Results Note
27 October 2021

Renergen Ltd
Approaching Phase One Production

Share Code: REN – Market Cap: R3.4bn – PE: -76.3x – DY: 0.0%

12m Target Price	**6,976cps**
Share Price	**2,818cps**
Implied Return	**148%**

Resources | South Africa

H1:22 Results: Sufficiently Capitalised for Phase One

- Group revenue rose during the period, but rising overheads as the Group ramps up towards Phase One first production in late H2 saw its loss slightly larger than we expected.
- OPIC debt, a small share placement, offtake agreements for c.28% of Phase One's LNG & c.65% of Phase Two's helium production, & a digital tokenisation mechanism for "prepaid helium" all ensure that the Group is sufficiently capitalized to see Phase One over the line.
- CryoVacc has moved into field trials that could see it becoming commercially viable as a standalone business soon.
- Finally, the favourable exploration outcomes from Evander have triggered an updated reserve report that management anticipates publishing in Q4:22.

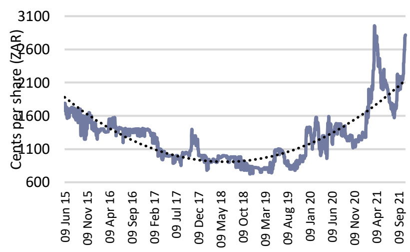
Progress Updates: Numerous Qualitative Updates

- For a range of updates during the period, refer to our previously published update notes:
  - Positive Developments (28 June 2021), &
  - *More* Positive Developments (30 August 2021).

Forecast, Valuation & Implied Return: Undemanding SOTPs

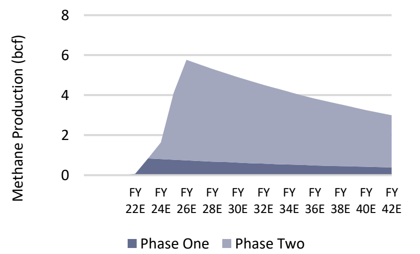
- Taking our Phase One & Phase Two DCF's, Group overheads, factoring in debt, the recent share issue & (potential) future dilution, we arrive at a SOTPs for Renergen that indicates that the stock is worth 5,383cps (previously 5,093cps).
- Assuming Cryo-Vacc & Evander collectively add +10% value, this boosts our fair value to 5,922cps (previously 5,603cps).
- Finally, rolling this forward at our (nominal) Cost of Equity implies a 12m TP of 6,976cps (previously 6,567cps).
- We highlight the likelihood of Phase Two being larger than we anticipate as a risk to our valuation, but we will only update our view after several variables have been resolved.

Renergen's Share Price



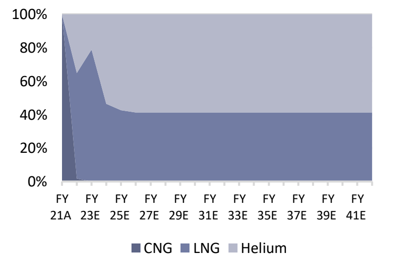
Sources: Profile Media, Blue Gem Research

Renergen's Forecast Production Profile



Source: Blue Gem Research

Renergen's Forecast Revenue Split



Source: Blue Gem Research

Production:	**FY 19**	**FY 20**	**FY 21A**	**H1:22A**	**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	40.8	40.8	40.7	39.9	38.2	34.1	28.3
Helium - 1P (bcf)	1.0	1.0	1.0	1.0	1.0	1.0	0.7	0.2	-0.6
Financials (R'000's):									
Revenue	2,987	2,635	1,925	1,249	74,390	297,552	1,798,071	3,252,182	4,706,821
Net Profit	-44,976	-52,619	-42,620	-25,167	-39,944	50,438	1,037,394	1,736,067	2,489,125
HEPS (cps)	**-47.3cps**	**-46.0cps**	**-36.3cps**	**-21.0cps**	**-32.9cps**	**35.5cps**	**646cps**	**1,080cps**	**1,550cps**
Price Earnings (x)	***-59.6x***	***-61.3x***	***-77.6x***	***-133.9x***	***-85.6x***	***79.3x***	***4.4x***	***2.6x***	***1.8x***
Return on Assets (%)	*-19%*	*-8%*	*-5%*	*-3%*	*-3%*	*3%*	*17%*	*22%*	*24%*

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

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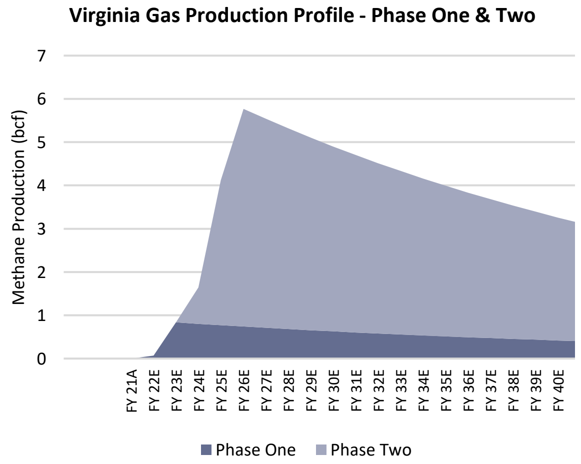
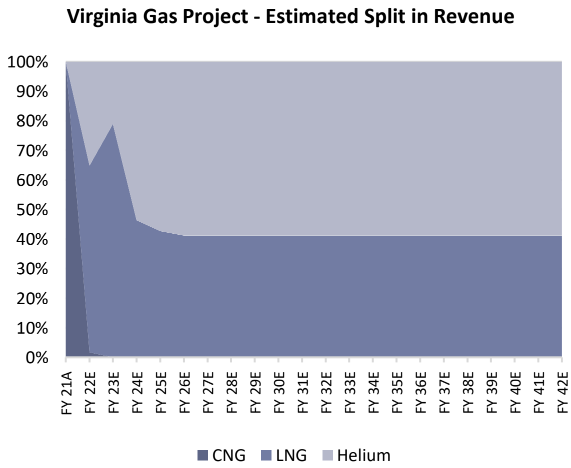
BLUE GEM RESEARCH

Summary & Forecast:	**FY 20**	**FY 21A**	**H1:22A**	**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 20**	**FY 21A**	**H1:22A**	**FY 22E**	**FY 23E**	**FY 24E**	**FY 25E**	**FY 26E**
Natural Gas - 1P (billion cubic feet)	*40.8*	*40.8*	*40.8*	*40.7*	*39.9*	*38.2*	*34.1*	*28.3*
Natural Gas - 2P (bcf)	*139.0*	*139.0*	*139.0*	*138.9*	*138.1*	*136.4*	*132.3*	*126.5*
Natural Gas - 3P (bcf)	*284.2*	*284.2*	*284.2*	*284.1*	*283.3*	*281.6*	*277.5*	*271.7*
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 20**	**FY 21A**	**H1:22A**	**FY 22E**	**FY 23E**	**FY 24E**	**FY 25E**	**FY 26E**
Revenue	**2,635**	**1,925**	**1,249**	**74,390**	**297,552**	**1,798,071**	**3,252,182**	**4,706,821**
Gross Profit	-667	-917	-357	64,118	204,888	1,630,298	2,787,371	3,965,885
Operating Profit	-67,305	-46,773	-25,411	-10,117	161,983	1,541,580	2,692,798	3,865,350
Net Profit	**-52,619**	**-42,620**	**-25,167**	**-39,944**	**50,438**	**1,037,394**	**1,736,067**	**2,489,125**
Issued Shares (000's)	*117,427*	*117,427*	*123,140*	*123,140*	*160,627*	*160,627*	*160,627*	*160,627*
Weighted Shares (000's)	*109,799*	*117,427*	*119,570*	*121,355*	*141,883*	*160,627*	*160,627*	*160,627*
EPS (cps)	-47.9	-36.3	-21.0	-32.9	35.5	645.8	1,080.8	1,549.6
HEPS (cps)	**-46.0**	**-36.3**	**-21.0**	**-32.9**	**35.5**	**645.8**	**1,080.8**	**1,549.6**
Price Earnings (x)	***-61.3x***	***-77.6x***	***-133.9x***	***-85.6x***	***79.3x***	***4.4x***	***2.6x***	***1.8x***
Total Assets	626,491	780,271	859,810	685,047	3,380,261	6,005,043	7,748,187	10,247,212
Property, Plant & Equipment	350,824	475,558	575,591	862,881	827,250	1,792,411	3,497,068	4,339,778
Intangible Assets	89,223	112,155	135,821	122,875	128,235	165,755	235,435	305,115
Equity	247,230	206,408	289,302	166,464	1,273,282	2,310,676	4,046,742	6,535,867
Return on Equity (%)	***-21%***	***-21%***	***-9%***	***-24%***	***4%***	***45%***	***43%***	***38%***
Total Liabilities	379,261	573,954	570,508	516,195	2,102,203	3,689,591	3,696,668	3,706,569
Total Debt	351,182	534,293	503,585	503,585	2,088,155	3,672,725	3,672,725	3,672,725
Return on Assets (%)	***-8%***	***-5%***	***-3%***	***-3%***	***3%***	***17%***	***22%***	***24%***
Return on Capital (%)	***-11%***	***-6%***	***-3%***	***-2%***	***7%***	***44%***	***41%***	***45%***

Production & Revenue Profile:





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

H1:22 Results

Renergen (code: REN) has had a busy interim period as its Phase One approaches production. Besides the build of Phase One, the Group has also concluded several derisking actions during the period, best summarized in our creatively named update notes:

- Positive Developments (published 28 June 2021), &
- *More* Positive Developments (published 30 August 2021).

Given the Group's near-term production goals in Phase One and the spectre of Phase Two, the recently released H1:21 results are not all that pertinent. While this note will focus more on the project(s), valuation, and assumption updates, we would like to highlight the key H1:21 results below:

- The Group saw revenue rise to R1,3m (H1:20 – R0.9m) as the CNG pilot project continues to function and South Africa's diesel price rose on the back of higher global oil prices.
- Operating expenses began to climb as the Group built institutional capacity for its near-term production profile and the Group's funding lines were fully drawn-down during this period (the majority of their financing costs were capitalized into Phase One fixed assets).
- Cumulatively, this saw a slightly larger loss than we anticipated at -21.05cps (H1:20 - -22.90cps) but consider this minor against the Group's near-term Phase One production profile.
- On that note, the Group's fully-drawn debt funding, opportunistic share placement, offtake agreements for c.28% of Phase One's LNG (from Consol) and c.65% of Phase Two's helium production (from various global blue-chip companies) and, finally, a clever digital tokenisation mechanism for "prepaid helium" all ensure that the Group is likely more than enough capitalized to at least get Phase One generating free cash flows and finalize the funding mix for Phase Two.
- CryoVacc has moved into field trials that could see it becoming commercially viable as a standalone business while the Group's underlying gas reserves are likely to be updated shortly encompassing the Group's Evander asset too. For now, we still only value these two assets are "options" in Renergen's Sum-of-the-Parts (SOTP), though note that a reserve report update should be forthcoming in Q4:22.

Progress Update

Note: See the Group's milestones section of their website here for nearly real-time updates - LINK

Phase One

- We did a recent site visit to Phase One's project site and saw the progressing infrastructure and several wells. While a lot of detail came from this site visit (some of which has seen our assumptions updated below), the most important aspect was that Phase One is progressing nicely and management is shifting their focus towards Phase Two (which is appearing even larger than we initially anticipated – See below for discussion hereon).
- The following key spot prices, yields and assumptions have been updated in our Phase One model:
    - **Diesel price**: Updated to 1506cents/litre (previously 1506.9c/l)
    - **USD/ZAR**: Updated to R14.67 (previously R14.54)
    - **AUD/ZAR**: Updated to R11.02 (previously R10.89)
    - **South African 10-year bond yield**: Updated to 9.56% (previously 8.96%)
    - **Inflation**: 5.0% (previously 4.6%)
    - **Well success ratio & related capex**: We had previously assumed a 60% success ratio with wells costing R1.5m and R1m for connecting successful wells to the plant. The use of improved modelling & techniques by management has lifted this ratio to 5 in 6 wells drilled being successful, thus shifting our capex assumptions somewhat lower from R3.5m per

(successful) well (including unsuccessful strikes and connection costs) to R2.7m per (successful) well (including connection costs). The use of inclined drilling as well should bolster well-head density while keeping connection costs lower, though we have not modelled for that benefit.
    - **Timing**: Given some COVID-related delays, we have pushed out our expected start of production until the last month of FY 22E (previously assumed two months of contribution) while steady-state production is likely only reached in FY 23E.

Phase Two

- Phase Two is increasingly looking likely to be approximately *double* the size we originally modelled it to be. This includes both production and capital requirements.
- Despite this, we await final details from management (likely on the back of updated reserves and some production from Phase One) before we adjust our initial assumptions here.
- The only changes we have made to our forecast and NPV of Phase Two is to push out its timing by two calendar months while using our newly assumed well capex workings (as explained in Phase One above) – obviously, like Phase One, we have updated the spot prices and current yields too.
- A key risk in Phase Two—and, indeed, to Renergen's valuation as a whole—is the likely dilution to shareholders from funding Phase Two:
    - Our initial capex assumptions for Phase Two were c.R5bn with R1bn being raised via equity (the balance being debt). Anecdotally, Phase Two's capex requirements now appear closer to R10bn with as much as R2bn maybe being raised via equity (potentially c.R7bn in debt and a further c.R1bn through "prepaid helium tokens" described below).
    - Note that this larger potential quantum *is* matched by a much larger potential production profile. Gas projects often enjoy returns to scale, thus, larger is likely to be *better* for investors as well, though this is also a generalization and may not prove to be true here.
    - Until management has finalized reserves and project details and funding, **we have decided *not* to adjust our Phase Two model's *size***, thus note this as a major and likely forecast risk to our view of Renergen.
    - Finally, an added—though likely positive—complication is the placement (and coming listing) of digital tokens for helium delivery that act as effectively "prepaid helium" and allow the Group to use them as non-dilutive project financing for Phase Two. The Group is raising up to $25m through this mechanism. Read the company announcement here for more details as to this creative mechanism: LINK.

Forecast & Valuation

Methodology & Universal Assumptions

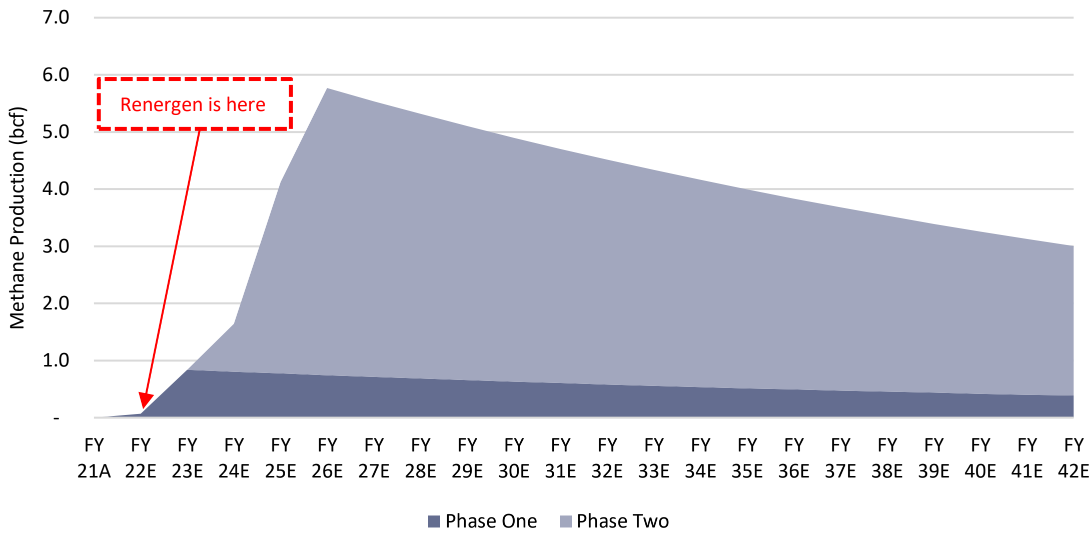
Other than the spot price adjustments noted in the "Phase One" section above (repeated below), we have not adjusted any assumptions around our methodology or models. Note that we have slightly pushed out the timing of Phase One and Phase Two's expected production profile, considering some minor COVID-related delays.

See our "Initiation of Coverage" (LINK) for more details on our valuation approach & universal assumptions (other than the changes noted above and below).

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.

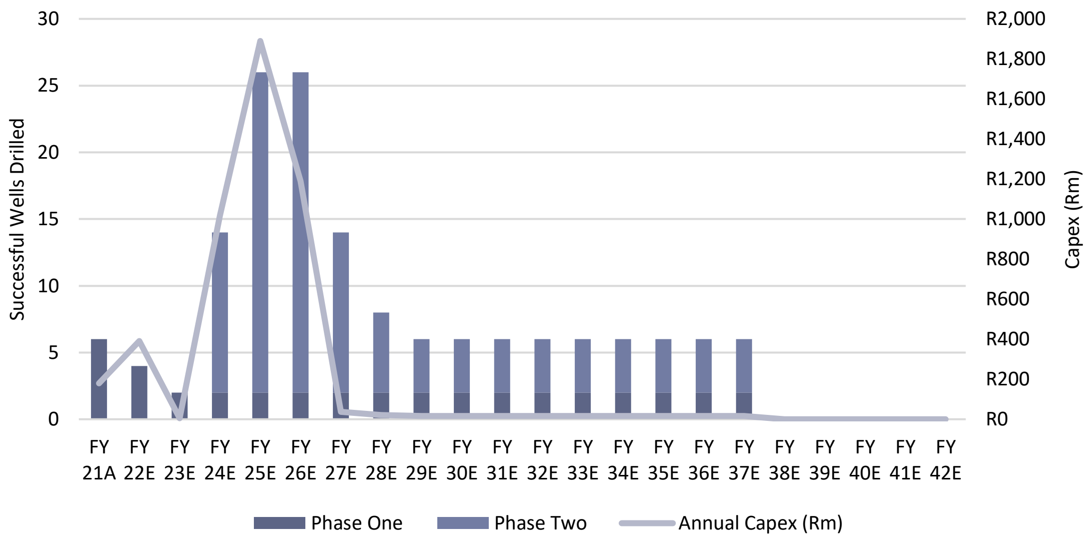
Figure 1: Our Expected (Methane) Production Profile for the Virginia Gas Project



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

Figure 1 remains mostly unchanged from our Initiation of Coverage, likewise, Figure 2's capex profile also reflects no major assumption changes (other than our noted changes around all-in well capex).

Figure 2: 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.R1,005m (previously R807m). 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 (including time), most notably the diesel price has risen significantly.

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

Phase One	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	-	73.11	297.55	330.73	317.50	304.80	292.61	…	158.62
EBITDA	-	63.08	240.62	275.87	264.62	253.83	243.47	…	129.57
Tax	-	-23.51	-96.69	-105.29	-100.92	-96.73	-92.71	…	-49.09
Capex	-179.16	-390.71	-5.36	-5.36	-5.36	-5.36	-5.36	…	-
Working Capital	-	-7.31	-29.76	-33.07	1.32	1.27	1.22	…	0.66
Assessed Loss	-	23.51	96.69	-	-	-	-	…	-
Free Cash Flow	**-179.16**	**-334.94**	**205.51**	**132.15**	**159.67**	**153.01**	**146.62**	**…**	**81.14**
Discount Rate	-	*0.9*	*0.9*	*0.8*	*0.8*	*0.7*	*0.7*	…	*0.2*
PV	**R0.00**	**(R323.58)**	**R185.30**	**R111.22**	**R125.42**	**R112.18**	**R100.32**	**…**	**R19.73**
NPV									**R1,005m**

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

The Virginia Gas Project: Phase Two

Phase Two's NPV has risen nicely to c.R8.8bn (previously R6.8bn). Once again, most of the valuation uplift comes from the higher diesel price, though better all-in well capex assumptions certainly helped too.

Note: The likely size of Phase Two appears to be approximately double our assumptions. We will leave our model unchanged until the details for Phase Two are finalized but highlight it as a major risk to our view.

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

Phase Two	FY 22E	H2:22E	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	-	-	-	1,467.34	2,934.68	4,402.02	4,225.94	…	2,290.82
EBITDA	-	-	-	1,391.02	2,686.75	4,032.75	3,870.60	…	2,088.57
Tax	-	-	-	-426.74	-874.43	-1,287.22	-1,234.84	…	-665.45
Capex	-	-	-	-1,012.16	-1,884.32	-1,184.32	-32.16	…	-
Working Capital	-	-	-	-146.73	-293.47	-440.20	17.61	…	9.55
Assessed Loss	-	-	-	-	-	-	-	…	-
Free Cash Flow	**-**	**-**	**-**	**-194.61**	**-365.48**	**1,121.00**	**2,621.20**	**…**	**1,432.67**
Discount Rate	-	-	-	*0.8*	*0.8*	*0.7*	*0.7*	…	*0.2*
PV	**R0.00**	**R0.00**	**R0.00**	**-R144.52**	**-R240.94**	**R656.06**	**R1,361.88**	**…**	**R124.81**
NPV									**R8,821m**

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

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, factoring in debt, the recent share issue and (potential) future dilution, we arrive at a SOTPs for Renergen that indicates that the stock is worth 5,383cps (previously 5,093cps).

If we assume Cryo-Vacc and Evander collectively add +10% to the Group (previously assumed individually), this boosts our SOTPs to a fair value of 5,922cps (previously 5,603cps),

Finally, rolling this forward at our (nominal) Cost of Equity implies a 12m TP of 6,976cps (previously 6,567cps).

Table 3: Renergen's Sum-of-the-Parts (SOTP) Valuation

Sum-of-the-Parts (ZAR)	Value
Virginia Gas Project (Estimated NPV)	
- Phase One	R1,005,687,161
- Phase Two	R8,821,450,838
Head Office NPV (I.e., Discount to SOTP)	-R660,761,676
Enterprise Value	**R9,166,376,323**
Less: Net Debt	-R519,375,000
Equity Value (undiluted)	**R8,647,001,323**
Issued Share Capital	*123,140,000*
*Potential Phase Two Dilution**	*37,486,870*
Fair Value (ZAR cps)	**5,383cps**
Add: Cryo-Vacc Option & Evander	*10%*
Fair Value (ZAR cps)	**5,922cps**
12m TP (ZAR cps)	**6,976cps**

*Sources: Renergen, 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 Rand exchanges rate against major currencies,
  - The Oil price & how it affects the domestic diesel price (*including* taxes), &
  - The helium price.
- **Yields, flow-rates & resource risk**:
  - The purity & flow-rates (we have assumed a 4.0% y/y decline from point of peak production over the life of the gas right, though indications are that the gas is biogenic/sustainable and well flow rates may not decline) 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%), &
  - If all the resource that we *think* is there is *actually* there (i.e. the so-called 'below the ground' risk).
- **Other risks**:
  - Phase Two size, production, timing, capex and potential funding variables,
  - If the Group cannot gain traction in the local trucking industry for conversion of LPG fleet into LNG fleet,
  - 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, &
  - South African sovereign risk.

Disclaimer

Confused by this report? View our methodology, FAQ and this disclaimer.

** Market prices in this report predominantly set to either Closing Prices on 25 October 2021 or intra-day prices on 26 October 2021.*

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