

Renergen Ltd  
**Government Investor Highlights Virginia's Value**

Share Code: REN – Market Cap: R5.1bn – PE: -114x – DY: 0.0%

12m Target Price	6867cps
Share Price	3933cps
Implied Return	75%

Resources | [South Africa](#)

**News: South African Government invests directly**

- South Africa's Schedule 2 state-owned diversified energy company, [Central Energy Fund \(CEF\)](#), has signed a non-binding term sheet to invest R1bn into Renergen's wholly-owned subsidiary that houses the Virginia Gas Project, Tetra4, in exchange for new shares equalling 10% of Tetra4 being issued.
- The agreement leaves 141 days for the CEF to complete a due diligence, get necessary approvals, & sign a binding legal agreement with Renergen. This period can be extended & Renergen has the option to renegotiate the price.

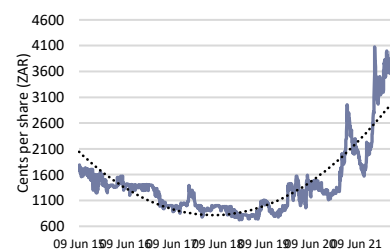
**Our Thoughts: Adds momentum, derisks further & implies fair value**

- This deal adds further momentum to the direct investment into the Group by Ivanhoe Mines, further capitalizes Phase II *and*, more subtly, aligns this project's success directly with domestic Government that somewhat politically & regulatory derisks it.
- Management has confirmed that the CEF deal is backed by Ivanhoe Mines. Thus, it may add to the probability that Ivanhoe Mines will follow their remaining rights at Group-level.

**Valuation and Implied Return: CEF price tag implies 6946cps**

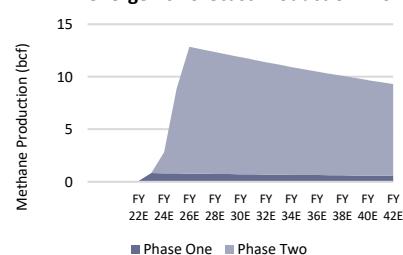
- Given the proximity to our last note, we have not updated our fair value for Renergen and maintain it at 5821cps (previously: 5821cps) with a 12m TP of 6867cps (previously: 6867cps).
- **The R1bn price attached to 10% of Tetra4 implies a valuation of R9bn for the remaining 90% held by Renergen, or c.6946cps per issued REN share (=R9bn / c.129.5m issued shares).**
- While this implied valuation is only indicative (the CEF likely has different criteria for making/valuing investments than stock market minorities, the investment further derisks the project, & shareholding in a subsidiary does not take into account other Group assets nor HoldCo costs), it *certainly* highlights how undervalued Renergen's shares potentially are.

**Renergen's Share Price**



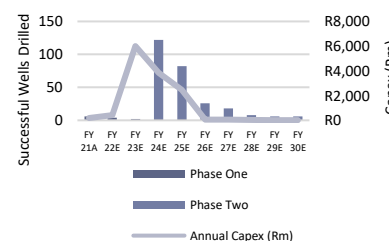
Sources: Profile Media, Blue Gem Research

**Renergen's Forecast Production Profile**



Source: Blue Gem Research

**Renergen's Forecast Capex Profile**



Source: Blue Gem Research

	FY 21A	H1:22A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
<b>Production:</b>							
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
<b>Gas Reserves:</b>							
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
<b>Financials (R'000's):</b>							
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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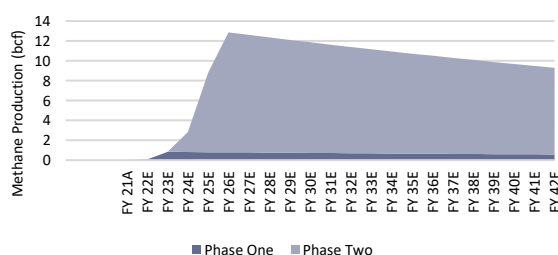


**BLUE GEM RESEARCH**

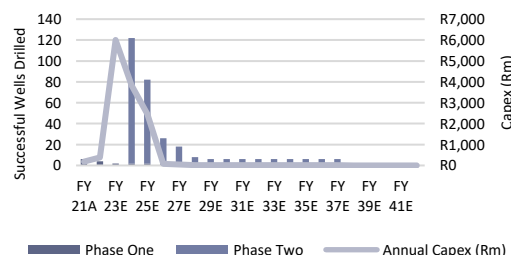
Summary & Forecast:	FY 21A	H1:22A	FY 22E	FY 23E	FY 24E	FY 25E	FY 26E
<b>Production:</b>							
LNG - Phase One (Giga Joules)	-	-	152,083	760,417	894,250	876,365	858,838
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Helium - Phase Two (mcf)	-	-	-	-	134,068	268,136	402,204
<b>Gas Reserves:</b>							
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
<b>Financials (R'000's):</b>							
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%

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. We have not yet taken into account the 10% dilution at Tetra4-level as CEF term sheet is currently non-binding.

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

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