

## Renergen Ltd Key Due Diligence Is Successful

Share Code: REN – Market Cap: R4.6bn – PE: -124x – DY: 0.0%

12m Target Price	7491cps
Share Price	3460cps
Implied Return	116%

Resources | [South Africa](#)

### Central Energy Fund: Due Diligence Successful, Fair Value Implied

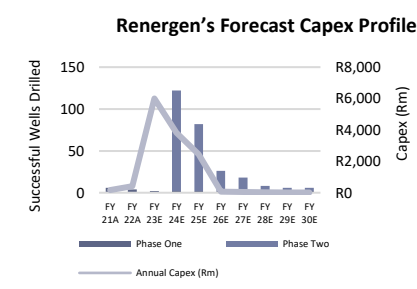
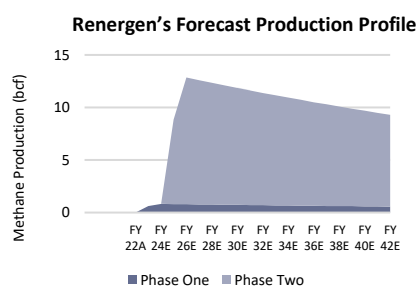
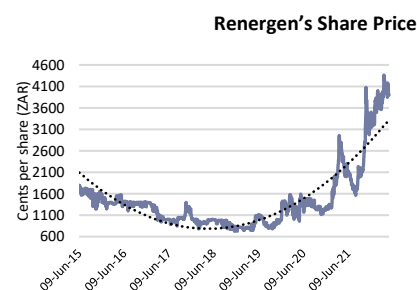
- Following Ivanhoe Mines' option expiring ([see our previous note](#)), questions surfaced about the *reason* for this expiry &, indeed, whether it involved the quality of the Virginia Gas Project (VGP).
- Concurrent to Ivanhoe's deal, Renergen was fielding a due diligence (DD) by the Central Energy Fund (CEF) for a 10% stake in VGP for R1bn. This DD has successfully concluded and both parties are now seeking final approvals to complete the transaction.
- This is an important event for at least three reasons:
  - The positive DD by CEF confirms the **quality** of the VGP,
  - Assuming final approvals are received, this injects R1bn of equity **funding** into the Phase II funding, &
  - This solidifies an arms-length R10bn **valuation** for VGP (i.e. if 10% is worth R1bn, 100% is worth R10bn).

### Our Thoughts: Much Better Price + Less Dilution

- Above, point (3) implies that REN's 90% stake is worth R9bn or c.6660cps (= R9bn/135.1m shares) versus our previous fair value of 6337cps & the share's current market price of 3460cps.
- Ivanhoe's option would have come in at a discount to the current *market* price (if exercised) &, thus, the CEF's deal is a *lot* less dilutive for shareholders and ensures a much large proportion of the eventual VGP value likely accrues to existing shareholders.

### Valuation and Implied Return: Unchanged

- We are currently reassessing our valuation and model for REN and will publish this in due course.
- Despite that & due to the CEF deal—assuming no deterioration in exchange rates, commodity prices or interest rates—we believe that the previously communicated valuation at least guides towards a floor value of the Group. Previously, we saw REN's fair value as around 6337cps & 12m TP of about 7491cps.



Production:	FY 19	FY 20	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
LNG - Phase One (Giga Joules)	-	-	-	-	456,250	894,250	876,365	858,838
LNG - Phase Two (GJ)	-	-	-	-	-	-	8,760,000	13,140,000
Helium - Phase One (thousand cubic feet)	-	-	-	-	11,662	22,857	22,400	21,952
Helium - Phase Two (mcf)	-	-	-	-	-	-	268,136	402,204
Gas Reserves:								
Natural Gas - 1P (billion cubic feet)	40.8	40.8	215.1	215.1	214.5	213.6	204.8	191.9
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	248,980	488,001	4,196,587	6,046,195
Net Profit (Parents)	-44,976	-52,619	-42,620	-33,750	97,553	203,766	1,308,014	2,042,146
HEPS (cps)	-47.3cps	-46.0cps	-36.3cps	-27.7cps	63.6cps	71.2cps	456.9cps	713.4cps
Price Earnings (x)	-82.2x	-84.7x	-107.2x	-140.3x	61.2x	54.6x	8.5x	5.5x
Return on Assets (%)	-19%	-8%	-5%	-3%	1%	2%	18%	23%

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



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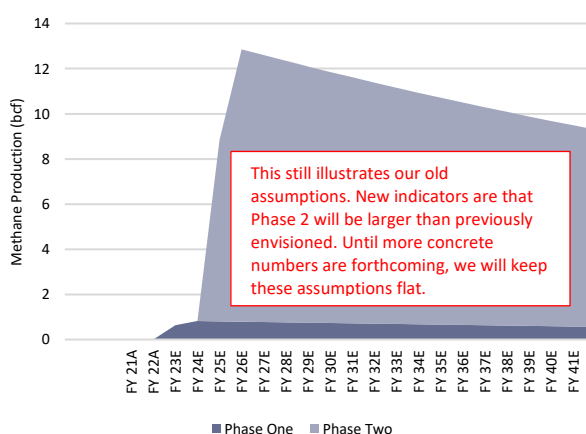
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Unchanged from last note Summary & Forecast:								
	FY 19	FY 20	FY 21A	FY 22A	FY 23E	FY 24E	FY 25E	FY 26E
<b>Production:</b>								
LNG - Phase One (Giga Joules)					456,250	894,250	876,365	858,838
LNG - Phase Two (GJ)					-	-	8,760,000	13,140,000
Helium - Phase One (thousand cubic feet)					11,662	22,857	22,400	21,952
Helium - Phase Two (mcf)					-	-	268,136	402,204
<b>Gas Reserves:</b>								
Natural Gas - 1P (billion cubic feet)	40.8	40.8	215.1	215.1	214.5	213.6	204.8	191.9
Natural Gas - 2P (bcf)	139.0	139.0	407.0	407.0	406.3	405.5	396.7	383.8
Natural Gas - 3P (bcf)	284.2	284.2	600.1	600.1	599.5	598.6	589.8	576.9
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
<b>Financials (R'000's):</b>								
Revenue	2,987	2,635	1,925	2,637	248,980	488,001	4,196,587	6,046,195
Gross Profit	-210	-667	-917	-775	213,208	440,828	3,754,263	5,402,372
Operating Profit	-46,014	-67,305	-46,773	-38,361	187,328	403,607	3,595,087	5,241,696
<b>Net Profit (Parents)</b>								
Issued Shares (000's)				-33,750	97,553	203,766	1,308,014	2,042,146
Weighted Shares (000's)				123,934	176,646	286,258	286,258	286,258
EPS (cps)				121,709	153,428	286,258	286,258	286,258
HEPS (cps)				-27.7	63.6	71.2	456.9	713.4
Price Earnings (x)				-27.7	63.6	71.2	456.9	713.4
Total Assets				1,164,694	7,645,692	11,472,772	13,013,030	15,392,512
Property, Plant & Equipment	37,757	350,824	475,558	807,027	7,092,853	11,314,805	13,464,762	13,083,164
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	3,241,263	3,470,444	5,000,449	7,365,037
<b>Return on Equity (%)</b>	<b>-27%</b>	<b>-21%</b>	<b>-21%</b>	<b>-12%</b>	<b>3%</b>	<b>6%</b>	<b>26%</b>	<b>28%</b>
Total Liabilities	60,877	379,261	573,954	878,382	4,404,429	8,002,327	8,012,581	8,027,475
Total Debt	39,647	351,182	534,293	773,056	4,370,003	7,966,951	7,966,951	7,966,951
<b>Return on Assets (%)</b>	<b>-19%</b>	<b>-8%</b>	<b>-5%</b>	<b>-3%</b>	<b>1%</b>	<b>2%</b>	<b>18%</b>	<b>23%</b>
<b>Return on Capital (%)</b>	<b>-33%</b>	<b>-11%</b>	<b>-6%</b>	<b>-3%</b>	<b>1%</b>	<b>2%</b>	<b>15%</b>	<b>21%</b>

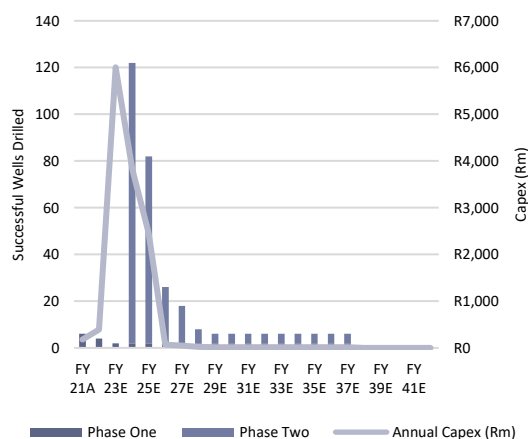
6-months of Phase 1 in FY 23E, ramp-up of Phase 2 in FY 25E & steady-state in FY 26E onwards (Phase 2 has higher helium yields than Phase 1). Spot prices kept flat at previous prices.

We had assumed: Ivanhoe Mines subscribes for 25% in FY 23E & 55% in FY 24E; a further 11.5m REN shares are placed at the start of FY 24E (at spot less 5% discount). CEF 10%-stake is taken out of minorities & interest is capitalized until production begins in FY 25E. Currently: This dilution will fall away, though we have kept it here (for now) as illustrative of potential dilution that Phase 2 may require.

Virginia Gas Production Profile - Phase One & Two



Virginia Capex Profile - Wells, Pipeline & Plant Capex



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

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*\*Market prices in this report predominantly set to Closing Price for REN shares noted on 10 August 2022; Argonon Helium token price taken as spot price on 15 June 2022.*

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