Ad Hoc Note
30 August 2021

RENERGEN
FUTURE ENERGY, TODAY

Renergen Ltd
More Positive Developments

Share Code: REN – Market Cap: R2.2bn – PE: -50.5x – DY: 0.0%

12m Target Price	**6567cps**
Share Price	**1832cps**
Implied Return	**258%**

Resources | South Africa

News: Helium and LNG offtakes lining up nicely

- **Phase 1:** Renergen has signed a 5-year LNG offtake with a major glass manufacturer, Consul Glass. The supply of LNG is to begin in January 2022 and ramp-up to 14tons/day. The LNG will be priced off the floating South African LPG price.
- **Phase 2:** A raft of supply agreements for a total of c.65% of the expected helium production of Phase 2 has been signed with a range of major players (Linde Inc., Messer LLC, Helium24 LLC) for between 10 to 15 years. The helium will be priced in US Dollars with annual escalations linked to the US CPI.

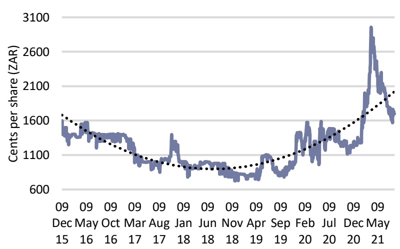
Spot Prices: Moving in Renergen's favour

- Most spot prices and currencies have gone in Renergen's favour, thus leading to a strong uplift in the Group's implied Sum-of-the-Parts (SOTP):
  - South African Diesel Whole Price (A1) has risen +7%, leading to a higher value for the Group's LNG reserve that is priced at a 25% discount to this price,
  - Rand has weakened nearly 9% versus the US Dollar, both helping lift up the above-noted diesel price and boosting the USD-denominated helium price,
  - The South African 10-year bond rate has dropped from 9.26% to 8.96%, lowering our WACC & boosting our NPV.

Valuation and Implied Return: Contrary to share price weakness…

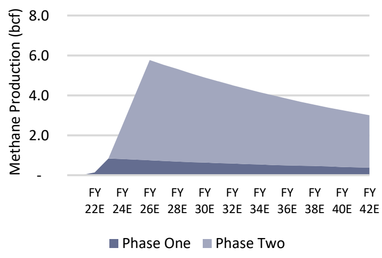
- Reflecting the above-changed input variables (amongst several other minor ones), we see REN's fair value as 5603cps (previously: 4535cps) and its 12m TP as 6567cps (previously: 5330cps).
- We find it strange that the share price has moved contrary to the positive movements in the variables driving up the implied fair value of Renergen.

Renergen's Share Price



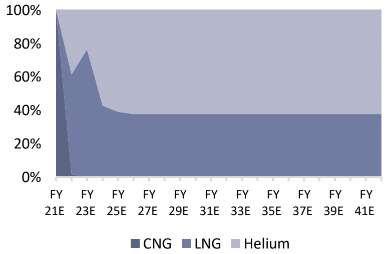
Sources: Profile Media, Blue Gem Research

Renergen's Forecast Production Profile



Source: Blue Gem Research

Renergen's Forecast Revenue Split



Source: Blue Gem Research

Production:	**FY 20A**	**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	75,200	298,880	1,832,473	3,319,896	4,807,849
Net Profit	-52,619	-42,620	-11,739	65,980	1,001,673	1,806,557	2,583,736
HEPS (cps)	**-46.0cps**	**-36.3cps**	**-10.0cps**	**44.2cps**	**553.7cps**	**998.6cps**	**1,428.2cps**
Price Earnings (x)	***-37.0x***	***-46.9x***	***-170.2x***	***38.5x***	***3.1x***	***1.7x***	***1.2x***
Return on Assets (%)	*-8%*	*-5%*	*-3%*	*3%*	*16%*	*23%*	*25%*

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

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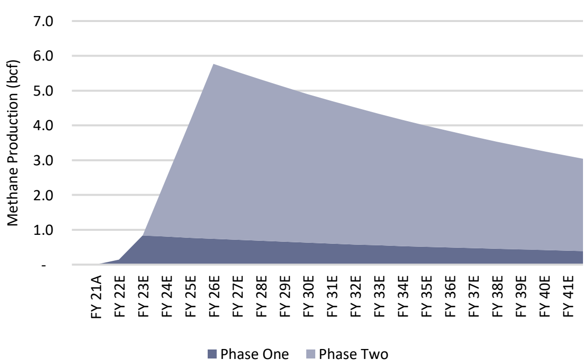
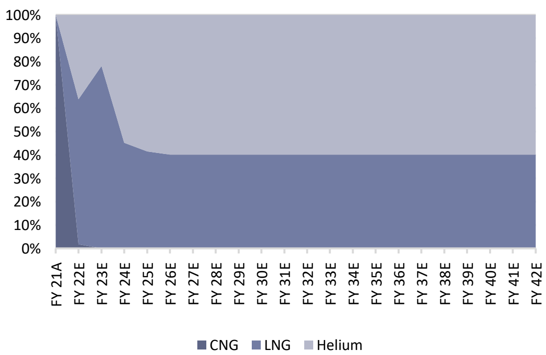
Summary & Forecast:	FY 19	FY 20	FY 21A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
Production:								
LNG - Phase One (Giga Joules)	-	-	-	*150,000*	*750,000*	*864,000*	*829,440*	*796,262*
LNG - Phase Two (GJ)	-	-	-	-	-	*1,800,000*	*3,600,000*	*5,400,000*
Helium - Phase One (thousand cubic feet)	-	-	-	*9,707*	*23,298*	*22,366*	*21,471*	*20,612*
Helium - Phase Two (mcf)	-	-	-	-	-	*258,865*	*517,730*	*776,596*
Gas Reserves:	**FY 19**	**FY 20**	**FY 21A**	**FY 22E**	**FY 23E**	**FY 24E**	**FY 25E**	**FY 26E**
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):	**FY 19**	**FY 20**	**FY 21A**	**FY 22E**	**FY 23E**	**FY 24E**	**FY 25E**	**FY 26E**
Revenue	**2,987**	**2,635**	**1,925**	**75,200**	**298,880**	**1,832,473**	**3,319,896**	**4,807,849**
Gross Profit	-210	-667	-917	57,362	206,148	1,601,676	2,853,318	4,062,815
Operating Profit	-46,014	-67,305	-46,773	-3,835	177,600	1,541,666	2,787,481	3,991,054
Net Profit	**-44,976**	**-52,619**	**-42,620**	**-11,739**	**65,980**	**1,001,673**	**1,806,557**	**2,583,736**
Issued Shares (000's)	*100,135*	*117,427*	*117,427*	*117,427*	*180,904*	*180,904*	*180,904*	*180,904*
Weighted Shares (000's)	*86,997*	*109,799*	*117,427*	*117,427*	*149,166*	*180,904*	*180,904*	*180,904*
EPS (cps)	-47.0	-47.9	-36.3	-10.0	44.2	553.7	998.6	1,428.2
HEPS (cps)	**-47.3**	**-46.0**	**-36.3**	**-10.0**	**44.2**	**553.7**	**998.6**	**1,428.2**
Price Earnings (x)	***-36.0***	***-37.0***	***-46.9***	***-170.2***	***38.5***	***3.1***	***1.7***	***1.2***
Total Assets	225,110	626,491	780,271	741,572	3,508,365	6,133,920	7,947,554	10,541,191
Property, Plant & Equipment	37,757	350,824	475,558	857,339	823,279	1,787,171	3,511,381	4,371,313
Intangible Assets	70,494	89,223	112,155	126,155	133,155	182,155	273,155	364,155
Equity	164,233	247,230	206,408	194,669	1,340,399	2,342,073	4,148,629	6,732,366
Return on Equity (%)	***-27%***	***-21%***	***-21%***	***-6%***	***5%***	***43%***	***44%***	***38%***
Total Liabilities	60,877	379,261	573,954	546,903	2,167,966	3,791,847	3,798,924	3,808,825
Total Debt	39,647	351,182	534,293	534,293	2,153,918	3,773,543	3,773,543	3,773,543
Return on Assets (%)	***-19%***	***-8%***	***-5%***	***-3%***	***3%***	***16%***	***23%***	***25%***
Return on Capital (%)	***-33%***	***-11%***	***-6%***	***-2%***	***8%***	***42%***	***42%***	***45%***

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

More Positive News

Renergen (REN) has put out some key updates that further derisk Phase 1 and Phase 2 of its major Virginia Gas Project:

- **Phase 1: LNG offtake for c.28% of production signed**
    - Renergen has signed a 5-year LNG offtake with a major glass manufacturer, Consul Glass.
    - The LNG will be priced off the floating South African LPG price, thus further providing a Rand-oil underpin to Renergen's cash flows.
    - The supply of LNG to Consol is to begin in January 2022 and ramp up to 14tons/day.
    - Renergen expects this phase to generate c.50/tonnes of LNG a day, thus this offset is for c.28% of the production and should be considered material.
    - The timing also lends weight to the timing of first production from Phase 1.
- **Phase 2: Long-term helium offtakes & spot optionality**
    - A raft of supply agreements for a total of c.65% of the expected helium production of Phase 2 has been signed with a range of major players for between 10 to 15 years:
        - Linde Inc.: 15-year agreement
        - Messer LLC: 15-year agreement
        - Helium24 LLC: 10-year agreement
    - This offtake secures c.65% of the Group's expected helium production from Phase 2, which leaves a nice balance that offers investors spot price optionality.
    - The helium will be priced at a fixed price in US Dollars with annual escalations linked to the US CPI.
    - The last public USA auction price for helium indicated a $280/mcf spot price, albeit this was some time ago. All indications are that the spot price has risen to somewhere between double or triple this. While these are longer-term off-take agreements and should demand a material discount to spot, we expect a price close to the $280/mcf to have been achieved across these contracts.
    - The Group is investigating some creative mechanisms to sell the balance of Phase 2's helium production into a potentially newly-formed spot market (i.e. allow for price formation that should see crystalize the spot optionality of the current helium market).

Forecast, Valuation and Implied Return: Updated for Spot Changes

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    - Rand has weakened nearly 9% versus the US Dollar, both helping lift up the above-noted diesel price and boosting the USD-denominated helium price,
    - The South African 10-year bond rate has dropped from 9.26% to 8.96%, lowering our WACC & boosting our NPV.
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