

Renergen Ltd
A Token Update

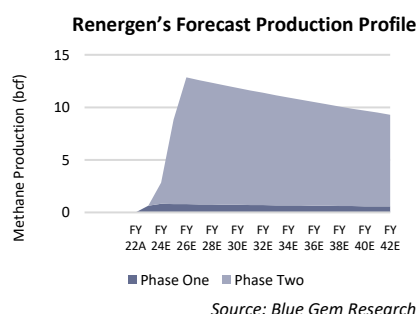
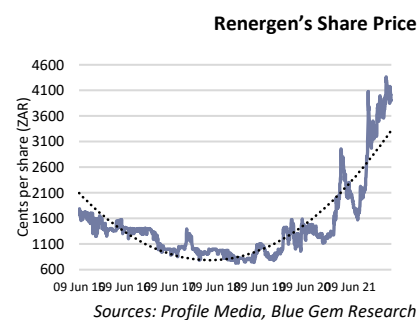
Share Code: REN – Market Cap: R4.6bn – PE: -129x – DY: 0.0%

12m Target Price	7501cps
Share Price	3591cps
Implied Return	109%

Resources | [South Africa](#)

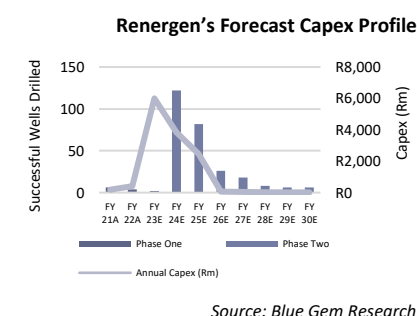
FY 22 Results: Pilot CNG revenue higher, losses smaller

- Given the elevated oil price, the diesel-linked pilot CNG plant at Renergen produced a higher revenue and smaller loss than expected and, in a way, is a precursor to the sensitivity of the Group's coming Phase 1 (& Phase 2) LNG and helium projects.
- Given that the Group is still in development stage, the FY 22 results are less relevant than focussing on key project and corporate activity during the period. For detailed analysis of these, see our previous reports listed here ([LINK](#)), but in summary:
 - The Group *massively* upgraded their proven gas reserves.
 - Lockdowns, supply chain challenges & a NUMSA strike negatively impacted Phase 1's timing. This is a sunk cost and, importantly, Phase 1 is now in hot commissioning.
 - A partnership with Ivanhoe Mines &, subject to conditions, the investment by the Central Energy Fund (CEF) both solidified Virginia's potential & helped derisk the funding of Phase 2.
 - Finally, the Group's helium token has listed successfully and early trade indicates a healthy (future) spot market (while providing an effective prepaid offtake financing for Phase 2) while Cryo-Vacc™ keeps progressing.



Valuation and Implied Return: Upgrading Fair Value & 12m TP

- We have adjusted our model to reflect c.9 months of Phase 1 production (adjusting Phase 2 equivalently) while updating spot prices. We expected 35% of the Phase 2 helium revenues to earn Argonon Helium token "spot price"* (currently c.\$296.93/mcf). Finally, we have assumed Ivanhoe takes up their full equity stake & the CEF's R1bn investment proceeds successfully.
- We see Renergen's fair value as 6344cps (previously: 5821cps) and upgrade its 12m TP to 7501cps (previously: 6867cps).



* See our discussion regarding this token's market price to understand some nuances as to what its price represents.

Production:	FY 19	FY 20	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
LNG - Phase One (Giga Joules)	-	-	-	-	684,375	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)	-	-	-	-	17,493	22,857	22,400	21,952
Helium - Phase Two (mcf)	-	-	-	-	-	134,068	268,136	402,204
Gas Reserves:								
Natural Gas - 1P (billion cubic feet)	40.8	40.8	215.1	215.1	214.5	211.6	202.8	189.9
Helium - 1P (bcf)	1.0	1.0	7.2	7.2	7.2	7.0	6.7	6.3
Financials (R'000's):								
Revenue	2,987	2,635	1,925	2,637	360,662	2,226,689	3,972,688	5,718,875
Net Profit (Parents)	-44,976	-52,619	-42,620	-33,750	157,685	786,872	1,215,733	1,938,785
HEPS (cps)	-47.3	-46.0	-36.3	-27.7	102.8	357.1	441.1	703.5
Price Earnings (x)	-75.9x	-78.2x	-98.9x	-129.5x	34.9x	10.1x	8.1x	5.1x
Return on Assets (%)	-19%	-8%	-5%	-3%	2%	11%	17%	21%

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

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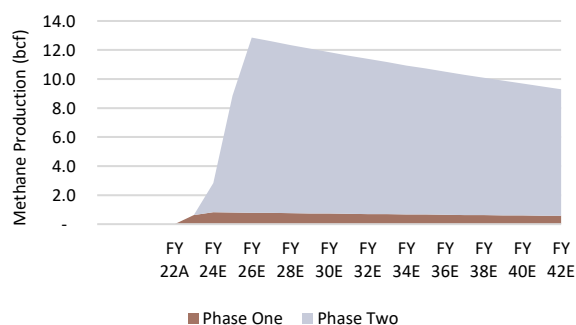


BLUE GEM RESEARCH

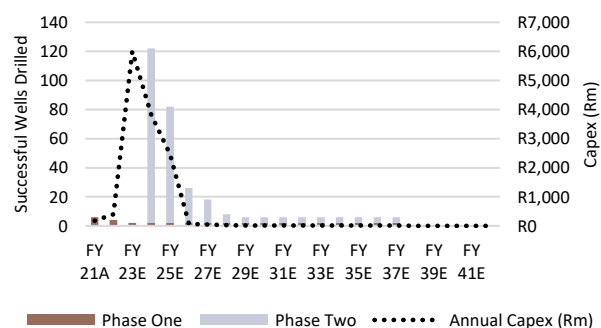
Summary & Forecast:	FY 19	FY 20	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
Production:								
LNG - Phase One (Giga Joules)	-	-	-	-	684,375	894,250	876,365	858,838
LNG - Phase Two (GJ)	-	-	-	-	-	4,380,000	8,760,000	13,140,000
Helium - Phase One (thousand cubic feet)	-	-	-	-	17,493	22,857	22,400	21,952
Helium - Phase Two (mcf)	-	-	-	-	-	134,068	268,136	402,204
Gas Reserves:								
Natural Gas - 1P (billion cubic feet)	40.8	40.8	215.1	215.1	214.5	211.6	202.8	189.9
Natural Gas - 2P (bcf)	139.0	139.0	407.0	407.0	406.3	403.5	394.7	381.8
Natural Gas - 3P (bcf)	284.2	284.2	600.1	600.1	599.5	596.6	587.8	574.9
Helium - 1P (bcf)	1.0	1.0	7.2	7.2	7.2	7.0	6.7	6.3
Helium - 2P (bcf)	3.4	3.4	13.6	13.6	13.6	13.4	13.1	12.7
Helium - 3P (bcf)	6.9	6.9	20.0	20.0	20.0	19.8	19.5	19.1
Financials (R'000's):								
Revenue	2,987	2,635	1,925	2,637	360,662	2,226,689	3,972,688	5,718,875
Gross Profit	-210	-667	-917	-775	324,488	2,041,476	3,529,957	5,074,654
Operating Profit	-46,014	-67,305	-46,773	-38,361	298,606	1,934,023	3,370,775	4,913,968
Net Profit (Parents)	-44,976	-52,619	-42,620	-33,750	157,685	786,872	1,215,733	1,938,785
Issued Shares (000's)	100,135	117,427	117,427	123,934	165,116	275,606	275,606	275,606
Weighted Shares (000's)	86,997	109,799	117,427	121,709	153,428	220,361	275,606	275,606
EPS (cps)	-47.0	-47.9	-36.3	-27.7	102.8	357.1	441.1	703.5
HEPS (cps)	-47.3	-46.0	-36.3	-27.7	102.8	357.1	441.1	703.5
Price Earnings (x)	-75.9	-78.2	-98.9	-129.5	34.9	10.1	8.1	5.1
Total Assets	225,110	626,491	780,271	1,164,694	7,379,400	12,078,045	13,511,967	15,767,485
Property, Plant & Equipment	37,757	350,824	475,558	807,027	7,092,535	10,777,624	12,927,174	12,545,177
Intangible Assets	70,494	89,223	112,155	154,023	159,383	486,343	706,103	775,783
Equity	164,233	247,230	206,408	286,312	2,793,609	3,710,906	5,134,575	7,375,198
Return on Equity (%)	-27%	-21%	-21%	-12%	6%	21%	24%	26%
Total Liabilities	60,877	379,261	573,954	878,382	4,585,791	8,367,139	8,377,392	8,392,287
Total Debt	39,647	351,182	534,293	773,056	4,551,123	8,329,189	8,329,189	8,329,189
Return on Assets (%)	-19%	-8%	-5%	-3%	2%	11%	17%	21%
Return on Capital (%)	-33%	-11%	-6%	-3%	2%	11%	15%	20%

Production & Revenue Profile:

Virginia Gas Production Profile - Phase One & Two



Virginia Capex Profile - Wells, Pipeline & Plant Capex



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

Argonon Helium Token

The creation, successful placement and listing of the Argonon Helium (ARG) token is significant and illustrative for a range of reasons.

Simplistically, the token represents the following:

1. **Prepaid helium:** 1 ARG token represents 1/1000th of an mcf of helium from Renergen’s Phase 2 project. Therefore, 1000 ARG tokens can be *physically* redeemed for 1mcf of helium from Renergen once Phase 2 starts production.
2. **Arms-length pricing:** The ARG is structured through a blockchain and, now that it is listed on a crypto exchange, its price is set by arms-length buyers and sellers.

Since listed—and despite the recent crypto crash—the ARG token has traded in a range that effectively prices the *future* production of Renergen’s Phase 2 helium at between \$260/mcf to \$320/mcf.

Figure 1: Argonon Helium Price & Volume Chart



Source: bitmart.com

A couple of observations on what this price *actually* represents:

- Until Phase 2 (which we expect to begin producing in 20 ~ 24 months) begins producing helium, the ARG price is *not* a spot price but a *futures* price. Because of that, it has an implicit financing mechanism built into its price and, assuming *backwardation* in the helium futures market, this implies that the current spot price of helium is *higher* than the current ARG price. Anecdotal evidence tends to agree with this, see Renergen’s CEO’s interview here: [LINK](#).
- Therefore, we would expect either ARG’s price to rise as we approach Phase 2 production (i.e. as the ARG price shifts from a *futures* price to a *spot* price) *or* the spot helium price to fall. Theoretically, both could occur.
- The added complications here are numerous:
 - Renergen’s Phase 2 production has neither event nor timing guaranteed (we think the former is less risk given Phase 1’s progress & the Group’s corporate activity, but the latter is certainly up for debate), &
 - The broader bear market, the crypto market’s recent crash and, indeed, the “newness” of the ARG token are all affected by a range of macro variables from liquidity to the Fed hikes to

strengthening USD that may mask the current ARG price and shift it far from its efficient pricing.

Therefore, we will keep a close eye on ARG spot price and we will price 35% of Phase 2's helium off this arms-length token price, but we do highlight the above variables as "known unknowns" and caution against reading the (pre-production) ARG price as a "pure" *spot* price as opposed a *futures* price.

Beyond this academic discussion, the successful listing, liquid trading and apparent appetite for the ARG tokens *do* further derisk Phase 2 as the tokens are an effective financing mechanism for the Group.

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**Market prices in this report predominantly set to Closing Price for REN shares noted on 13 May 2022; Argonon Helium token price taken as spot price on 14 May 2022.*

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