

Renergen Ltd Strategic Partner Invests with Tailwinds

Share Code: REN – Market Cap: R4.9bn – PE: -115x – DY: 0.0%

12m Target Price	6867cps
Share Price	3979cps
Implied Return	72%

Resources | [South Africa](#)

News: Helium & LNG more valuable, Ivanhoe Mines invests

- **Helium market update:** Supply challenges from BLM, Qatar & Amur all limit helium availability as SpaceX & the semiconductor industry ramps up demand, implying large helium spot upside.
- **LNG market update:** The oil price rally should drive domestic fuel prices (further) upwards. Reasons for the rally are both sticky and bode well for Renergen's LNG revenues (tied to diesel &/or CPI).
- **Ivanhoe Mines "strategic partnership":** In a *momentous* moment for Renergen, Ivanhoe Mines has invested into the Group (an initial 4.35%-stake) with a roadmap to potentially ramp this investment up to a maximum of either 55% or \$250m of capital.

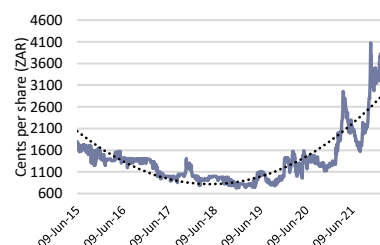
Our Thoughts: Renergen's Potential Upside is Growing Quickly

- The tailwinds lifting Renergen's underlying gas resource keep driving its fair value upwards. While the LNG revenue should track domestic fuel prices & CPI upwards, the helium revenue (even the revenue locked into the long-term supply contracts) holds immense upside potential too.
- The latter may see wild card renegotiation clauses being triggered and repricing in the increasingly tight global helium market.
- The investment by Ivanhoe Mines is a vote of confidence in the Group and, depending on how/if Ivanhoe Mines takes up their options to further invest, may underpin the (equity) funding for (a much *larger*!) Phase II that further derisks the Group.

Valuation and Implied Return: Plenty of Room...

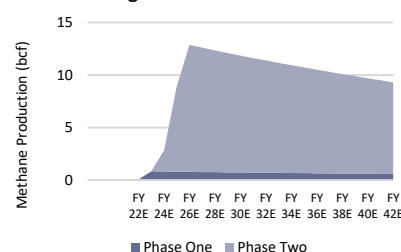
- Despite keeping our helium basket price flat *and* a stronger Rand exchange rate, we upgrade our fair value to 5821cps (previously: 5747cps) & 12m TP to 6867cps (previously: 6766cps).
- Given the commodity pricing dynamics, there is considerable upside risk to this valuation from both LNG & repricing helium closer to spot, not to mention any Rand-weakness.

Renergen's Share Price



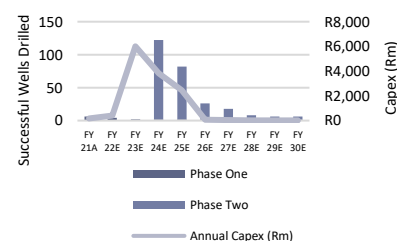
Sources: Profile Media, Blue Gem Research

Renergen's Forecast Production Profile



Source: Blue Gem Research

Renergen's Forecast Capex Profile



Source: Blue Gem Research

Production:	FY 21A	H1:22A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
LNG - Phase One (Giga Joules)	-	-	152,083	760,417	894,250	876,365	858,838
LNG - Phase Two (GJ)	-	-	-	-	4,380,000	8,760,000	13,140,000
Helium - Phase One (thousand cubic feet)	-	-	9,718	23,324	22,857	22,400	21,952
Helium - Phase Two (mcf)	-	-	-	-	134,068	268,136	402,204
Gas Reserves:							
Natural Gas - 1P (billion cubic feet)	215.1	215.1	215.0	214.2	211.3	202.5	189.6
Helium - 1P (bcf)	7.2	7.2	7.2	7.1	7.0	6.7	6.3
Financials (R'000's):							
Revenue	1,925	1,249	90,745	369,474	2,001,366	3,573,904	5,146,611
Net Profit	-42,620	-25,167	-27,260	110,275	744,995	1,167,356	1,880,503
HEPS (cps)	-36.3cps	-21.0cps	-22.5cps	72.2cps	343.3cps	432.8cps	697.2cps
Price Earnings (x)	-109.6x	-94.5x	-177.1x	55.1x	11.6x	9.2x	5.7x
Return on Assets (%)	-5%	-3%	-1%	2%	12%	18%	22%

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



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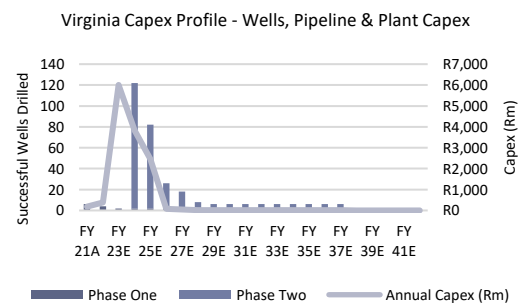
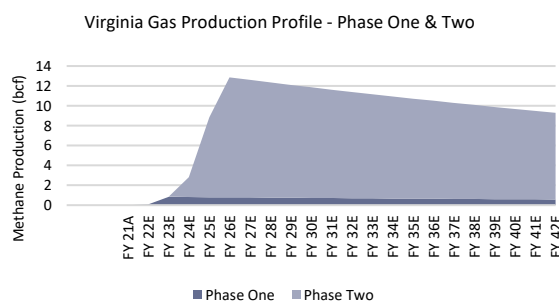
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BLUE GEM RESEARCH

Summary & Forecast:	FY 21A	H1:22A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
Production:							
LNG - Phase One (Giga Joules)	-	-	152,083	760,417	894,250	876,365	858,838
LNG - Phase Two (GJ)	-	-	-	-	4,380,000	8,760,000	13,140,000
Helium - Phase One (thousand cubic feet)	-	-	9,718	23,324	22,857	22,400	21,952
Helium - Phase Two (mcf)	-	-	-	-	134,068	268,136	402,204
Gas Reserves:							
Natural Gas - 1P (billion cubic feet)	215.1	215.1	215.0	214.2	211.3	202.5	189.6
Natural Gas - 2P (bcf)	407.0	407.0	406.9	406.1	403.2	394.4	381.5
Natural Gas - 3P (bcf)	600.1	600.1	600.0	599.2	596.4	587.5	574.6
Helium - 1P (bcf)	7.2	7.2	7.2	7.1	7.0	6.7	6.3
Helium - 2P (bcf)	13.6	13.6	13.6	13.5	13.4	13.1	12.7
Helium - 3P (bcf)	20.0	20.0	20.0	20.0	19.8	19.5	19.1
Financials (R'000's):							
Revenue	1,925	1,249	90,745	369,474	2,001,366	3,573,904	5,146,611
Gross Profit	-917	-357	84,687	323,145	1,819,312	3,138,002	4,511,681
Operating Profit	-46,773	-25,411	10,449	259,673	1,715,446	2,983,071	4,356,033
Net Profit	-42,620	-25,167	-27,260	110,275	744,995	1,167,356	1,880,503
Issued Shares ('000's)	117,427	123,140	123,140	164,322	269,736	269,736	269,736
Weighted Shares ('000's)	117,427	119,570	121,355	152,634	217,029	269,736	269,736
EPS (cps)	-36.3cps	-21.0cps	-22.5cps	72.2cps	343.3cps	432.8cps	697.2cps
HEPS (cps)	-36.3cps	-21.0cps	-22.5cps	72.2cps	343.3cps	432.8cps	697.2cps
Price Earnings (x)	-109.6x	-94.5x	-177.1x	55.1x	11.6x	9.2x	5.7x
Total Assets	780,271	859,810	697,730	5,900,552	10,264,367	11,446,909	13,349,472
Property, Plant & Equipment	475,558	575,591	862,063	6,833,066	10,519,521	12,670,416	12,289,743
Intangible Assets	112,155	135,821	122,875	128,235	455,195	674,955	744,635
Equity	206,408	289,302	179,148	1,764,184	2,509,179	3,676,535	5,557,037
Return on Equity (%)	-21%	-9%	-15%	6%	30%	32%	34%
Total Liabilities	573,954	570,508	516,195	4,131,592	7,750,412	7,765,598	7,787,659
Total Debt	534,293	503,585	503,585	4,117,544	7,731,504	7,731,504	7,731,504
Return on Assets (%)	-5%	-3%	-1%	2%	12%	18%	22%
Return on Capital (%)	-6%	-3%	-1%	2%	11%	14%	19%
Production & Revenue Profile:							

Assuming Ivanhoe Mines follows its 25% option at the current share price (less 10% discount) in 120 days' time. Also, assuming that they then follow their rights to increase their shareholding up to 55% (capped at \$250m) mid-FY 24E.



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

Helium & LNG: Commodity Tailwinds Building Momentum

Several important developments in global (commodity) markets have occurred since our last note ([Renergen – Large Reserve Upgrade & Implications](#)). We will summarize these below, but the main thrust is that these developments are net positive for Renergen’s underlying gas resource, namely natural gas (i.e. LNG) and helium.

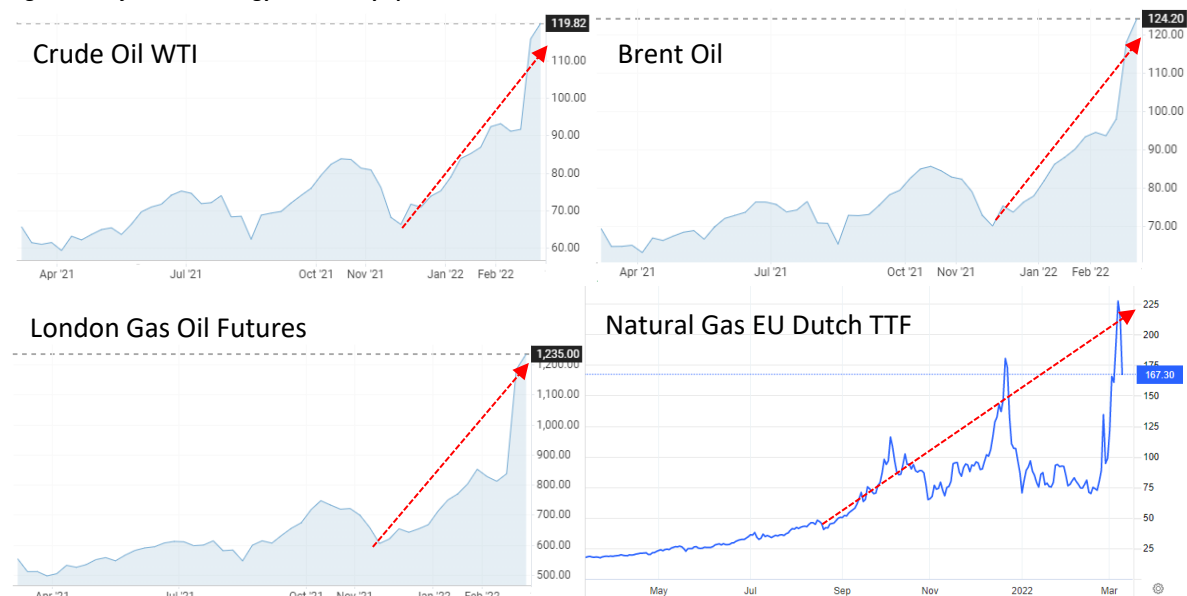
Helium Tailwinds: Supply has fallen as demand keeps rising

- **Supply-side: Supply extremely tight & likely to remain that way for some time**
 - The US Bureau of Land Management’s (BLM) Cliffside plant has stopped supplying helium. Our understanding is that pressure has fallen below critical levels and it is uncertain when this supply will come back onto the market, though indications are not optimistic.
 - Qatar’s important Helium 3 project is experiencing further delays and expectations are now shifting to production only coming online in some *years’* time. It appears that pipeline problems and legal disputes with Saudi Arabia are holding up progress here and—given the complex geopolitics of the region—are unlikely to resolve any time soon.
 - Gazprom’s Amur’s gas project is offline ([reported initially as a “fire”](#) and [now looking to be more serious](#)), which has throttled supply from Russia. Given that Linde engineers are probably needed to fix this project’s challenges and given the current restrictions on travel between the world and Russia, it is uncertain when supply will resume from this region.
 - Following the Russia-Ukraine war, Russian export embargoes may further choke global helium supply, depending on how long these restrictions remain in place.
- **Demand-side: Price-insensitive demand is growing**
 - President Biden in the USA looks set to maintain helium on the country’s critical minerals list (refer to this letter from senators for insights as the commodity and key officials thinking around its supply – [“Energy Committee Leaders to Secretary Haaland: Helium & Uranium are Critical Minerals”](#)).
 - [SpaceX’s ambitious launch targets](#) (particularly for Starlink) point to a large uptick in demand for helium. Each rocket launch consumes a large amount of helium and, thus, growth in SpaceX’s launch programme will drive large State-side helium demand while USA helium supply has fallen (see BLM note above).
 - The current shortage of semiconductors in the world is necessitating a large investment in new capacity in this industry (from [Intel](#) to Taiwan Semiconductor Manufacturing Company). Each new manufacturing plant will draw on further helium demand and, more subtly, as helium’s cost is a relatively small percentage of a semiconductor final cost, these consumers of helium should be quite price insensitive.
 - Furthermore, given the geopolitical vulnerability of Taiwan and the risk from China, Taiwan Semiconductor Manufacturing Company is building up its non-Taiwan manufacturing capacity up ([see their Arizona plant here](#) and [further plans here](#)) that should further bolster this demand for helium as supply chains are derisked by duplication in key geographic locations (i.e. [the USA](#)). Likewise, China has acknowledged a key risk to it is availability of semiconductors. [The country has specifically tasked its Big Tech firms to invest into domestic semiconductor production](#). Indeed, the same can be said of a range of countries around the world, from India to Russia, but the USA and China are both the largest and furthest along with these ambitions.
- While granular details on some of the above is opaque, it is quite clear that the supply of helium is increasingly tight in the face of steadily rising (and, in the case of semiconductors, rather permanent and price insensitive) demand.
- In summary, tight supply & growing demand bode well for the spot price of helium and anecdotal evidence is that spot is currently trading at a *significant* premium to contracted prices.

Natural Gas Tailwinds: Energy basket prices rising strongly (Figure 1)

- A combination of events—not least of all being an underinvestment in oil and gas production—has seen the global oil price up multiples of its 2020 low's.
- More recently, the Russia-Ukraine war has driven the [USA to ban Russia oil](#), further tightening global supply (even before this ban, many counterparties began avoiding Russian oil in anticipation of a ban).
- c.40~45% of Europe's gas is imported from Russia and, thus, is geopolitically risky. The European Union (EU) has recently expressly stated a urgency to seek non-Russia energy supplies ([The EU seeks Independence from Russian oil and gas](#)).
- As partial substitutes for each other, the rest of the energy basket (gas and coal being the major weightings) have also been rallying.
- Collectively, this rise in energy basket prices has some knock-on effects:
 - As energy is an input into almost everything, higher energy costs should filter through to higher USA and global inflation rates (some of Renergen's supply contracts track US & SA y/y CPI),
 - Higher natural gas prices make natural gas deposits more valuable at spot prices, &
 - Higher oil prices should lead to South African petrol and diesel prices increases (some of Renergen's LNG contract are priced relative to South Africa's Diesel Wholesale A1 price).

Figure 1: Major Global Energy Commodity Spot & Futures Prices



Sources: Trading Economics & Investing.com (as of intra-day 9 March 2022)

Macro Conclusion: Tailwinds *all* currently in Renergen's favour

- Both the helium and natural gas spot prices are likely to remain buoyant,
- The energy basket alone could drive inflationary pressures further (lifting USA & SA CPIs), &
- Thus, Renergen underlying natural gas & helium resource is logically more valuable now than a couple of months ago:
 - The Group's LNG prices, revenues & cash flows should track South Africa's "oil-price-driven" Diesel Wholesale Price (A1) higher (this price has *already* risen from 1655.1cents/litre at our last report to the current 1884.0cents/litre, or a +13.8% jump and does *not* even reflect the latest >\$100++ oil price).
 - Renergen's helium sales that are linked to the [Argonon Helium token](#) sales should allow it to realize some helium spot upside in its revenues. This should be particularly true once the helium tokens are listed and start trading. This should create a spot price for the gas that Renergen can then *reissue* tokens into the market at, thus realizing spot upside.

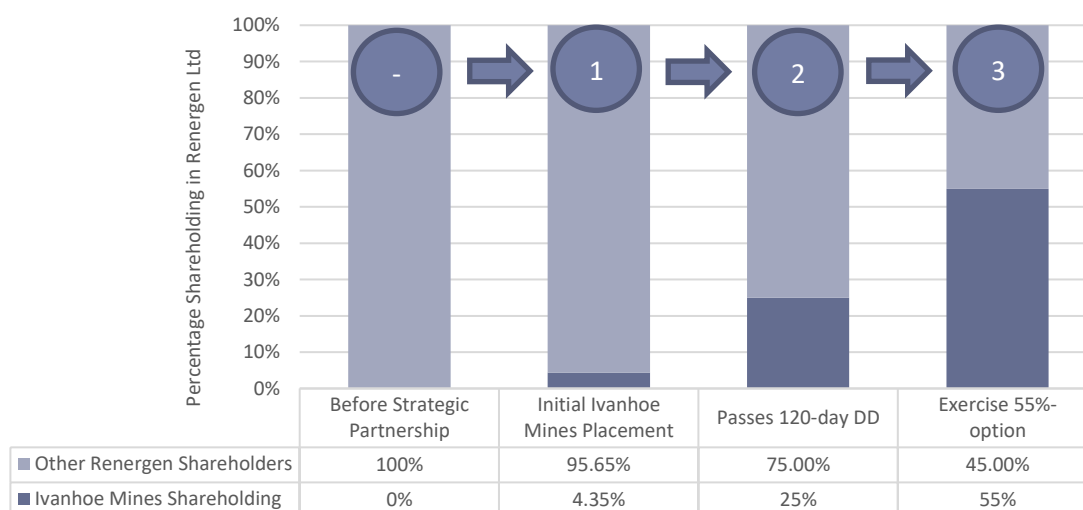
- More subtly and harder to quantify is that many of Renergen’s long-term helium offtake agreements should have standard “wildcard reopening” clauses. These are used to protect both parties against significant supply, demand or spot price shocks. Thus, Renergen could well trigger these clauses to force renegotiations around appropriate prices and, potentially, even open the gate for contracting with new customers.
- Hence, we *do* expect Renergen to capture its share of the current positive helium and natural gas commodity tailwinds.
- Later in this report, we update our valuation model and reflect the latest exchange rates, spot prices and show some sensitivities regarding changes in these variables.

Strategic Partnership with Ivanhoe Mines: New Shareholder of Reference

Renergen has announced the signing of a strategic partnership with **Ivanhoe Mines** (listed on the Toronto Stock Exchange with a market cap of \$13.2bn or c.R155bn). [See the full announcement here.](#) The agreement has a number of key stages that can best be summarized as follows (illustrated in Figure 2):

1. **Renergen** will issue 5,631,787 new shares at a 5% discount to 30-day VWAP, namely, a 3562.5cps issue price, to **Ivanhoe Mines** (c.4.35% shareholding in **Renergen**), &
2. Allow **Ivanhoe Mines** a 120-day due diligence that, if they are satisfied, will allow them to increase their stake in **Renergen** to 25% at a 10% discount to 30-day VWAP.
3. If Ivanhoe Mines has at least a 25% shareholding in Renergen, then it will have a right (but not obligation) to increase its stake up to 55% in the **Renergen** at a 10% discount to 30-day VWAP (but limited to \$250m; i.e. if \$250m of REN shares at a 10% discount to 30-day VWAP does *not* increase **Ivanhoe Mines** shareholding in **Renergen** to 55%, then they will be left with the lower stake).

Figure 2: Phases of Potential Ivanhoe Mines Shareholding in Renergen Ltd



Source: Blue Gem Research workings

There are a few key terms and implications that this “strategic partnership” crystalizes:

- A portion of the strategic partnership also appears to tie into a gas-solar powerplant that Phase II will build with Ivanhoe Mines’ Platreef mine having an exclusive off-take negotiation right on.
- Given that not all the cash is currently required, Renergen has agreed with Ivanhoe Mines that a portion of this capital can be paid for with shares in Ivanhoe Mines (at Ivanhoe Mines’ discretion).
- Being a major mining house, Ivanhoe Mines’ direct involvement in Renergen is a further vote of confidence in the quality, uniqueness, (potential) scale and economics of the underlying gas resource.

- The 120-day due diligence will focus on the “scalability” of the Virginia Project, implying that Phase II’s ultimate size may be *even* larger than initial communicated (this would be the third upwards revision of size of this project!).
- With its upper cap at \$250m (c.R3.8bn at a \$1/R15.10 exchange rate), **if Ivanhoe Mines ends up with a 55%-stake in Renergen, it is possible that this process fully funds Phase II’s equity portion.** We estimate R3.7bn equity is required for the original size of the project. The combination of this further capital to the c.R1~1.3bn equity raised from the initial 25%-stake in Renergen, and an “*expanded*” Phase II is *also* (possibly) sufficiently funded. This effective underwriting could lower credit risk and, thus, improve the ease and cost of debt funding within the project too.
- Given that each round of issuing shares to Ivanhoe Mines is linked to 30-day VWAP (with varying discounts), we consider this pricing mechanism appropriate, fair and limits existing shareholder dilution as far as possible while still introducing a new, anchor shareholder of reference *and* (largely) derisking the Phase II financing.

Forecast, Valuation and Dividend Discount Model: Upgrades & Sensitivity to Spot Upside

We have not adjusted any of our previously stated assumptions in our valuation of Renergen, save for the below spot price adjustments:

- **Rand:** We have used a Rand/USD exchange rate of R15.10 (previously: R15.71).
- **LNG:** We have updated our model for the latest Diesel Wholesale Price (A1) of 1884.0cents/litre (previously: 1655.1cents/litre)
- **Helium:** We have kept our helium USD-based blended price assumptions unchanged (see sensitivity workings later).
- **Inflation, risk & rates assumptions:** We have raised our inflation assumption to the current domestic CPI of 5.7% (previously: 5.0%). We have updated our weighted average cost of capital (“WACC”) to reflect current rates (current South African 10-year bond yield is 9.72% versus 9.48% previously).

Table 1: Phase One & Phase Two Net Present Values

Phase One	H2:22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	...	FY 42E
LNG GJ's Produced (GJ)	-	760,417	894,250	876,365	858,838	841,661	...	621,625
Helium Produced (mcf)	-	23,324	22,857	22,400	21,952	21,513	...	15,889
Revenue	-	369.47	420.42	412.01	403.77	395.70	...	292.25
EBITDA	-	352.25	403.43	395.26	387.25	379.40	...	278.84
Tax	-	-140.01	-153.43	-150.24	-147.12	-144.07	...	-105.41
Capex	-	-5.36	-5.36	-5.36	-5.36	-5.36	...	-
Working Capital	-	-30.79	-35.03	0.70	0.69	0.67	...	0.50
Assessed Loss	-	140.01	-	-	-	-	...	-
Free Cash Flow	-313.70	316.10	209.61	240.36	235.45	230.64	...	173.93
Discount Rate	0.97	0.91	0.85	0.80	0.75	0.70	...	0.27
PV	-R303.81	R287.14	R178.59	R192.08	R176.49	R162.16	...	R46.78
NPV								R2,019.54m

Phase Two	H2:22E	FY 23E	FY 24E	FY 25E	FY 26E	FY 27E	...	FY 42E
LNG GJ's Produced (GJ)	-	-	4,380,000	8,760,000	13,140,000	12,877,200	...	9,510,702
Helium Produced (mcf)	-	-	134,068	268,136	402,204	394,160	...	291,114
Revenue	-	-	1,580.95	3,161.89	4,742.84	4,647.98	...	3,432.86
EBITDA	-	-	1,525.90	2,970.67	4,493.84	4,402.45	...	3,231.73
Tax	-	-	-474.46	-1,062.85	-1,603.68	-1,570.41	...	-1,152.82
Capex	-	-6,000,000,000	-3,821.60	-2,454.40	-64.32	-42.88	...	-
Working Capital	-	-	-131.75	-263.49	-395.24	7.90	...	5.84
Assessed Loss	-	-	474.46	1,062.85	1,603.68	-	...	-
Free Cash Flow	-	-6,000,000,000	-2,427.44	252.78	4,034.29	2,797.07	...	2,084.75
Discount Rate	0.97	0.91	0.85	0.80	0.75	0.70	...	0.27
PV	R0.00	-5,450,342,365	-R2,068.25	R202.01	R3,024.02	R1,966.54	...	R560.76
NPV								R13,874.07m

Sources: Renergen, MHA, Sproule, Bloomberg, Investing.com & Blue Gem Research workings and assumptions

Stepping beyond the project-level NPV's, at Group-level we assume the following:

- Ivanhoe Mines takes up both its 25%- and 55%-options fully (limited by the latter's cap at \$250m in total) *and* we have accounted for this dilution upfront instead of when the options are exercised,
- Ivanhoe pays for its equity investment in cash (we have ignored any script portion), &
- Cryo-Vacc and the Evander Gasfield add a free +5% option to the SOTP (previously +10%, but we have cut this as neither should directly benefit from the variables uplifting Virginia's fair value).

Table 2: Renergen Sum-of-the-Parts

Sum-of-the-Parts (ZAR)	Value
Virginia Gas Project (Estimated NPV)	
- Phase One	R2,019,539,152
- Phase Two	R13,874,069,771
Head Office NPV (I.e., Discount to SOTP)	-R732,673,048
Enterprise Value	R15,160,935,874
Less: Net Debt	-R519,375,000
Equity Value (undiluted)	R14,641,560,874
Issued Share Capital	123,140,000
Potential Phase Two Dilution	140,964,537
Fair Value (ZAR cps)	5,544cps
Add: Cryo-Vacc Option & Evander	5%
Fair Value (ZAR cps)	5,821cps
12m TP (ZAR cps)	6,867cps

Source: Blue Gem Research workings and assumptions

The SOTP fair value of 5821cps (previously: 5747cps) is backed up by our Dividend Discount Model (DDM)'s fair value of 6322cps (Table 3). If anything, the DDM model indicates *more* upside and gives us comfort that, even after taking the Ivanhoe Mines potential dilution into account *upfront*, Renergen's share prices still offers significant value.

Table 3: Renergen Dividend Discount Model

	FY 24E	FY 25E	FY 26E	FY 27E	FY 28E	FY 29E	...	FY 40E	FY 41E	FY 42E
HEPS (cps)	343	433	697	707	783	825	...	1,536	1,629	1,728
Dividend Payout Ratio (%)	0%	0%	95%	95%	95%	95%	...	95%	95%	95%
Gross DPS (cps)	-	-	662	672	744	784	...	1,459	1,547	1,641
DWT (20 %)	-	-	-132	-134	-149	-157	...	-292	-309	-328
Net DPS (cps)	-	-	530	538	595	627	...	1,167	1,238	1,313
Discount Factor	0.85	0.80	0.75	0.70	0.66	0.62	...	0.31	0.29	0.27
Discounted Net DPS (cps)	-	-	397	378	392	388	...	357	355	353
NPV (cps)										6,322cps
Share Price (cps)										3979cps
Implied Upside (%)										59%

Source: Blue Gem Research workings and assumptions

Note: While the uplift in the LNG revenue is captured by adjusting our fair value of Renergen to the latest South African Diesel Wholesale (A1) price, we have left our helium pricing static. We see strong tailwinds in the helium market *and* Renergen should be able to capture (at least some) of these in its revenue (either via token reissues or via "wildcat clauses" triggering contract renegotiations). Because of this—and the fact that it appears spot helium is trading at *multiples* of what our blended basket price of helium in our model is—we believe it may be useful to show the sensitivity of the Group's fair value to changes in the basket price of helium realized.

Figure 3: Sensitivity of Renergen's Sum-of-the-Parts to Different Helium Basket Prices (Unchanged Rand, LNG & Interest Rate)

Change in Helium Price (%)	-30%	-10%	-5%	0%	+5%	+10%	+30%	+100%
Renergen's SOTP Fair Value	4,745cps	5,462cps	5,642cps	5,821cps	6,000cps	6,180cps	6,897cps	8,805cps

Source: Blue Gem Research workings and assumptions

Disclaimer

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** Market prices in this report predominantly set to Intra-day & Closing Prices noted on 11 March 2022, and intra-day on 14 March 2022 (depending on which metrics).*

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