group, we have *not* valued the Evander Exploration Right specifically but included it as an "option" in the sum-of-the-parts (SOTP).
 - This find and what may become future finds could highlight that this gas right has real value, once again, adding upside risk to our fair value.
- Finally, the Virginia Gas Project's pipeline has been completed and performance tested with very pleasing results (+7% *higher* than planned flow rate; 30% *less* power consumption) that should have positive operational and valuation impact:
 - These two factors should see better margins/returns extracted from the project once it is operational, &
 - Both these data points are better than our models' base assumptions, thus implying, once again, upside risk to our fair value.

Incremental Capital Raise Strongly Supported

- Renergen has placed c.5.6m shares (c.4.8% dilution to c.117.5m shares in issue) at c.1910cps (c.9.5% discount to the 30-day VWAP) with two key considerations to this placement:
 - It was quickly and fully subscribed, adding 3 South African and 9 Australian institutional investors,
 - The appetite for the capital raise (hence how quickly it was filled) and the addition of the institutional investors (who tend to have deep pockets) is a positive and arguably bode well for the likely capital raise required to fund Phase II.
 - Finally, these funds will debottleneck the Group's exploration of the Virginia Project, Feasibility Studies for Phase II & offer some working capital runway for existing operations.
- All in all, while dilution is the downside (only 4.8% of it), we view this capital raise in a positive light.

Forecast, Valuation and Implied Return: Updated for Spot Changes

- We have updated our model to reflect current spot prices and other moving variables, being the ZAR, diesel wholesale price and a lower share price):
 - We see REN's fair value as 4535cps (previously: 4978cps), and
 - Its 12m TP as 5330cps (previously: 5850cps).
- While this is lower than our last report, the Rand strength has moved against the Group's valuation.

- Perhaps more important and less transient, we have *not* updated our model or assumptions for the above noted cumulatively positive news flow that all seem to indicate that our view of the fair value of the Group may risk upside.

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