

Renergen Ltd
R5.7bn EBITDA on a market cap of R2.7bn?

Share Code: REN – Market Cap: R2.7bn – PE: -94.1x – DY: 0.0%

12m Target Price	7500cps
Share Price	1869cps
Implied Return	301%

Resources | [South Africa](#)

FY 23 Results: Producing Cash Flows from Phase One

- With Phase One's LNG production started ramping up during FY 23, Renergen produced its first Liquid Natural Gas (LNG) revenues of R12.7m (FY 22: R2.6) with R11.1m coming from LNG and the balance from the now closed CNH pilot plant (FY 22: zero from LNG & R2.6m from CNG).
- Our FY 23 cost assumptions were too heavy, and we expected a full year loss of -22.3cps while the Group only actually lost -19.86cps (FY 22: -27.73cps).

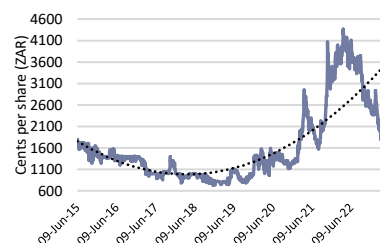
Material Updates: A Coming Year of Big Events...

- Phase One will spend FY 24E ramping up production, & it pivotally shifts Renergen from developer to producer status.
- The Nasdaq listing process has started with management expecting its conclusion towards the end of this year. A circular to was released detailing the issuance of equity in two tranches; the first being 67.5m shares upon Nasdaq IPO raising c.\$150m with the remaining tranche being raised towards the end of the Phase Two build. This is less implied dilution than we forecast & we have adjusted our view and SOTPs for this new data.
- Management also published a revealing "[Phase Two Guidance Note](#)" forecasting FY 27E estimated EBITDA of between R5.7bn and R6.2bn per annum. **Given that Renergen's entire market cap is currently only R2.7bn, R5.7bn EBITDA is significant!**

Valuation: SOTPs & Peer Relatives Higher Than Share Price

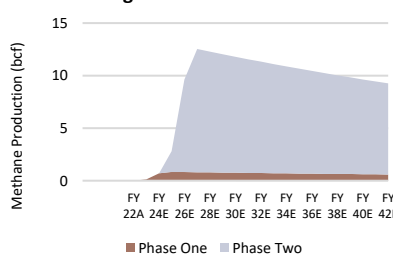
- Updating and refining our forecasts, we see Renergen's current fair value at c.6400cps (previously: 6233cps) and 12m TP as a little over 7500cps (previously: 7347cps).
- Updating the crude listed helium peer relatives (market cap/helium), Renergen remains discounted against this measure. This remains true even if we take Phase Two's future equity raises into account and despite Renergen being more advanced than its peers in both proving *and* starting to produce from its resource.

Renergen's Share Price



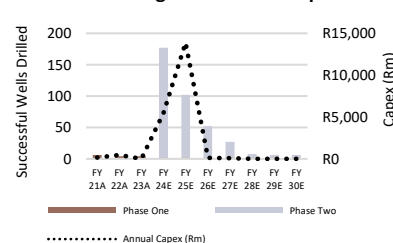
Sources: Profile Media, Blue Gem Research

Renergen's Forecast Production Profile



Source: Blue Gem Research

Renergen's Forecast Capex Profile



Source: Blue Gem Research

	FY 22A	FY 23A	FY 24E	FY 25E	FY 26E	FY 27E
Production:						
LNG - Phase One (Giga Joules)	-	48,422	456,250	912,500	894,250	876,365
LNG - Phase Two (GJ)	-	-	-	2,129,167	9,581,250	12,775,000
Helium - Phase One (thousand cubic feet)	-	-	9,718	23,324	22,857	22,400
Helium - Phase Two (mcf)	-	-	-	-	163,981	327,962
Gas Reserves:						
Natural Gas - 1P (billion cubic feet)	215.1	215.0	214.3	211.5	201.8	189.3
Helium - 1P (bcf)	7.2	7.2	7.0	7.0	6.8	6.5
Financials (R'000's):						
Revenue	2,637	12,687	161,087	1,025,091	4,765,040	7,129,931
Net Profit (Parents)	-33,750	-26,725	28,222	-27,788	460,613	1,938,512
HEPS (cps)	-27.7cps	-19.9cps	15.8cps	-13.1cps	165.4cps	562.3cps
Price Earnings (x)	-67.4x	-94.1x	118.2x	-142.8x	11.3x	3.3x
Return on Equity (%)	-12%	-3%	1%	-1%	5%	18%

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



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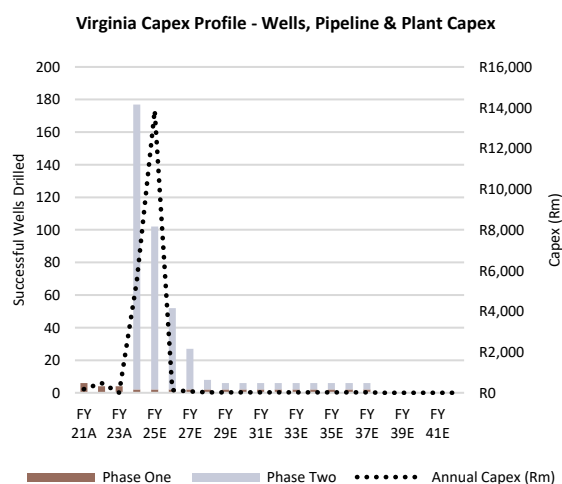
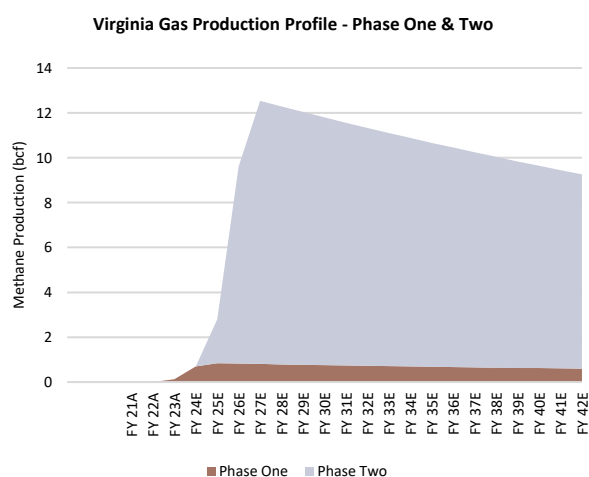
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Summary & Forecast:	FY 22A	FY 23A	FY 24E	FY 25E	FY 26E	FY 27E
Production:						
LNG - Phase One (Giga Joules)	-	48,422	456,250	912,500	894,250	876,365
LNG - Phase Two (GJ)	-	-	-	2,129,167	9,581,250	12,775,000
Helium - Phase One (thousand cubic feet)	-	-	9,718	23,324	22,857	22,400
Helium - Phase Two (mcf)	-	-	-	-	163,981	327,962
Gas Reserves:						
Natural Gas - 1P (billion cubic feet)	215.1	215.0	214.3	211.5	201.8	189.3
Natural Gas - 2P (bcf)	407.0	406.8	406.2	403.4	393.7	381.2
Natural Gas - 3P (bcf)	600.1	600.0	599.3	596.5	586.9	574.3
Helium - 1P (bcf)	7.2	7.2	7.0	7.0	6.8	6.5
Helium - 2P (bcf)	13.6	13.6	13.4	13.4	13.2	12.9
Helium - 3P (bcf)	20.0	20.0	19.9	19.9	19.7	19.3
Financials (R'000's):						
Revenue	2,637	12,687	161,087	1,025,091	4,765,040	7,129,931
Gross Profit	-775	4,003	116,535	725,141	3,595,756	5,583,297
EBITDA	-19,892	-22,971	-28,518	111,190	931,742	4,528,241
Operating Profit	-38,361	-35,524	76,479	670,940	3,495,263	5,459,829
Net Profit (Parents)	-33,750	-26,725	28,222	-27,788*	460,613	1,938,512
Issued Shares (000's)	123,934	144,748	212,248	212,248	344,748	344,748
Weighted Shares (000's)	121,709	134,536	178,498	212,248	278,498	344,748
EPS (cps)	-27.7cps	-19.9cps	15.8cps	-13.1cps*	165.4cps	562.3cps
HEPS (cps)	-27.7cps	-19.9cps	15.8cps	-13.1cps*	165.4cps	562.3cps
Price Earnings (x)	-67.4x	-94.1x	118.2x	-142.8x*	11.3x	3.3x
Total Assets	1,164,694	1,900,881	8,415,930	22,566,058	22,994,530	22,751,992
Property, Plant & Equipment	807,027	1,371,748	7,330,210	20,940,768	20,047,150	18,751,992
Intangible Assets	154,023	241,842	716,202	989,562	1,128,922	1,201,282
Equity	286,312	840,204	3,772,796	3,783,339	8,477,526	10,755,361
Return on Equity (%)	-12%	-3%	1%	-1%	5%	18%
Total Debt	773,056	806,558	4,585,142	18,721,427	14,444,344	11,907,311
Return on Equity (%)	-12%	-3%	1%	-1%	5%	18%
Return on Capital (%)	-3%	-1%	0%	2%	11%	17%

Production & Revenue Profile:



Sources: Reenergy, Profile Media, Bloomberg, BLM, MHA, various company reports & Blue Gem Research workings & assumptions; * Debt raised in Phase One is incurring interest that flows through P&L at this point. Phase Two debt should likely see its interest capitalized at this point, but it is difficult to disaggregate these numbers and Phase Two's 2-months of contribution is more than set-off by these finance charges flowing through the P&L.

FY 23 Results:

- With Phase One's LNG production started ramping up during FY 23, Renergen produced its first Liquid Natural Gas (LNG) revenues of R12.7m (FY 22: R2.6) with R11.1m coming from LNG and the balance from the now closed CNH pilot plant (FY 22: zero from LNG & R2.6m from CNG).
- While this initial revenue is lighter than we expected, the later start and slow ramp-up are the key causes for this top-line miss and we remain unconcerned. The real measure will be once steady-state production is reached for a full year's production, which we expect to be FY 25E.
- On the upside, our FY 23 cost assumptions were too heavy, and we expected a full year loss of -22.3cps while the Group only actually lost -19.86cps (FY 22: -27.73cps).
- Despite still ramping up LNG and helium production, given a full year's contribution, we are optimistic that the Group should report a small profit in the coming year while management's focus shifts to financing and executing on Phase Two's gargantuan ambitions (about 12x Phase One in size).

Material Updates, Progress & Thoughts

- **Phase One:** First production of both LNG and helium during FY 23 has shifted Renergen from developer status to producer status. LNG is being delivered to customers and, from here, management are in a process of optimisation. While first liquid helium was produced during the period, Renergen is working hard to integrate and optimize the two liquefaction trains and production will be ramped up from here to steady-state production. We expect both LNG and helium to reach steady-state production by the end of FY 24E. If you see our below Sum-of-the-Parts (SOTP) valuation for Renergen, we arrive at a NPV fair value of c.R2.0bn for Phase One alone versus the Group's current market cap of c.R2.7bn.
- **Phase Two:** Management's focus has shifted towards finalizing, capital raising & executing on the Group's major Phase Two. See the key elements that are progressing this below:
 1. **Nasdaq listing:** Management have started the approval process towards listing Renergen on the Nasdaq. If you see our previous note ([Producer Status Achieved](#)), the large valuation gap between it and many other offshore listed peers is a likely rationale for this listing and we will watch its success keenly. Management communicate that they expect to finalize this listing towards the end of this calendar year.
 2. **Circular to Renergen Shareholders:** In preparation for the Nasdaq listing, Renergen published a circular that detailed Phase Two targets, most notably the issuance of equity in two tranches. The first being 67.5m shares upon Nasdaq IPO raising c.\$150m (implying an issue price of slightly above 4000cps) with the remaining tranche being raised (hopefully at a higher share price) towards the end of the Phase Two build.
 3. **Phase Two Guidance Note:** Back-to-back with the Circular, Renergen also published a hugely revealing (despite its short length with 948 of its 1461 or c.66% of its text being legal disclaimers) "[Phase Two Guidance Note](#)". Importantly, the Group reiterated its Phase Two targets *and* put into black and white management's own guidance for post-Phase Two profitability: ***"...it is the objective of Renergen to deliver estimated EBITDA of between R5.7bn and R6.2bn per annum, once the plants are in full production, which we expect to occur in the financial year after construction has been completed but not anticipated to be before FY2027."*** Given that **Renergen's entire market cap is currently only R2.7bn, an EBITDA of R5.7bn is very significant.** Interestingly, when we compare this EBITDA range versus our model's implied FY 27E EBITDA, our model is slightly higher with FY 27E EBITDA of c.R6.8bn expected. We are comfortable with this as management's EBITDA guidance is built upon the assumption of a spot helium price of only \$600/mcf and we have assumed a spot of \$800/mcf (indicators are that even our assumed spot price may even be conservative versus the current market!).
 4. **Central Energy Fund (CEF) R1bn direct investment & debt funders:** A key next milestone will be the direct investment into Tetra4 by the CEF for R1bn (implying a valuation of >6000cps for REN's

remaining 90%-stake in the project). The CEF has completed their due diligence on the project successfully and funds could flow following appropriate processes on its side. Combined with the successfully completed due diligences of Phase Two debt funders (who are currently in credit committee approval mode), this would be significantly positive news once concluded. Given the successful due diligence engagements, we see no reason why these funds will not flow in time.

- **Short seller(s) could create a short squeeze:** Finally, we note with interest the note put out by [Kela Securities](#) (a domestic brokerage) on 11 April 2023 that highlighted “...discrepancies between the number of Renergen shares reported (several of the nominees) and the number of shares held by entities holding their stock at various brokers.” This fascinating insight goes on to explain that they “...estimate this short position is at least 1.5m to 2m shares but could be anywhere up to 5m shares or more. Even at the low end, this is a short position which would have taken several weeks or months to amass given the daily average volume traded. Of course, the converse will also be true that should the stock begin to rally, and the short position needs to be covered this could lead to something similar to the VW saga in October 2008 where a short squeeze on their stock saw a rally from EUR215 to over EUR1,000 in around two days as short sellers had to buy back stock in a climbing market to cover the shorts.” This has no effect on the fundamentals that underly Renergen but we include it here as it may have an effect on the Group’s share price, which is particularly relevant given the Group is currently in an equity raising mode for Phase Two.

Changes to Model Assumptions

Phase One

- We have adjusted our forecast production profile.
- The following key spot prices, yields and assumptions have been updated in our Phase One model:
 - **Diesel price:** Updated to 1943.09cents/litre (previously 2132.07c/l) and we have refined our assumptions around the discount to this for LNG (following current results, management guidance and Renergen’s Phase Two Guidance Note).
 - **USD/ZAR:** Updated to R19.32 (previously R17.08).
 - **AUD/ZAR:** Updated to R12.84 (previously R12.17).
 - **South African 10-year bond yield:** Updated to 10.94% (previously 9.63%).
 - **Inflation & real WACC:** 7.1% (previously 7.2%), though for real WACC calculations we have assumed a long-running inflation rate closer to 5.5% (i.e. slightly above the SARB’s target) that we take out of our WACC. For calculation of nominal WACC, we assume management’s targeted 65% debt-to-equity funding structure is achieved.
 - **Maintenance Capex:** We have shifted our maintenance capex to a per revenue basis with a target of 2.5% of revenue being spent annually on this. This assumption we have applied across both Phase One and Two.
 - **Working Capital:** We have refined our view towards a half a month of working capital on a rolling basis.

Phase Two

- Other than the above assumptions around spot variables that have been updated, we have assumed the following around LNG and helium pricing:
 - **LNG:** A 20% premium on the Phase One price/GJ given the trajectory of a growing domestic energy deficit created by Eskom. This is somewhat higher than management’s Phase Two Guidance Note, which uses a R230/GJ pricing.
 - **Helium:** We have kept our flat blended helium spot price of \$423/mcf based on a below-spot contracted price for c.65% of production and a spot price of c.\$800/mcf for the balance. Indicators are in the market that current spot helium price is ranging from \$800/mcf to \$1,000/mcf and long-term contract rates are lifting too. These are all well above

management’s Phase Two Guidance Note which assumes a \$600/mcf spot price for helium and is quite clearly conservative.

- **Equity dilution:** Following the equity issuance Circular, we have assumed the following with regards to the Group’s Phase Two equity dilution:
 - FY 24E: 67.5m shares are issued upon Nasdaq IPO
 - FY 26E: 132.5m shares are issued to fund the final portion of Phase Two build.
 - I.e. 200m shares in total or a c.1.4x-to-1 issuance versus existing shareholders.
 - This is far higher than the current expected dilution implied by the Circular (which is closer to 161m shares or a c.1.1-to-1 issuance versus existing shareholders).

Forecast & Valuation

Methodology & Universal Assumptions

Other than the spot price adjustments noted in the “Phase One” and “Phase Two” sections above and other noted changes, we have not adjusted any assumptions around our methodology or models.

See our “Initiation of Coverage” ([LINK](#)) for more details on our valuation approach & universal assumptions (other than the changes noted above and below).

We have updated our Cost of Equity (CoE), Cost of Debt (CoD) and Weighted Average Cost of Capital (WACC) to reflect current bond yields, spots and management’s communicated 65% target gearing. The Group’s CoE has risen with long-bond yields rising to 19.19% (previously: 17.88%).

The Virginia Gas Project: Phase One

We see Phase One’s NPV at c.R2.0bn (Previously: R2.2bn), but note that this does *not* include the equity dilution that we expect nor does it control for the 10% minority stake taken out for the CEF’s direct stake. Both of these we account for in the Group’s Sum-of-the-Parts (SOTP).

Table 1: Virginia Project Phase One’s Summarized Discounted Free Cash Flow (DCF) Model

Phase One	FY 23A	FY 24E	FY 25E	FY 26E	FY 27E	...	FY 42E
LNG GJ’s Produced (GJ)	48,422	456,250	912,500	894,250	876,365	...	647,256
Helium Produced (mcf)	-	9,718	23,324	22,857	22,400	...	16,544
Revenue	11.14	161.09	337.49	330.74	324.13	...	239.39
EBITDA	4.20	145.99	320.27	313.76	307.38	...	225.64
Tax	-3.85	-47.58	-110.20	-107.88	-105.61	...	-77.00
Capex	-10.72	-5.36	-5.36	-5.36	-5.36	...	-
Maintenance Capex	-	-4.03	-8.44	-8.27	-8.10	...	-5.98
Working Capital	-0.46	-6.71	-14.06	0.28	0.28	...	0.20
Assessed Loss	3.85	47.58	110.20	-	-	...	-
Free Cash Flow	-6.98	129.89	292.41	192.53	188.58	...	142.87
Discount Rate	-	0.94	0.89	0.84	0.79	...	0.33
PV	R0.00	R122.45	R259.85	R161.28	R148.92	...	R46.55
NPV							R1,952.65

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

The Virginia Gas Project: Phase Two

We see Phase Two’s NPV at c.R23.0bn (Previously: R23.3bn), but note that this does *not* include the equity dilution that we expect nor does it control for the 10% minority stake taken out for the CEF’s direct stake. Both of these we account for in the Group’s SOTPs.

Table 2: Virginia Project Phase Two's Summarized Discounted Free Cash Flow (DCF) Model

Phase Two	FY 23A	FY 24E	FY 25E	FY 26E	FY 27E	...	FY 42E
LNG GJ's Produced (GJ)	-	-	2,129,167	9,581,250	12,775,000	...	9,435,220
Helium Produced (mcf)	-	-	-	163,981	327,962	...	242,223
Revenue	-	-	687.60	4,434.30	6,805.80	...	5,026.55
EBITDA	-	-	648.16	4,253.41	6,561.56	...	4,826.14
Tax	-	-	-214.11	-1,322.56	-2,002.58	...	-1,472.11
Capex	-	-5,469.00	-13,866.00	-134.00	-67.00	...	-
Maintenance Capex	-	-	-	-110.86	-170.15	...	-125.66
Working Capital	-	-	-28.65	-184.76	-283.58	...	4.27
Assessed Loss	-	-	214.11	1,322.56	2,002.58	...	-
Free Cash Flow	-	-5,469.00	-13,246.49	3,823.79	6,040.84	...	3,232.64
Discount Rate	-	0.94	0.89	0.84	0.79	...	0.33
PV	-	-R5,155.54	-R11,771.53	R3,203.26	R4,770.47	...	R1,053.20
NPV							R23,009.95

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

Sum-of-the-Parts (SOTP), 12m TP, Implied Return & Sensitivity Matrix

After considering head office costs, CEF's R1bn injection and 10% minority stake at Project-level, and giving a zero value to Cryovacc and Evander, we see Reenergy's current fair value at c.6400cps (previously: 6233cps) and 12m TP as a little over 7500cps (previously: 7347cps).

While the steep rise in the discount rate has more than offset favourable spot prices and exchange rates effects to somewhat lower Phase One and Two NPV's, management's guidance towards lower than our previously expected dilution is what has boosted our Sum-of-the-Parts valuation.

We had previously forecast 224m shares being issued and now only assume 200m shares. The equity issuance Circular and firmer Phase Two funding targets imply that management expect the number of future shares to be issued may be closer to c.161.2m. If this occurs, there remains a further c.+12~13% further upside risk to our valuation of the Group.

Table 3: Reenergy's Sum-of-the-Parts (SOTP) Valuation

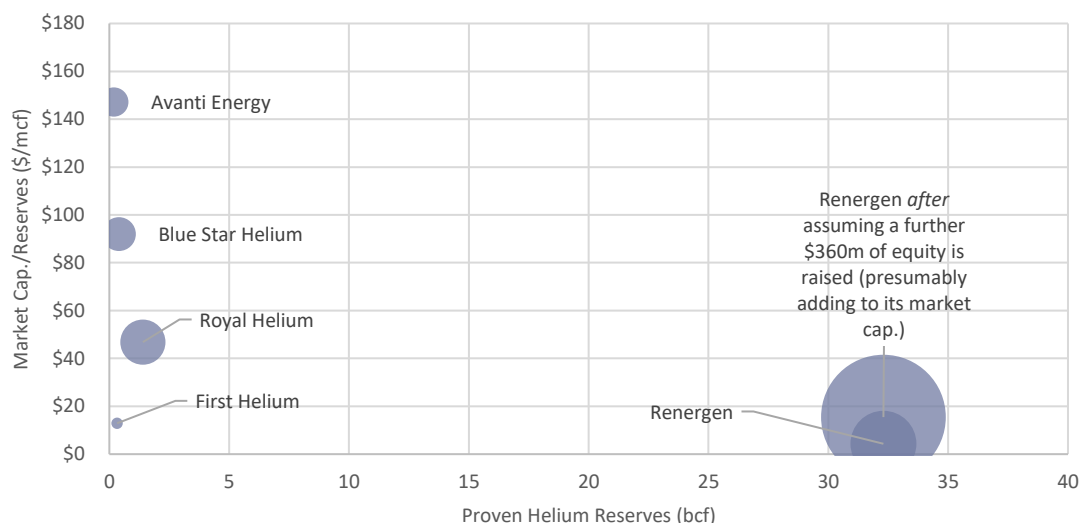
Sum-of-the-Parts (ZAR)	Value
Virginia Gas Project (Estimated NPV)	
- Phase One	R1,952,648,180
- Phase Two	R23,009,953,037
Add: Central Energy Fund equity injection (R1bn)	R1,000,000,000
Less: Central Energy Fund minority stake (10% of Phase 1, Phase 2 & injected R1bn)	-R2,596,260,122
Head Office NPV (i.e., Discount to SOTP)	-R290,182,112
Enterprise Value	R23,076,158,984
Less: Net Debt	-R911,015,000
Equity Value (undiluted)	R22,165,143,984
Issued Share Capital	144,748,378
Potential Phase Two Dilution*	200,000,000*
Fair Value (ZAR cps)	6,429cps
Add: Cryo-Vacc Option	-
Add: Evander Speculative Resource	-
Fair Value (ZAR cps)	6,429cps (i.e. c.6400cps)
12m TP (ZAR cps)	7,663cps (i.e. c.7500cps)

Sources: Reenergy, various company reports, MHA, Profile Media, Bloomberg, & Blue Gem Research assumptions and workings; * Assuming 35% equity needed to fund Phase Two, less R1bn via CEF. Reenergy has approval for 67.5m shares for a Nasdaq IPO later this year. Assuming the targeted \$150m is raised through this process, this implies a Rand-based issue price of slightly above 4000cps. Following this, a further c.\$208m is required and we have assumed the same issue price to arrive at a targeted dilution of c.161.2m shares. We have rounded this up to 200m shares to risk-adjust for issue price realized, though we will be watching the Nasdaq IPO closely as a key indicator of Phase Two dilution.

Global Helium Peer Set

While retaining the same limiting factors as we noted in our previous note, the global peer set of helium exploration and development companies still displays a vastly higher valuations for their helium on much lower proven resource than the market is valuing Reenergy on its own underlying resource (ignoring its LNG resources as well!).

Figure 1: Global Helium Market Capitalization/Helium Resource



Sources: Various company reports, Refinitiv, and Blue Gem Research workings

This comparison between Reenergy’s market implied undervaluation of its helium resource versus its peer set is still true even after we consider Reenergy’s Phase Two equity funding and add it to the Group’s forward implied market cap.

While far from perfect (or even persuasive), this crude measure does provide us comfort that our valuation of the underlying Phase One and Two as being multiples higher than the current share price has some supporting evidence of its potential accuracy.

Key risks to our valuation

The key risks to our above valuation methodology, its related assumptions & its resulting answer are:

- **Spot prices:**
 - The Rand exchanges rate against major currencies,
 - The Oil price & how it affects the domestic diesel price (*including taxes*) and LNG prices (especially their geographic spreads), &
 - The actual helium spot price, both now and actually achieved over the duration of the resource.
- **Yields, flow-rates & resource risk:**
 - The purity & flow-rates (we have assumed a 2.0% y/y decline from point of peak production over the life of the gas right, though indications are that the gas is biogenic/sustainable and well flow rates may not decline) of natural gas from the Virginia Gas Project,
 - And, how much of it is methane (we have assumed 90%) relative to helium (we have assumed 3%), &
 - If all the resource that we *think* is there is *actually* there (i.e. the so-called ‘below the ground’ risk) – increasingly, though, this is becoming a mute risk.
- **Other risks:**
 - The success, size and pricing of Phase Two equity raise and, indirectly, the listing of Reenergy on the Nasdaq,
 - Phase Two size, production, timing, capex, execution and operational variables,
 - Inflation and how it may affect both future opex and future capex costs,
 - Interest rates and how it may change borrowing costs and discount rates, &

- South African sovereign risk, including but not limited to, Eskom, loadshedding and total grid failure.

Disclaimer

Confused by this report? View our [methodology](#), [FAQ](#) and [this disclaimer](#).

**Market prices in this report predominantly set to Closing Prices on 12 May 2023.*

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