# Renergen Ltd.

**RLT.AX**

A research platform of MST Financial

13 March 2023

# Becomes Newest Global Helium Producer – Another Milestone

## NEED TO KNOW

- RLT now producing helium – joins a select group
- Phase 1 LNG plant ramping up
- Phase 2 – 12x larger; strong funding options

**Liquid helium production commenced January 2023 after thorough commissioning completed:** Renergen (RLT) has become the world's newest global producer of liquid helium. The company's approach to commissioning has been cautious and thorough to minimise the risks of operational issues.

**LNG ramping up:** From the commissioning in late September until the end of the quarter in November 2022, the LNG plant produced 133 tonnes of LNG. The plant was temporarily halted in October for repairs, but to date has performed to or above specifications. The LNG plant is currently operating at over half capacity as RLT brings in further wells to ramp up to 100%.

**Multiple funding options available for Phase 2 expansion, including possible US listing:** As RLT furthers its plans for the globally significant Phase 2 expansion of the Virginia Gas Project (12x larger than Phase 1), funding is progressing, including a potential IPO in the United States. Such a listing would align with the strong connection with key US-based debt financers and customers for Phase 2. RLT anticipates FID for Phase 2 in 1HCY23.

## Investment Thesis

**The world is short on helium, South Africa is short on energy – so RLT has a major strategic asset:** Helium is seeing strong demand and tight supply. The US government is keenly interested in helium as a strategic commodity. SA has regular blackouts of up to 8 hours per day, impacting residents and businesses. RLT's helium and LNG is coming online at an ideal time to help mitigate the helium shortage and assist with cleaner energy and energy security initiatives.

**Phase 1 delivered; growth and value in Phase 2:** With Phase 1 production underway, RLT continues to develop the much larger and globally significant Phase 2. With a large reserve base comfortably capable of supporting 12x Phase 1 production for multiple decades, Phase 2 is the key to RLT's long-term growth and value.

**Exploration potential could drive further expansions, longer life:** RLT's gas and helium reserve covers a mere 14% of the total project area of 187k hectares. Phase 2 will consume less than 30% of the total reserve over the life of the licence, giving significant upside potential. RLT plans a major exploration program in 2023 to further increase the project's already substantial reserves base.

## Valuation A$6.40/ZAR76.82 (Prev:A$6.89/ZAR76.78)

The key driver of our valuation is the implementation of Phase 2 expansion. Our decrease in valuation is primarily driven by the increase in capex and the increased equity raising required to fund that.

## Risks

Key risks include Phase 1 production issues and delays in Phase 2 funding and development.

**Equities Research Australia**

**Energy**

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RENERGEN
FUTURE ENERGY, TODAY

RLT is a producer of LNG and helium. Its principal asset is a 100% shareholding in the Virginia Gas Project, the first and only onshore petroleum production right in South Africa.

https://renergen.co.za/

| | |
|---|---|
| Valuation | **A$6.40** *(Prev A$6.89)* |
| Current price | **A$1.55** |
| Market cap | **A$214m** |
| Cash on hand | **ZAR44m** *(31 Nov 22)* |

### Upcoming Catalysts and Newsflow

| Period | |
|---|---|
| CY2023 | Ramp up of Phase 1 Production |
| CY2023 | Exploration drilling |

### Share Price (A$)


*Source: FactSet, MST Access.*

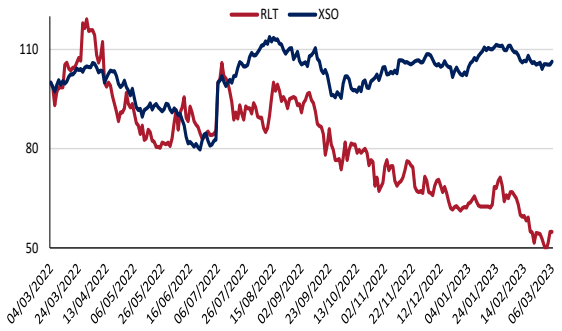
## Financial Summary Renergen Ltd. (RLT)

**Year end 28 February**

**MARKET DATA**

| | | $A | ZAR |
|---|---|---|---|
| **Price** | $ | **1.54** | **19.63** |
| **Valuation (diluted)** | A$/ZAR | **6.40** | **76.82** |
| **Market Capitalisation** | A$/ZARm | **214** | **2725** |
| 52 week high / low | $ | 3.99/1.38 | |
| Shares on issue (basic) | m | 138.8 | |
| Options / Performance shares | m | 5.3 | |
| Other equity (Phase 2 capital raising) | m | 91.4 | |
| Potential shares on issue (diluted) | m | 235.5 | |

**12 month relative performance versus S&P/ASX Small Ordinaries Index**




| INVESTMENT FUNDAMENTALS | | FY20A | FY21A | FY22A | FY23E | FY24E |
|---|---|---|---|---|---|---|
| Reported NPAT | ZARm | (52.6) | (42.6) | (33.8) | (109.1) | (19.9) |
| Underlying NPAT | ZARm | (52.6) | (42.6) | (33.8) | (109.1) | (19.9) |
| EPS Reported (undiluted) | ZARm | (37.9) | (36.3) | (28.0) | (83.0) | (9.0) |
| **EPS Underlying (undiluted)** | **ZARm** | **(37.9)** | **(36.3)** | **(28.0)** | **(83.0)** | **(9.0)** |
| Underlying EPS growth | % | 35.6% | 4.3% | 22.9% | -197.0% | 89.1% |
| P/E Reported (undiluted) | x | nm | nm | nm | nm | nm |
| **P/E Underlying (undiluted)** | **x** | **nm** | **nm** | **nm** | **nm** | **nm** |
| Operating cash flow / share | ZAR | (27.0) | (17.6) | (57.0) | (28.7) | 62.2 |
| **Price to operating cash flow** | **x** | **nm** | **nm** | **nm** | **nm** | **31.5** |
| **Free cash flow** | **ZARm** | **(353.3)** | **(210.8)** | **(386.1)** | **(420.1)** | **(11,487.1)** |
| Free cash flow per share | ZAR | (254.5) | (151.8) | (278.2) | (302.7) | (8,275.7) |
| **Free cash flow yield** | **%** | **nm** | **nm** | **nm** | **nm** | **nm** |
| | | | | | | |
| Book value / share | ZAR | 178.1 | 148.7 | 206.3 | 572.5 | 2,611.4 |
| **Price to book (NAV)** | **x** | **11.0** | **13.2** | **9.5** | **3.4** | **0.8** |
| NTA / share | ZAR | 178.1 | 148.7 | 206.3 | 572.5 | 2,611.4 |
| **Price to NTA** | **x** | **11.0** | **13.2** | **9.5** | **3.4** | **0.8** |
| Year end shares | m | 117.4 | 117.5 | 123.9 | 138.8 | 220.2 |
| Average Shares on Issue | m | 108.8 | 117.5 | 120.7 | 131.4 | 220.2 |
| **Market cap (Spot)** | **ZARm** | **2,305.1** | **2,306.7** | **2,432.8** | **2,724.8** | **4,323.2** |
| **Market cap (Spot)** | **A$m** | **180.8** | **181.0** | **190.9** | **213.8** | **339.2** |
| Net debt /(cash) | ZARm | 210.2 | 403.4 | 717.7 | 595.5 | 9,232.6 |
| Net debt /(cash) | A$m | 17.5 | 33.6 | 59.8 | 49.6 | 769.4 |
| **Enterprise value** | **ZARm** | **2,515.3** | **2,710.1** | **3,150.6** | **3,320.2** | **13,555.8** |
| **Enterprise value** | **A$m** | **209.6** | **225.8** | **262.5** | **276.7** | **1,129.7** |
| EV/Sales | x | 926.1 | 955.6 | 494.4 | 87.1 | 43.8 |
| **EV/EBITDA** | **x** | **nm** | **nm** | **nm** | **nm** | **105.2** |
| EV/EBIT | x | nm | nm | nm | nm | 597.6 |

| PRODUCTION AND PRICING | FY23E | FY24E |
|---|---|---|
| LNG Transport | 363.4 | 363.4 |
| LNG Wholesale | 253.5 | 266.1 |
| LNG (ZAR/mcf) - Blended Pricing | 330.4 | 334.2 |
| Helium (USD/mcf) Stage 1 Contract Pricing | 205.0 | 210.1 |
| Helium (USD/mcf) Stage 1 Market Pricing | 304.9 | 304.9 |
| Helium Stage 1 Blended Pricing | 225.0 | 229.1 |
| Stage 1 / Stage 2 Blended Pricing | 225.0 | 229.1 |

| BCF | Methane | | | Helium | | |
|---|---|---|---|---|---|---|
| | Mar-19 | Oct-21 | %Change | Mar-19 | Oct-21 | %Change |
| 1P | 40.8 | 215.1 | 427% | 1.0 | 7.2 | 620% |
| 2P | 139.0 | 407.0 | 193% | 3.4 | 13.6 | 300% |
| 3P | 284.2 | 600.1 | 111% | 6.9 | 20.0 | 190% |

| PROFIT AND LOSS ZAR | FY21A | FY22A | FY23E | FY24E |
|---|---|---|---|---|
| **Sales** | **2.8** | **6.4** | **38.1** | **309.3** |
| **Operating Expenses** | **(46.5)** | **(38.2)** | **(75.5)** | **(180.4)** |
| **Gross profit** | **(43.7)** | **(31.9)** | **(37.4)** | **128.9** |
| Other income | | | | |
| Other operating costs | 0.0 | 0.0 | 0.0 | 0.0 |
| **EBITDA** | **(43.7)** | **(35.0)** | **(37.4)** | **128.9** |
| Depreciation & amortisation | (3.1) | (3.4) | (69.2) | (106.2) |
| **EBIT** | **(46.8)** | **(38.4)** | **(106.6)** | **22.7** |
| Net interest | (4.0) | (3.9) | (2.5) | (42.5) |
| **Pretax Profit** | **(50.8)** | **(42.3)** | **(109.1)** | **(19.9)** |
| Tax expense | 8.2 | (8.6) | 0.0 | 0.0 |
| **NPAT** | **(42.6)** | **(33.8)** | **(109.1)** | **(19.9)** |
| Adjustments & Significant items | | | | |
| **Underlying NPAT** | **(42.6)** | **(33.8)** | **(109.1)** | **(19.9)** |

| BALANCE SHEET ZAR | FY21A | FY22A | FY23E | FY24E |
|---|---|---|---|---|
| Cash | 130.9 | 105.1 | 235.4 | 321.8 |
| Receivables | 7.8 | 27.0 | 27.0 | 27.0 |
| Inventory | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 16.1 | 34.3 | 34.3 | 34.3 |
| **Current assets** | **154.8** | **166.4** | **296.7** | **383.1** |
| PPE, Development and Exploration | 475.6 | 807.0 | 1,138.1 | 12,605.4 |
| Other | 150.0 | 201.3 | 256.3 | 256.3 |
| **Non current assets** | **625.6** | **1,008.3** | **1,394.4** | **12,861.7** |
| **Total Assets** | **780.4** | **1,174.7** | **1,691.1** | **13,244.7** |
| Accounts Payable | 27.3 | 21.6 | 21.6 | 21.6 |
| Borrowings | 0.0 | 49.8 | 49.8 | 49.8 |
| Other | 5.2 | 3.0 | 3.0 | 3.0 |
| **Current liabilities** | **32.5** | **74.4** | **74.4** | **74.4** |
| Borrowings | 534.3 | 773.1 | 781.1 | 9,504.6 |
| Provisions | 7.2 | 30.9 | 30.9 | 30.9 |
| **Non current liabilities** | **541.5** | **803.9** | **812.0** | **9,535.5** |
| **Total Liabilities** | **574.0** | **878.4** | **886.4** | **9,610.0** |
| Share Capital | 453.1 | 563.9 | 1,181.3 | 4,031.3 |
| Reserves | 9.1 | 12.0 | 12.0 | 12.0 |
| Accumulated Profits / (Losses) | (255.8) | (289.5) | (398.6) | (418.4) |
| **Total Equity** | **206.4** | **286.3** | **794.6** | **3,624.8** |

| CASH FLOW ZAR | FY21A | FY22A | FY23E | FY24E |
|---|---|---|---|---|
| **Operating cash flow** | **(24.5)** | **(79.2)** | **(39.9)** | **86.4** |
| PPE and Exploration | (186.3) | (307.0) | (380.2) | (11,573.5) |
| **Investing cash flow** | **(186.3)** | **(307.0)** | **(380.2)** | **(11,573.5)** |
| Debt Raised / (Repaid) | 216.3 | 239.7 | (66.9) | 8,723.5 |
| Proceeds from issue of shares | 0.0 | 120.6 | 617.4 | 2,850.0 |
| Other | (12.6) | 0.0 | 0.0 | 0.0 |
| **Financing cash flow** | **203.7** | **360.3** | **550.4** | **11,573.5** |
| Net Increase/Decrease | (7.1) | (25.9) | 130.3 | 86.4 |
| Cash at Beginning of Year | 141.0 | 130.9 | 105.1 | 235.4 |
| Ex Rates | (3.0) | | | |
| **Year end cash** | **130.9** | **105.0** | **235.4** | **321.8** |

Source: RLT; MST Estimates

# RLT Now the World's Newest Liquid Helium Producer – Another Milestone

RLT joins a select group of producers

In another major milestone for Renergen (RLT), its liquid helium plant has been fully commissioned and produced first liquid helium on 23 January 2023. This follows the company's production of first LNG in September 2022. RLT joins a select group of producers, with South Africa becoming only the 8th country to produce liquid helium.

## Not all smooth sailing, but a cautious and thorough approach

The commissioning process for the liquid helium plant was slower than the market anticipated, however, RLT deliberately adopted a cautious and thorough approach to the commissioning of the plant, thus reducing the risk of operational issues as the plant ramps up to full production. We expect the helium plant will take several months to reach full capacity of 350kg/day.

The company has reduced the risk of operational issues with its cautious, thorough approach to the commissioning of the plant

## Key customer for Phase 1 liquid helium – Linde

Linde is RLT's key customer for the liquid helium produced from Phase 1. Linde has contracted 80% of Phase 1 production at US$300mcf and inflated at 2.5% as per the contract. The remaining 20% is being sold into the helium market, priced at market rates.

Linde is a leading global industrial gases and engineering company with 2022 sales of US$33 bn. The company serves a variety of end markets such as chemicals & energy, food & beverage, electronics, healthcare, manufacturing, metals and mining. The company's industrial gases and technologies are used in applications including production of clean hydrogen and carbon capture systems critical to the energy transition, life-saving medical oxygen and high-purity & specialty gases for electronics.

**Figure 1: RLT's Virginia Gas Project, Phase 1**

*Source: RLT.*

# LNG Plant Ramping Up; Set to Showcase RLT's Abilities as a Significant Supplier

## LNG plant currently operating at half capacity; heading to 100%

The project – SA's first commercial LNG plant – is set to show that RLT can become a significant local LNG supplier

From the commissioning in late September until the end of the quarter in November 2022, the LNG plant produced 133 tonnes of LNG, and commenced regular deliveries to Ceramic Industries and the Ardagh Group. The plant was temporarily halted in October to repair a utility issue detected while commissioning the helium plant, but to date has performed to or above specifications. The LNG plant is currently operating at around half capacity as RLT bring further wells in to ramp up to 100%. The plant has a nameplate capacity of 50t of LNG per day.

The project is South Africa's first commercial LNG plant and is set to demonstrate RLT's capacity to become a significant local supplier of LNG. It should also reduce the country's carbon footprint by substituting in LNG for diesel in trucks and for commercial users.

## Key customers – industry and transport in South Africa, looking for greener, cheaper, more efficient energy

The key customers for RLT's LNG are all in South Africa and are a mix of industrial users (about 60%) and heavy transport providers (about 40%).

Industrial users employ LNG instead of LPG, while heavy transport is using it instead of diesel

### Industrial users swapping out LPG

Industrial users employ LNG as a cleaner, cheaper and more efficient alternative to LPG. RLT is selling its LNG at a 'bulk rate' and at a discount to the prevailing LPG price. The first industrial customers are two of SA's largest manufacturers, Ceramic Industries (ceramics) and the Ardagh Group (glass).

### Heavy transport users swapping out diesel

Heavy transport users employ LNG as a cheaper, lower-carbon and more efficient alternative to diesel. South Africa has some 377k registered heavy vehicles, with trucks the main method of transportation for goods around the country. RLT's LNG sells at a 25% discount to diesel, which in South Africa is linked to the price of oil.

# Funding for Phase 2 – Multiple Sources Sought

## Planning for a bigger Phase 2

### Production increase of 12x from Phase 1

The Phase 1 pilot plant is designed to produce a maximum of 2,700 GJ of LNG and around 350 kg of liquid helium per day. The upgrade of RLT's reserves in late 2021 led to a significant increase in the proposed size of Phase 2. RLT expects Phase 2 will be some 12x greater than Phase 1.

**Figure 2: Phase 2 set to be a significant jump from Phase 1**

| | Helium (kg/day) | LNG (GJ/day) |
|---|---|---|
| **Phase 1** | 350 | 2,700 |
| **Phase 2** *(current plan for first year of production)* | 4,200 | 34,400 |

*Source: RLT.*

Phase 2 production is planned at around 34,400 GJ of LNG and 4,200 kg of liquid helium per day in its first full financial year of production – 12x greater than Phase 1

### Significant potential upside in reserve even after Phases 1 and 2

2P total gas (methane + helium) is equivalent to 65,000,000 standard cubic feet (scf) per day for the remainder of the license tenor. Phases 1 and 2 combined will consume less than 90% of the Virginia Gas Project's P1 reserves, indicating there is still significant upside within the current reserve.

## Funding an expanded Phase 2 – equity, debt, US listing, other sources

RLT is progressing its funding plans for the globally significant Phase 2 expansion of the Virginia Gas Project, and has indicated a preliminary Phase 2 cost estimate of approximately US$1.16 bn.

### Equity funding

**Recent strongly supported capital raisings fund early Phase 2 works**

As part of its funding efforts, RLT has recently conducted two capital raisings. The proceeds will be used to further develop Phase 2 and for working capital where required.

- **Late November 2022: RLT raised ZAR107.6 (A$9.34m)** from a placement, predominantly to Australian and NZ investors as well as to South African investors. At this time, 2,336,449 Australian shares were placed at A$2.14 per security, as well as 2,029,221 new ordinary SA shares at ZAR24.64 per security, representing a 10% discount to the 30-day volume weighted average traded price (VWAP).
- **February 2023: RLT raised ZAR110.4m (A$8.9m)** in an oversubscribed placement to South African investors. 4.6m SA shares were issued at ZAR24.00, a 6.5% discount to the 6 February pre-launch closing price.

**Agreement to sell 10% of the project to state-owned energy fund – due diligence completed; see-through value A$916m (A$7.39/share)**

RLT has agreed to sell 10% of the Virginia Gas Project to the state-owned Central Energy Fund (CEF) for ZAR1 bn (A$91.6m). CEF is a state-owned diversified energy company with an investment mandate focused on contributing to South Africa's energy security. The transaction satisfies RLT's BEE requirements.

CEF has completed due diligence, a major step forward in finalising the agreement. Both parties have now started work on obtaining final approvals from relevant stakeholders to complete the transaction, including the SA government and the US Development Finance Corporation as the primary lender.

The transaction shows a clear see-through value of the project. It values 100% of the project at A$916m or A$7.39 per share, compared with the current price of A$1.55.

RLT expects FID for Phase 2 in 1HCY23 and that this transaction will close around the same time.

### Debt funding

**Debt target of US$750m for the project**

RLT has stated that the project will have a target debt ratio of 75%, meaning the current preliminary debt offers are more than sufficient to meet that target. The remaining funding will consist of equity funding, including the sale of 10% of the project to CEF. RLT will then be required to fund its remaining 90% stake in the project, leaving US$235m to finance via equity arrangements. During the Phase 1 build, not all the equity was raised upfront. We anticipate that, in order to minimise dilution, RLT is likely to take a staged approach to equity raising during the Phase 2 build.

US International Development Finance Corporation provided US$40m to fund Phase 1

**Strong interest from debt funders – US government agency the key**

- **US International Development Finance Corporation (DFC) – US$500m:** RLT has signed a Retainer Letter with the DFC, a development arm of the US government (and the same organisation that provided US$40m for the funding of Phase 1), to evaluate making a loan of up to US$500m to finance the development of Phase 2 at the Virginia Gas Project. DFC has conducted a preliminary screening of the proposal for Phase 2 financing. RLT and DFC are currently in the process of further analysis on the project, including on-site due diligence now that the Phase 1 plant is operational.
- **Commercial banks and other providers of project finance – US$250m:** RLT has also received multiple Letters of Intent (LOIs) to co-lend alongside the DFC for Phase 2 operations from additional lenders. The LOIs have a cumulative value of over US$700m in senior debt, which will exceed the remaining debt requirement. The lenders are currently in the data room and will be conducting an onsite inspection of Phase 1 operations as part of the due diligence for the debt funding of Phase 2. The company stated a lender has been mandated for an underwritten loan of US$250m, but the details of the mandate have yet to be announced.

## Potential US listing with further multistage equity raisings – good alignment between company, customers and debt financers

RLT is also preparing for a potential IPO in the US with a listing on the Nasdaq exchange in 2023, subject to market and other conditions. The Nasdaq listing aligns with the strong connection of RLT's helium to the US, with the key debt financers (notably, DFC) and customers for Phase 2 (notably, Linde) located in the US.

RLT has released a circular with its plans and funding for Phase 2 – it expects an IPO on the Nasdaq in 2Q or 3QCY23

During the Phase 1 build, not all the equity was raised upfront, and in order to minimise dilution RLT is planning to take a staged approach in raising the equity during the Phase 2 build. RLT expects that the first raising will target approximately US$150m.

RLT has released a circular which sets out its plans for Phase 2 and the requisite funding. The circular emphasises that RLT expects its IPO on the Nasdaq in 2Q or 3QCY23. The circular also sets out the requirements for approval from the ASX in order to complete an IPO and placements on the Nasdaq. Specifically:

- Both ASX and JSE shareholders must give specific authority for the issue of the shares. The approval from the ASX-listed shareholders must be acted upon within 3 months or a further approval is required.

RLT note that the initial IPO funds raised will be primarily to commence construction of Phase 2 and that the remainder of the Phase 2 equity is to be raised over the remaining 3-year construction period. No further equity raises are expected for the first 12 months following the successful conclusion of the IPO.

## Possible alternative financing options for Phase 2

Given the long-life nature of Phase 2 and the high demand for RLT's LNG and helium products, alternative forms of finance could also be sought. These include:

- further project selldown
- convertible notes
- strategic investors
- prepaid sales contracts.

Given RLT's supply into energy and helium markets, we see a strong possibility for government support, both domestic and international, for the project in terms of grants, low-interest loans and tax relief.

# Phase 2 Guidance and Update Provided by RLT

In the aforementioned circular, RLT updated the market on its Phase 2 achievements and provided guidance on key metrics for the proposed expansion to the Virginia Gas Project.

## Key recent Phase 2 milestones achieved

- Pre-feasibility study for Phase 2 completed
- Feasibility for Phase 2 completed
- Front-end engineering and design completed ‘
- Prepared scope definition for bidding of the owners engineer role to execute the expansion, and evaluated and short-listed two potential bidders for this role
- Engaged in due diligence and funding process advancement with the DFC and other potential lenders
- Secured additional offtake agreements with several top-tier global industrial gas companies
- Submitted the Environmental, Social, Impact Assessment (ESIA) to the regulatory authority for review and consideration, having completed the mandatory public consultation processes

## Guidance for Phase 2 going forward

RLT has provided guidance for Phase 2 in terms of key capital and operational inputs and profitability. We discuss this guidance in more detail in the Valuation and Financials sections.

Production levels of 4,200kg per day of liquid helium and 34,000GJ of LNG (approximately 12x larger than Phase 1) and capital cost of US$1.16 bn

Phase 2 drilling of 350 wells (the majority of which will be slant wells) will occur over a period of three to four years, which it anticipates will begin in 2023, and will commence alongside the construction teams breaking ground on the civil works subject to receiving the environmental authorisation.

RLT is targeting to achieve commercial operation of Phase 2 during CY2026, and expects to operate at 75% capacity and ramp up to full capacity over an estimated six-to-nine month period.

### Capex

RLT estimates capital cost of US$1.16 bn, with this Phase 2 capex broken down as follows:

- upstream costs (including exploration and drilling): ~30% of total budgeted Phase 2 capex
- midstream costs (to be used to build the LNG and liquid helium plant): ~58%
- downstream costs (LNG and liquid helium distribution infrastructure): ~12%.

### Production

RLT targets production levels of 4,200kg per day of liquid helium and 34,000 GJ of LNG (approximately 12x larger than Phase 1).

### Profitability

RLT targets commercial operation of Phase 2 during CY2026 and expects to operate at 75% capacity and ramp up to full capacity over an estimated six-to-nine-month period.

RLT has provided EBITDA on a full operating basis for Phases 1 and 2 together of ZAR5.7–6.2bn per annum. RLT expects the project to be in full operation during CY2027. The key underlying assumptions for the EBITDA guidance are a long-term liquid helium spot price of US$600 per MCF and long-term base LNG pricing of ZAR250 per GJ.

Costs of distribution, storage and dispensing have not been disclosed.

### Offtake agreements

**Helium:** RLT has secured 10- to 15-year take-or-pay offtake agreements with several top-tier global industrial gas companies for just over half its expected liquid helium production capacity. The balance is earmarked for sales in the international spot market, giving RLT exposure to potential helium price upside.

**LNG:** RLT expects to contract a majority of the LNG on 5- to 8-year take-or-pay agreements, servicing the industrial, logistics and potentially gas-to-power industries. RLT also expects that the LNG offtake agreements in Phase 2 will be finalised closer to the plant coming into operation. RLT expects it will be able to obtain favourable pricing given the scarcity of energy sources in South Africa, where energy prices have historically risen at levels above those of domestic inflation rates.

# Exploration – Seeking Reserves Beyond Phase 2

## Current reserve only 14% of Virginia Gas Project – and new surveys show the potential

The Virginia Gas Project covers ~187,000 hectares. The current reserve covers only 14% of the project.

RLT has engaged a surveying technique which effectively shows areas of potential high helium contact as a different colour pattern to the areas with low or zero helium contact. The surveys have:

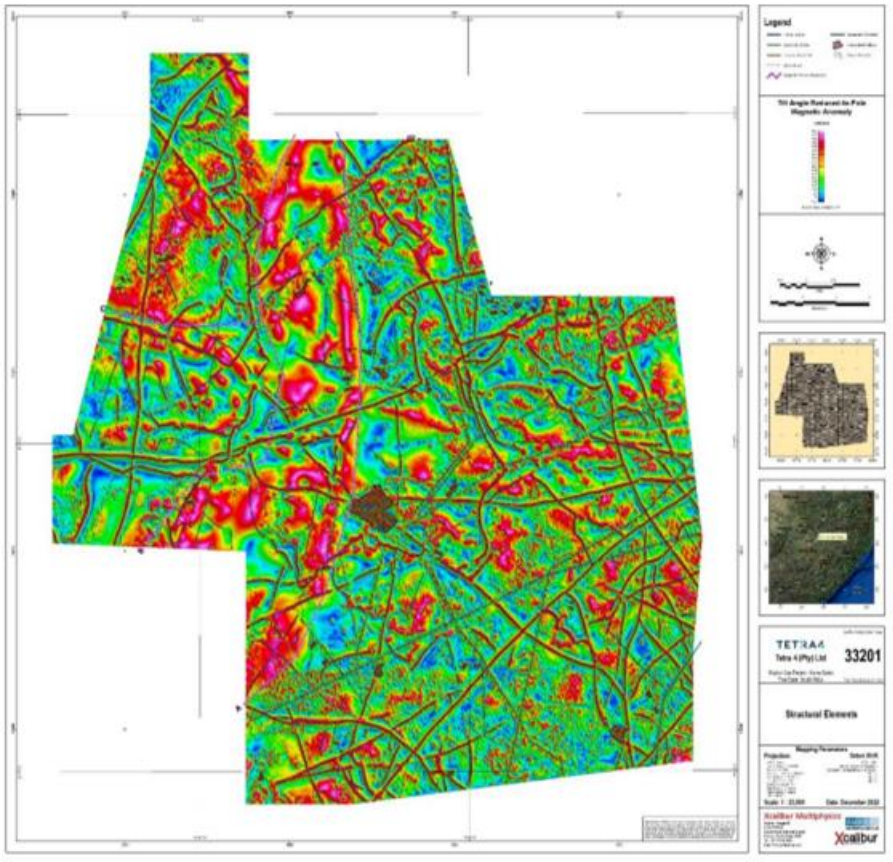
- provided enhanced resolution on a number of potential gas-bearing features, including their extent, depth and orientation
- identified several significant magnetic highs in the western part of the reserve area – this is of particular interest, as it is a series of cap rock above further newly identified gas-bearing structures.

## Major program to commence outside current reserve

Early testing of the technique has highlighted areas outside the reserve that test as potentially higher helium concentrations than in the reserve (refer figure 3)

RLT will conduct an exploration program targeting those highlighted areas with the purpose of defining gas and helium from outside the current reserve.

**Figure 3: RLT aero magnetic surveys of Virginia Gas Project (areas with likely higher concentrations of helium are shown in red)**




*Source: RLT.*

# Market Overviews:
# Demand Is High for Both Helium and LNG

## Helium market – mega squeeze

The helium supply chain is complex, unpredictable and subject to supply shocks

2022 turned out to be a very different year for the global helium business than most market participants had expected. The helium supply chain is complex, unpredictable and subject to supply shocks. Helium markets are now likely to remain very tight throughout the remainder of 2023.

### Supply hit from all sides

There is now considerable uncertainty about when Amur will restart helium production and how quickly it will ramp up. Qatar appears to have been delayed significantly and the US Bureau of Land Management (BLM) may be offline for some time. There is now increased scepticism in the market as to whether Amur will eventually become a reliable source of close to its 2.1 BCF per year nameplate capacity.

Helium supplies high-growth, high-tech sectors – manufacturing, healthcare, computing and rocketry

### Market demand is strong

Helium cannot be substituted and is difficult to recycle. Helium supplies high-growth, high-tech sectors including manufacturing, healthcare (predominantly MRIs), computing and rocketry. Rocketry use continues to grow, with each rocket launch using 2.6 mmscf.

Helium is an opaque market for which it is difficult to predict growth, but given recent trends we would expect demand to grow around 5% p.a. going forward. Current helium demand is around 6 BCF p.a.

## LNG markets – global energy shortage drives demand and prices

### Global LNG demand is strong and supply tight

The focus of the global gas market remains on supply to Europe. Supply shortages in parts of Europe can be traced to new developments (a shortage of gas sourced from Russia and the banning of the shale gas sector in Europe) combined with the absence of full nuclear generating capacity and the intermittency of wind and solar energy. Relations between the US and Russia, now at a low due to Russia's Ukraine invasion, have led the US to attempt to avert a further crisis in European gas supply. The US continues to work to shore up gas supply for Europe through LNG imports from the US and allied nations.

### Virginia Gas Project's Phase 1 not global gas price–linked, but Phase 2 will be

Phase 2 more likely to be linked to global gas price

For Phase 1, LNG prices will be determined by movements in SA diesel prices and LPG pricing. Diesel prices are highly correlated to the oil price whereas SA LPG prices are more determined by local demand and supply issues.

However, going forward we would expect that Phase 2 pricing may be far more influenced by global LNG and gas markets.

We consider that given the long term energy crisis in South Africa there is significant continued interest in RLT's LNG, and that RLT may well be selling LNG for power generation and may look to sell at 'LNG export parity price'.

# Valuation: Funding and Pricing Supports Phase 2 Expansion

We have adjusted our valuation to A$6.40/ZAR76.82 (previously A$6.89/ZAR76.78) – see Figure 4. The key driver of our valuation is the successful implementation of the Phase 2 expansion, to which we assign a 95% probability rating. As Phase 1 commissions and is proven to have reliable production capacity, we will look to increase our probability rating, which would provide upside to our valuation.

We have reviewed a number of our assumptions in our valuation, the key being:

- Increased Capex from US$1 to US$1.17b for Phase 2
- Increased the equity raised to account for the increase in capex
- Increased LT spot helium prices
- Reviewed ZAR / USD and ZAR/ AUD rates for the decline in ZAR
- Rolled forward our model

The net result of the changes was a decrease in the valuation from A$6.89 to A$6.40. We still see significant value in the stock, with the execution of Phase 2 the key.

**Figure 4: RLT valuation per share – risked NPV and major assumptions**

| | Unrisked Valuation | | Risk | Risked Valuation | | Previous Valuation | |
|---|---|---|---|---|---|---|---|
| **Valuation Summary** | **A$** | **ZAR** | **Weighting** | **A$** | **ZAR** | **A$** | **ZAR** |
| Phase 1 Valuation | 0.56 | 6.67 | 100% | **0.56** | **6.67** | **0.67** | **7.38** |
| Phase 2 Valuation | 6.63 | 79.57 | 95% | **6.30** | **75.59** | **6.81** | **75.89** |
| SG&A | -0.28 | -3.40 | 100% | **-0.28** | **-3.40** | **-0.32** | **-3.56** |
| Net Debt | -0.17 | -2.05 | 100% | **-0.17** | **-2.05** | **-0.27** | **-2.93** |
| **Total Valuation** | **6.73** | **80.80** | | **6.40** | **76.82** | **6.89** | **76.78** |

| **ASSUMPTIONS** | |
|---|---|
| **Well Depletion Rate** | |
| Well Depletion Rate | 5% |
| **Helium Percentage** | |
| Helium Percentage Phase 1 | 3% |
| Helium Percentage Phase 2 | 3% |
| **Inflation Rates** | |
| Transport LNG | 5% |
| Wholesale LNG | 5% |
| Gas Extraction | 5% |
| Gas Liquification & Pipeline | 5% |
| Gas Transportation | 5% |
| Maintenance Capex Growth | 5% |
| **Financial Assumptions** | |
| ZAR/USD | 19 |
| ZAR/AUD | 12 |
| Discount Rate | 11% |
| Interest on Loans | US Treasury + 4% |
| **Capex and Phase Timing** | |
| Capex Phase 2 US$b | 1.18 |
| Commencement Phase 2 | Q3 CY2026 |

*Source: MST estimates.*

## Key assumptions for valuation – Phase 2 the driver

The key driver of our valuation is the successful implementation of the Phase 2 expansion

### General assumptions – life of mine, equity raisings, discount rate

Our valuation does not take into account the sell down of 10% of the project to CEF for ZAR1 bn, as this still requires regulatory approval; we will adjust our valuation on this agreement becoming binding.

RLT's production licence lasts until 2042. The company has an option to extend the life of the licence by 30 years. We have assumed the life of the project is extended by 10 years from 2042 as there are more than sufficient reserves for this.

We have also taken into consideration the increase in equity from the proposed US listing and raising of US$150m to partly fund the Phase 2 construction, with the additional shares being added to our fully diluted share base. We have assumed 25% of funding is covered by the equity raising. This will be offset by the inflow from the CEF purchase and the fact that RLT will only need to fund 90% of the capex.

We apply a relatively high 11% discount rate.

### Phase 2 assumptions – on a whole new scale, bringing risk but also opportunity

We believe the helium market needs the supply and the LNG market in South Africa has large growth potential for heavy vehicles, industry and power generation in particular. We believe the project will very likely proceed, given the very strong demand for RLT's products, particularly helium – the project is almost a necessity for the market. As a result, we have applied a probability factor of 95% to Phase 2.

We consider the probability of the project proceeding as very high given the very strong demand for RLT's products, particularly helium – the project is almost a necessity for the market. As a result, we have applied a probability factor of 95% to Phase 2.

However, the project development is not without risk: Phase 2 is a challenging project for RLT, on a substantially different scale to Phase 1. We see a relatively higher level of risk with regards to funding, construction, timing, customers, logistics and the supply chain.

**Significantly higher production:** Phase 1's capacity is around 350kg of helium and 50 tonnes of LNG per day. With the increase in reserves, RLT has developed a plan for Phase 2 to produce at a rate approximately 12x that of Phase 1. This equates to 4,200 kg of liquid helium and 34,400 GJ (~600 tonnes) of LNG per day.

**Capex estimate:** We have revised our assumed capex upwards to US$1.178 bn (from US$1 bn) to be in line with RLT's latest guidance of US$1.16b for Phase 2 (see Figure 5). We assume the capex is split over FY24 and FY25. We have pushed back first gas from Phase 2 into FY26 (from FY25) as per RLT's guidance on how production will ramp up, with our first full year being FY27.

**Figure 5: Phase 2 capex assumptions – initial capex**

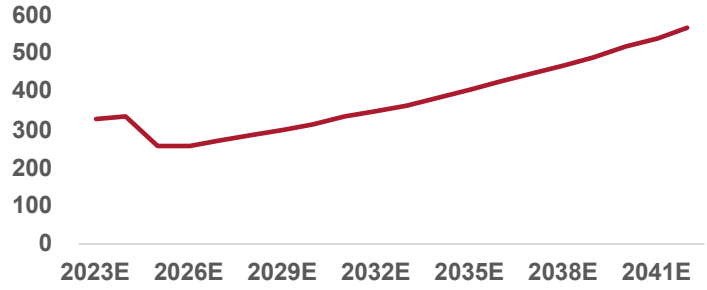
| CAPITAL REQUIREMENTS | Total | |
|---|---|---|
| | ZAR m | USD m |
| New Well Drilling and Completion Capex | 702 | 38 |
| Pipeline and Liquification Plant Capex | 21,087 | 1,140 |
| Cost of Stage Two Expansion | 21,788 | 1,178 |

*Source: MST estimates.*

## Pricing assumptions

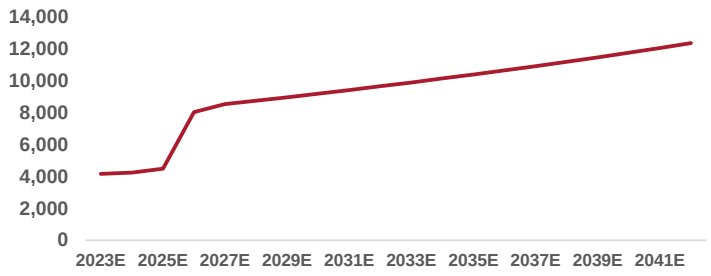
We have increased our LNG pricing profiles but acknowledge that, as more contracts are signed (particularly with methane), adjustments may be needed. We view our pricing assumptions (shown in Figures 6–7) as conservative.

**Figure 6: LNG price assumptions (ZAR/mcf)**




*Source: MST estimates.*

**Figure 7: Helium price assumptions (ZAR/mcf)**




*Source: MST estimates.*

**LNG pricing:** LNG pricing is a key to the valuation.

Heavy vehicle LNG is priced at a 25% discount to the South African diesel price, which is regulated by the SA government and highly correlated to the Brent Crude price.

RLT will price its LNG to wholesale customers at a 'bulk rate'.

For Phase 2 we assume that LNG is sold for power generation (38%), industrial use (42%) and transport (20%). The price is a weighted average of the three.

**Helium pricing:** We assume that 80% of Phase 1's helium is sold under the Linde contract at US$300mcf and inflated at 2.5% per annum as per the contract. The remaining 20% is priced at 'market' rates which we assume to be US$305mcf as per management guidance.

We assume Phase 2 pricing, beginning in FY2026, is 65% contracted and 35% spot with pricing of the contract at US$375mcf and inflated at 2.5% per annum. Spot pricing is at US$600mcf and escalates at the same rate. We consider these estimates to be conservative given helium market conditions.

## Positive catalysts for the share price

Although we see some of the value of Phase 2 reflected in the current share price, there are several catalysts that we would expect to drive the share price towards our valuation.

- **Consistent performance of liquification plants/positive cash flow** would prove project viability, begin to create positive cash flow and increase confidence in Phase 2.
- **Funding and FID of Phase 2:** The key to Phase 2 progressing is funding. The amount of funding required is large relative to RLT's size. Attaining funding is a key risk and completing the funding will be a major positive catalyst for the stock.
- **Development of Phase 2** is a key catalyst for the share price (and key to our valuation).
- **Signing of further customer contracts** would increase the market's confidence in take-up of LNG in South Africa as a transport fuel or industrial energy source. Several such contracts are currently under negotiation. Further signing of helium contracts would also increase confidence in the project.
- **Further increase in reserves:** The Virginia Gas Project is 187,000 hectares. The reserve only covers a fraction of the project. There is strong potential for the reserves to grow substantially and further extend life or give potential for additional plants to be constructed.
- **Price increases in helium and LNG above our estimates:** The valuation is sensitive to price increases in both products.
- **Increase in helium percentage in gas:** RLT has had drilling results of up to 12% helium in the gas. An increase in helium percentage would lead to an increase in profitability for the project.

## Further potential upside to valuation as Phase 2 de-risks

Our valuation places a risk (probability) weighting of 95% on delivery of Phase 2. We see several catalysts ahead which could increase our valuation.

- **Proven gas production and sales from Phase 1:** First gas has been produced from the system. Ramp up of production and sales from Phase 1 would represent proof of concept of the plant and increase confidence in a large-scale Phase 2.
- **Funding and FID for Phase 2:** Phase 2 represents a significantly larger project than Phase 1. With capex of ~US$1.17 bn, successful Phase 2 funding and FID would be a major event for the project.
- **Significant further reserves upgrades** could lead to larger production facilities and/or longer life.

## Risks to the share price and valuation

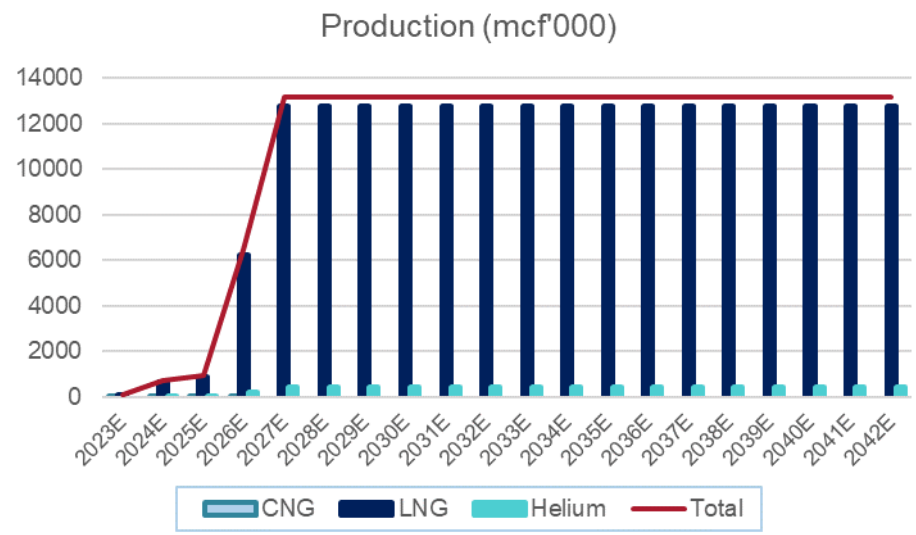
- **Poor performance of plant and equipment:** Reliable output from the liquification plants is a key driver of value for RLT. Any disruptions to this output would be seen as a negative for the valuation.
- **Unable to fund or delay in funding:** The key to Phase 2 progressing is funding. The amount of funding required is large relative to RLT's size. Attaining funding is a key risk – if this does not occur or is delayed, it would be a negative catalyst for the stock.
- **Delays and increased cost for Phase 2:** As the key driver of long-term value in RLT, any delays or increased costs for Phase 2 would be seen negatively by the market and decrease our valuation.
- **Lower-than-expected conversion to LNG – heavy vehicle and wholesale markets:** RLT's strategy relies on the South African heavy vehicle and wholesale markets market adopting LNG. Slower-than-expected rates of conversion would be unfavourable to the share price and valuation.
- **Increased drilling and construction costs** would have direct negative effects on the valuation.
- **Competition from other gas sources:** Imported LNG is seen as a future alternative energy source for South Africa and may be competitive with Phase 2's LNG. This may impact pricing and lead to closer alignment with global LNG prices.
- **Inability to sign additional helium customers:** As a key value driver, any issues with signing helium customers would be negative.
- **Decreased product prices:** The valuation is sensitive to price decreases in both helium and LNG.
- **Political risk/fiscal changes in South Africa:** Energy policy has followed a difficult path in South Africa. RLT has all approvals in place; however, the risk remains that policy and fiscal regime change could detrimentally affect the company. Changes in fuel tax affecting LNG would reduce its competitiveness with diesel and may require a change in strategy.

# Financials: Projected Revenue and EBITDA

## We assume full production in CY2027…

We assume Phase 2 will commence production in FY26 and will ramp up to full production rates over a period of 6 months.

**Figure 8: Production estimates: helium and LNG (FY)**

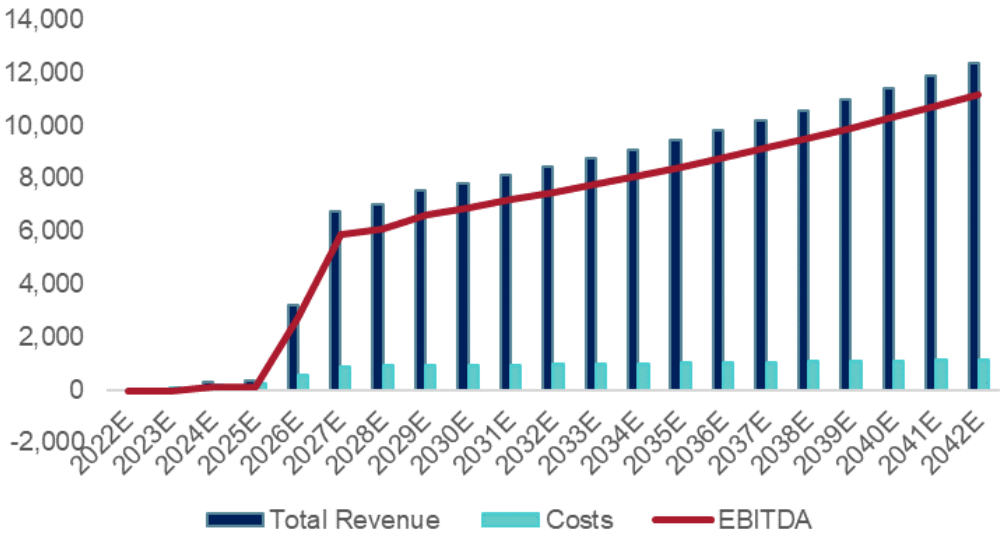



*Source: MST estimates.*

## …with EBITDA of ZAR5.8 bn in that first full year

RLT is guiding EBITDA for the first full year of production for Phase 2 of ZAR5.7–6.2 bn. We model EBTIDA for the first full year of production at ZAR5.8 bn.

**Figure 9: Total revenue, costs and EBITDA (ZARm) (FY)**




*Source: MST estimates.*

# Appendix 1: Understanding the Numbers – How Total Helium Resources Are Categorised

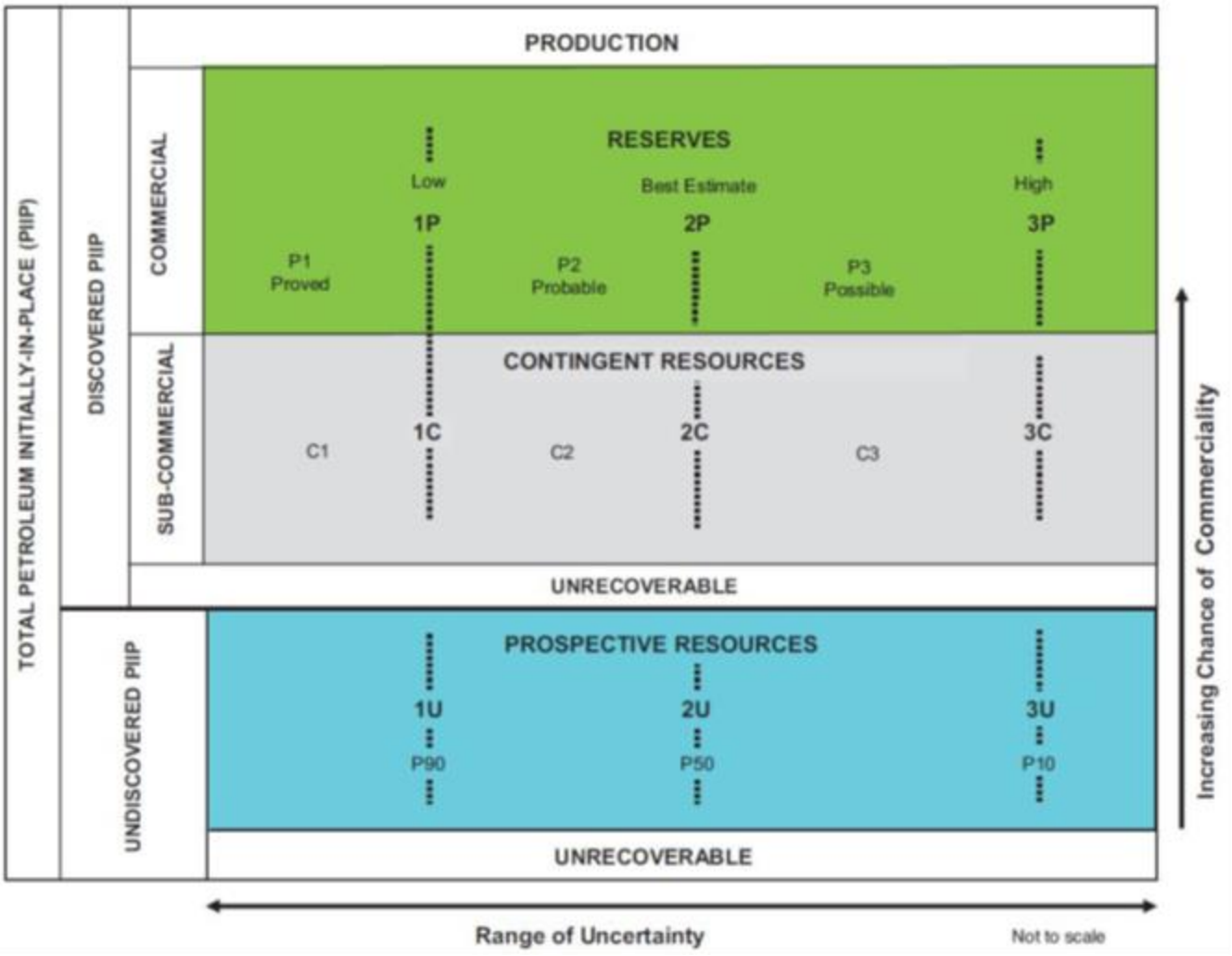
Estimated quantities of potentially recoverable helium can be placed into three categories. In order of increasing certainty, they are Prospective Resources, Contingent Resources and Reserves.

**Prospective Resources** are those quantities of helium estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future projects.

**Contingent Resources** are those quantities of helium estimated, as of a given date, to be potentially recoverable from known accumulations but where the applied project(s) are not yet considered mature enough for commercial development due to one or more contingencies.

**Reserves** are those quantities of helium anticipated to be commercially recoverable by application of development projects to known accumulations. The categories within Reserves, in decreasing certainty, are Proved, Probable and Possible.

**Figure 10: Classification of petroleum (including helium) reserves and resources**




*Source: Sproule.*

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