

# Renergen Limited

Energy

## Company Update Report

**Sell**

### Still waiting for further details on the Nasdaq listing

#### Analyst recommendation

Counter	Share price	Intrinsic value	Upside/(downside)
REN-ZA	R10.35	R7.8	(25%)

As at 31 May 2024

#### Executive summary

Renergen released its summary of financial statements for the year ended 29 February 2024 on 8 May 2024. We note the below highlights and remaining concerns:

1. Even though revenue increased by 128% and gross profit by 151% the loss for the year increased by 311% from R26.7 million to R109.8 million. This is due to expenses ramping up quicker due to less capitalisation and increases relating to higher operational activities. The increase in revenue and gross profit is due to the ramp up of Phase 1 even though operational challenges were experienced.
2. A 5.5% stake in Tetra4 (main assets and operations of Renergen) was sold to Mahlako Gas Energy (MGE) for R550 million. This was to settle the Standard Bank bridge loan and to meet the cash flow demand of Phase 2 construction. The \$795 million debt financing has been secured which is subject to the completion of the equity capital raise expected in the form of an IPO on the Nasdaq.
3. The second half of the financial year experienced operational challenges resulting in annual maintenance being carried out in September instead of December with a prolonged duration due to long lead times of components. The LNG plant was therefore not operational from September until February. A leak in the helium cold box also caused delays in the production of liquid helium and with no sales being recorded in the financial year reported.
4. We hope to see details soon regarding the Nasdaq listing due to it being a crucial funding requirement and creating a risk of potential share dilution. As per the 8 March 2023 circular, the listing was expected to occur during the third or fourth quarter of 2023. The notice of the annual general meeting and integrated report is scheduled to be distributed on 28 June 2024, we hope to see more information regarding the listing.

We maintain our intrinsic value at R7.8 as we await further details on the listing.

#### Analyst thesis

1. The company has access to a unique asset through its higher than peers' concentration helium reserves combined with plans for material future growth.
2. Currently, we see the price as expensive considering the material risks which include:
  - a. The complexity of exploration and development of gas fields (operational risks) with operational success becoming crucial as debt gets utilised (debt covenants).
  - b. The capital intensiveness of exploration and development of gas fields requires significant capital with the risk of dilution enhanced with the current lower share price.
  - c. Catalysts of operational success or maximum production capacity can only be verified by FY27.
  - d. The going concern risk regarding management's main assumption which depends on obtaining the relevant funding and successful completion of phase 2.



3. Steps towards successfully completing management's EBITDA guidance of between R5.7 billion and R6.2 billion (not expected before financial year 2027), would serve as potential catalysts and would increase our bull case probability (currently 10% on the bull case). These include:
  - a. Obtaining the required financing without material dilution or costs while meeting any debt covenant requirements. (R1 billion from the sale of a 10% stake in Tetra4 and \$150 million (R2.6 billion) share issue with our expectation now pushed out to FY25. A \$260 million (R5 billion) share issue is expected during the 3-year construction period).
  - b. Providing evidence to reach the guided phase 2 production volumes of 4 200 kg per day of LHe and 34 400 gigajoules (GJ) per day of LNG (estimated 2027 calendar year).
  - c. Realising LHe prices of \$600 per MCF and LNG of R250 per GJ, having had no adverse exchange rate movements and storage, distribution and dispensing costs not being material.

## Financial results

**Table 1: 2024 financial year results summary**

Metric (R'000)	FY23	FY24	Y/Y %
Revenue	12 687	28 952	>100
Gross profit/loss	4 003	10 067	>100
Other operating income	13 630	9 778	-28.3
Share-based payments expense	-10 278	-8 074	-21.4
Other operating expenses	-42 879	-146 868	>100
Interest income	3 675	10 853	>100
Interest expense and imputed interest	-4 583	-22 747	>100
Loss for the year	-26 725	-109 792	>100
Cash used in operating activities	-70 596	-53 847	-23.7
Cash flows used in investing activities	-440 781	-303 740	-31.1
Proceeds from share issue	573 914	32 581	-94.3
Proceeds from part-disposal of interest in Tetra4	0	550 000	n.m.
Proceeds from borrowings	0	373 972	n.m.
Repayment of borrowings (capital)	-56 114	-105 245	87.6
Loss per share (cents)	-19.86	-75.10	>100

Source: Company financials

### Full year results commentary

Results were mainly characterised by the commencement of Phase 1 LNG operations in September 2022. This would have led to an increase in revenue and gross profit. However, profits were lower due to operating expenses increasing at a faster pace. The ramping up of operations has led to a corresponding increase in expenses exacerbated due to the previous period capitalising expenses on the balance sheet which now are being expensed directly to the income statement while the previously capitalised amounts are also being expensed through depreciation as assets are classified ready for use by management.

Revenue and gross profit increased due to phase 1 LNG commencing September 2022 and production of LNG increasing from 977 tonnes in the comparative period to 2 876 tonnes. The comparative period also contained sales of compressed natural gas (CNG) which ceased in September 2022.

Other operating expenses increased due to:

- Employee costs increased by R22.9 million after a large portion was expensed compared to the previous period allowing it to be capitalised.
- Foreign exchange losses of R14.7 million were incurred on the foreign debt and creditors. Prior period had a gain of R9.6 million which was classified as other operating income.
- Security costs increased by R7.2 million due to less costs being capitalised.
- Depreciation increased by R15.4 million as assets were classified as ready for use.
- Repairs and maintenance increased by R16.6 million.
- A net increase of R27.2 million in other expense lines such as health and safety, insurance, travel, IT, selling and distribution and marketing and advertising costs which is attributable to the increase in operations. Included in the R27.2 million increase is R6.7 million relating to consulting and advisory fees mainly due to public relations marketing and preparation for the Nasdaq listing.



Interest expense increased by R18.1 million due to the change from capitalising it on the balance sheet to expensing it on the income statement. Interest income increased by R7.2 million due to higher cash balances required relating to fund-raising activities, higher interest rates and finance lease arrangements being in place for a full year compared to a partial year in the previous reporting period.

Source: Company financials

## Phases and exploration

### Phase 1

#### LNG

Phase 1 is expected to produce approximately 2 700 GJ per day of LNG.

During the period the annual maintenance experienced challenges with the primary mixed refrigerant compressors which necessitated replacement of certain components. This prolonged the duration of the maintenance due to long lead times for the components. The LNG plant was not operational from September 2023 up until early-February 2024 when LNG deliveries recommenced.

#### Helium

Phase 1 is expected to produce approximately 350 kg per day of LHe as per management's phase 2 guidance note released dated 8 March 2023.

After successfully producing liquid helium on 22 January 2023 the expected ramp up has not yet occurred due to the leak in the cold box and maintenance performed.

### Phase 2

#### LNG & Helium

It is anticipated to produce approximately 34 400 GJ (684 tonnes) of LNG and around 4 200 kg (4.2 tonnes) of liquid helium per day once in full production. Renegen's goal is to achieve commercial operation of Phase 2 during 2027 calendar year (2028 financial year).

Just over 50% of the anticipated LHe production is secured by 10-year to 15-year take-or-pay offtake agreements with the balance earmarked for sales in the international spot market to participate in potential price upside. Majority of LNG production is expected to be contracted on 5-year to 8-year take-or-pay agreements servicing industrial, logistics and gas-to-power industries.

Source: Company financials

## Future funding

Phase 2 is estimated to require a total of \$1.2 billion.

To raise the required amount of debt and equity to fund the phase 2 expansion of the VGP the following is required:

Disposal of 10% of Tetra4 subsidiary for R1 billion. The 5.5% sold for R550 million to MGE we expect to form part of the required R1 billion.

Raise capital by way of a proposed IPO on the Nasdaq in the United States of America and anticipates raising up to R2.6 billion (\$150 million). The proposed IPO is dependent on market conditions which will impact the timing when it is completed. The proposed IPO is also subject to exchange control approvals. Second tranche estimated to be approximately \$260 million and 12 months to 18 months after the proposed IPO.

Debt funding to the amount of \$750 million was obtained but is subject to the fulfilment of conditions precedent with the main focus currently on the completion of the first equity tranche mentioned above.

Source: Company financials



## Phase 2 guidance note

On 8 March 2023, management released a guidance note on SENS which estimated EBITDA of between R5.7 billion and R6.2 billion per annum once full production is reached (a year after construction is completed which is not expected before financial year 2027). Due to the significance, we list the assumptions made by management as we believe them to be material to the investment case of Renergen:

- (i) Phase 2 is fully funded and successfully constructed.
- (ii) ZAR/USD long-term depreciation is in line with the respective jurisdictional interest rate differentials.
- (iii) The liquid helium long-term spot price is approximately \$600 per MCF.
- (iv) Long-term base LNG price of approximately R250 per gigajoule.
- (v) Furthermore, such assumptions do not consider the costs of distribution, storage and dispensing.






Source: Renergen phase 2 guidance note

## Qualitative summary

Table 2: Qualitative summary

Factor review	Rating	Description
Growth		As phase 1 becomes fully operational and phase 2 being significantly larger we expect material growth. Management guided that it expects phase 1 and 2 of the Virginia Project to reach an EBITDA between R5.7 billion to R6.2 billion by calendar year 2027.
Valuation		Downside to intrinsic value is -25%.
Dividend yield		Renergen does not pay any dividends.
Issuance		Shares increased by 69% from 2019 to 2024 with further issuance expected.
Catalyst		<ul style="list-style-type: none"> <li>Material increases in LNG and LHe prices.</li> <li>Increase in likelihood of Phase 2 success through various catalysts such as successfully obtaining funding, obtaining favourable share prices or delivering on key development milestones.</li> <li>Signing significant beneficial customer contracts.</li> </ul>
Quality of earnings		Loss making and exposure to exchange rate, energy price and operational risks can cause earnings to be volatile. Various expenses capitalised which are subject to timing of expense through accounting policies chosen by management.
Moat		Has access to large proven helium reserve with internationally high concentration rates. First mover advantage due to first and only onshore petroleum production right in South Africa.
Management and governance		CEO Stefano Marani (appointed 2014), COO Nick Mitchell (appointed 2015) and CFO Brian Harvey (appointed 2021). Board has sufficient experience and knowledge however there has been an increase in negative news in the media recently. Composition is roughly even between independent and non-independent directors. We ,however question the independence of the chairman allowed to receive share options. The 2023 financial statements were however, not submitted on time and caused the trading of the shares on the Australian Stock Exchange to be suspended on 1 June 2023.
Balance sheet		Balance sheet has a large exposure to intangible assets and property, plant and equipment which are subjects to impairments should there not be sufficient future profits. Equity contained an accumulated loss of R427 million before the 5.5% sale of Tetra4 which brought it back to a profit of R47 million. Debt to total assets is 51%. Due to current loss-making position does not have a meaningful coverage ratios.



Risks	<ul style="list-style-type: none"> <li>Operational and execution on new developments risk.</li> <li>Ownership dilution.</li> <li>Unsuccessful capital raising which further raises a going concern risk as highlighted in the audit opinion.</li> <li>Inflation risk on capex.</li> <li>Energy prices and exchange rates.</li> <li>Maintaining debt covenants.</li> <li>Clarity on jurisdiction of NERSA still to be obtained from high court.</li> <li>Valuation and completeness on rehabilitation provision.</li> <li>African Carbon Energy is in the process of applying for a mining right in areas that overlap with Tetra4's production right which may reduce its ability to produce gas in a portion of the production right.</li> <li>Could become an acquisition target.</li> </ul>
Regulation	 <p>Regulation is slightly elevated due to regulation around energy and the environment that could impact Renergen.</p>
ESG	 <p>As per Truvalue Labs Renergen has an above average rank. It provides a cleaner energy alternative although the board representation can improve on transformation objectives regarding gender.</p>
Momentum price	 <p>Price momentum is negative.</p>
Momentum earnings	 <p>In the last three months, earnings for the next financial year have been revised downwards by 44.8%.</p>
Piotroski score	 <p>Renergen has a Piotroski score of 3 out of 9.</p>

Sources: PSG Wealth research team, FactSet and company financials

## Valuation

Due to the high risks involved including the current loss-making state combined with the risk should phase 2 not be successful we used a prudent approach and assigned zero value to our bear case. In our bull case we used management's upper limit EBITDA guidance of R6.2 billion combined with an EV/EBITDA multiple of 6. We then calculated the equity value by deducting our estimated future debt and adding the estimated future cash balance. This equity value was then discounted back to today's value of money using the cost of equity rate below. Our base case we forecasted the future profits to calculate our own EBITDA value. We then applied an EV/EBITDA of 4x which is above Sasol's June 2023 multiple of 3.2x due to its unique asset being better positioned for future environmental requirements and future growth of the company. Same as our bull case we then deduct debt, add back cash and then discount the equity value to today's value of money. The same number of estimated shares outstanding at the end of the forecast was applied in all cases.



**Table 3: Valuation summary**

	Intrinsic value	Upside/downside	Probability weight
Bear	R0	-100%	30%
Base	R8	-23%	60%
Bull	R30	192%	10%
Weighted	R7.8	-25%	100%
Risk free rate			12%
Beta			1.65
Equity risk premium			5%
Cost of equity			20%

Source: PSG Wealth research team

**Table 4: Base case valuation summary**

2028E EBITDA (R billion)	4.7
EBITDA multiple (x)	4.0
2027E enterprise value (R billion)	18.7
2027E estimated debt (R billion)	-11.8
2027E estimated net cash (R billion)	1.7
2027E equity value (R billion)	8.6
2027E shares outstanding (billion)	0.5
2027E intrinsic value per share (R)	16.6
Discount rate	20%
Discounted value	R8.00

Source: PSG Wealth research team

**Table 5: Base case forecast**

Base case forecast summary	2025E	2026E	2027E	2028E
LNG production (mcf)	2 715 049	8 338 191	11 551 414	11 551 414
LNG rate (ZAR/mcf)	200	200	200	200
LNG revenue (R'000)	543 010	1 667 638	2 310 283	2 310 283
LHe production (mcf)	24 513	112 758	230 419	318 665
LHe rate (ZAR/mcf)	8 200	9 653	10 076	10 377
LHe revenue (R'000)	201 004	1 088 485	2 321 721	3 306 894
10% sold to the MGE (R'000)	-74 401	-275 612	-463 200	-561 718
Total revenue (R'000)	669 612	2 480 511	4 168 803	5 055 459
EBITDA (R'000)	438 153	2 130 882	3 811 750	4 681 938

Source: PSG Wealth research team

### Main assumptions

As part of our forecast, we had to make various assumptions. Among these assumptions include:

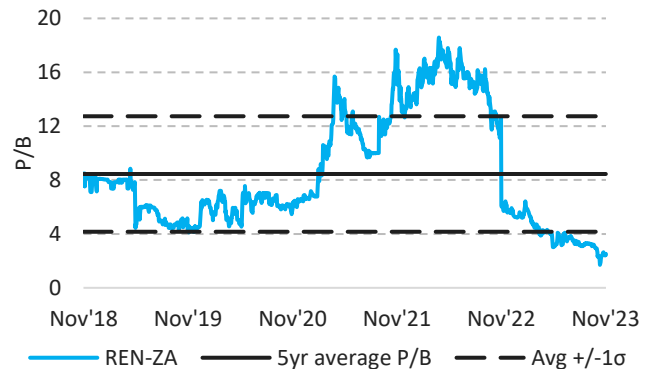
- We used managements production volume guidance which we then applied a 90% run rate.
- Revenue was reduced by 10% as part of the aimed R1 billion funding in exchange for the sale of 10% in Tetra4.
- We used our own estimates on volumes in the initial years of production (as production ramps up and only a portion of the year having production months).
- We had to make assumptions around the rates obtained for LNG and LHe. As part of these rates, we also had to use an ZAR/USD exchange rate which we kept constant at R20/USD.
- The impact of future funding.

**Table 6: Company data**

52-week high	R23.98
52-week low	R9.00
Market value (bn)	R1.5
Price momentum	Negative
3m earnings revision	-44.8%
Fiscal year end	2025/02/28

Source: FactSet (limited FactSet analyst coverage)

**Graph 1: Price to book**



Source: FactSet

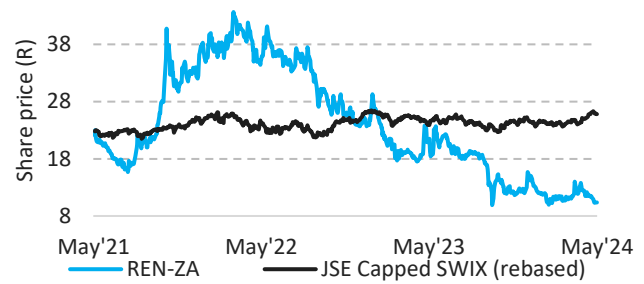


Table 7: Valuation multiples

Multiple	Latest:	Last note:
	Jun-2024	Jan-2024
P/S	52.5x	48.3x
P/B	1.2x	2.1x
EV/EBITDA	29.1x	Not available
EV/EBIT	155.7x	Not available
EV/SALES	9.2x	Not available
Dividend yield	-	-

Source: FactSet (limited FactSet analyst coverage)

Graph 2: Share price history vs benchmark



Source: FactSet

Table 8: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
Renergen Limited	-34.1%	0.0%	-9.5%	-11.2%	-44.5%	-72.6%	-52.2%	-4.6%	-
JSE Capped SWIX	-0.3%	0.0%	5.0%	2.5%	2.4%	4.1%	8.2%	24.1%	29.6%

Source: FactSet

Table 9: Key financials and ratios

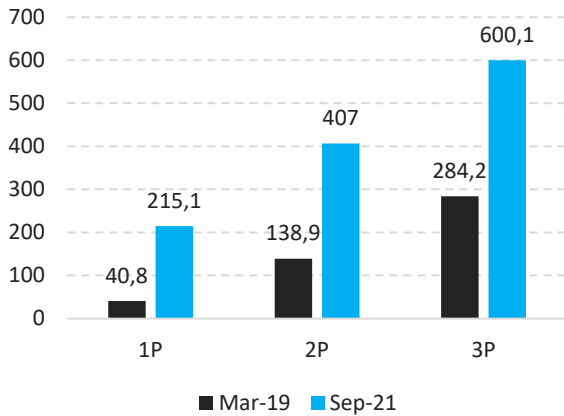
Income statement (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR
Revenue	3.0	2.6	1.9	2.6	12.7	29.0		57.5%
Y/y growth (%)	-	-11.8	-26.9	37.0	381.1	128.2		
Gross profit/loss	-0.2	-0.7	-0.9	-0.8	4.0	10.1		-316.8%
Y/y growth (%)	-	217.6	37.5	-15.5	-616.5	151.5		
Profit/loss	-40.9	-52.6	-42.6	-33.8	-26.7	-110.3		22.0%
Y/y growth (%)	-	28.8	-19.0	-20.8	-20.8	312.6		
EPS (rands)	-0.5	-0.5	-0.4	-0.3	-0.2	-0.8		9.8%
Y/y growth (%)	-	1.9	-24.3	-23.6	-28.4	278.1		
Balance sheet and cash flow (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR
Cash from operations	-36.9	-37.5	-24.5	-79.2	-70.6	-53.9		7.9%
Cash from investing activities	-13.3	-315.8	-196.3	-307.0	-440.8	-303.7		86.8%
Cash flow from financing activities	145.1	411.3	213.8	347.2	470.9	773.7		39.8%
Total assets	225.1	626.5	780.4	1 164.7	1 900.9	2 709.1		64.5%
Total liabilities	60.9	379.3	574.0	878.4	1 060.7	1 388.0		86.9%
Ratios	2019	2020	2021	2022	2023	2024		5Yr Avg
Gross margin (%)	-7.0	-25.3	-47.6	-29.4	31.6	34.8		-7.2
Net income margin (%)	-1 367.9	-1 996.9	-2 214.0	-1 279.9	-210.6	-380.9		-1 216.5
Current ratio	9.2	7.4	4.8	2.1	0.9	1.0		3.2
Total liabilities to equity (%)	37.1	153.4	278.1	306.8	126.2	105.1		193.9



Total liabilities to assets (%)	27.0	60.5	73.5	75.4	55.8	51.2		63.3
ROA (%)	-24.1	-12.3	-5.9	-3.2	-1.6	-4.3		-5.4
ROE (%)	-31.2	-24.6	-18.8	-13.7	-4.7	-10.6		-14.5

Source: FactSet

**Graph 3: Methane reserves (billion cubic feet)**

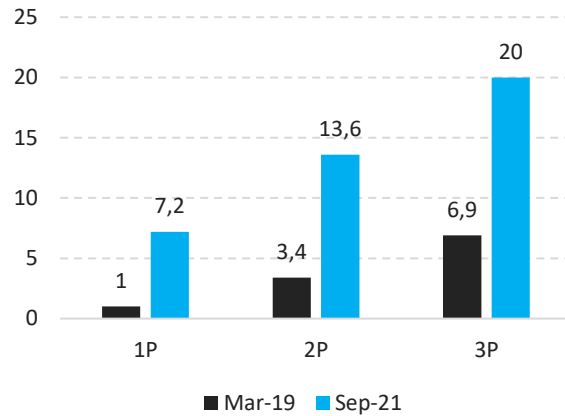


1P: proven reserves

2P: 1P + probable reserves

Source: 2022 company presentation

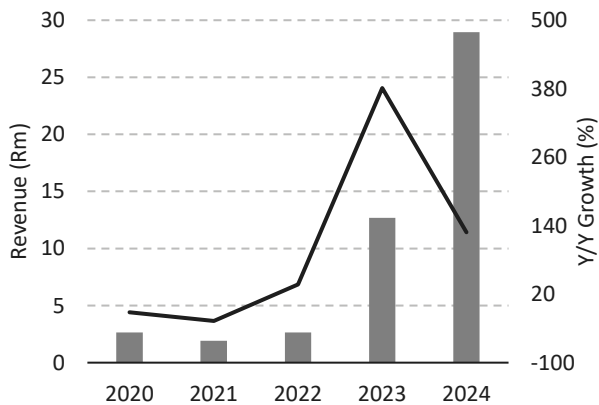
**Graph 4: Helium reserves (billion cubic feet)**



3P: 2P + possible reserves

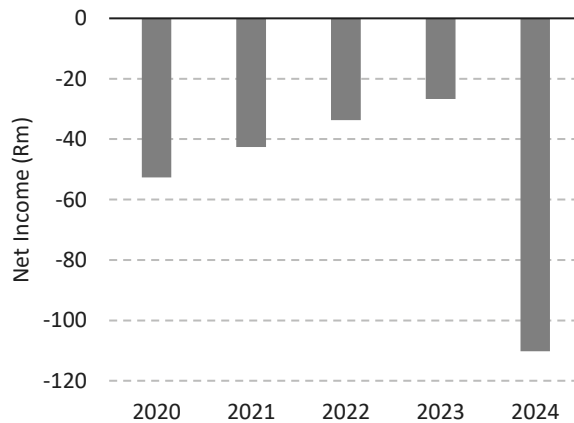
Source: 2022 company presentation

**Graph 5: Revenue**



Source: FactSet

**Graph 6: Annual net income**

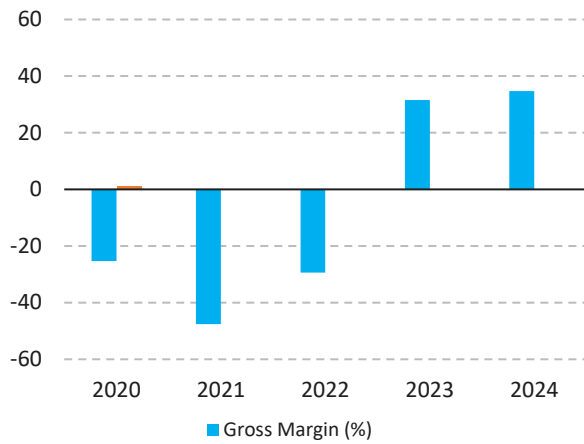


Source: FactSet



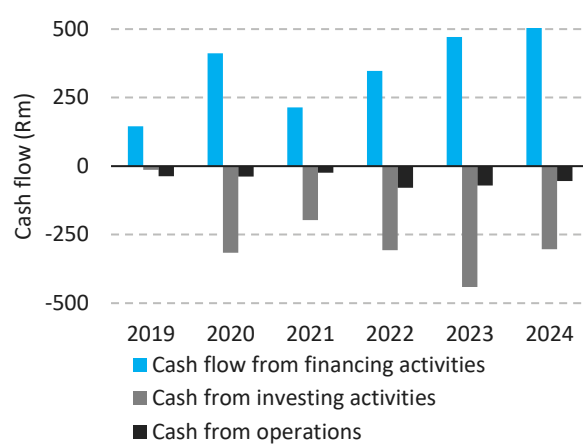


Graph 7: Gross margins



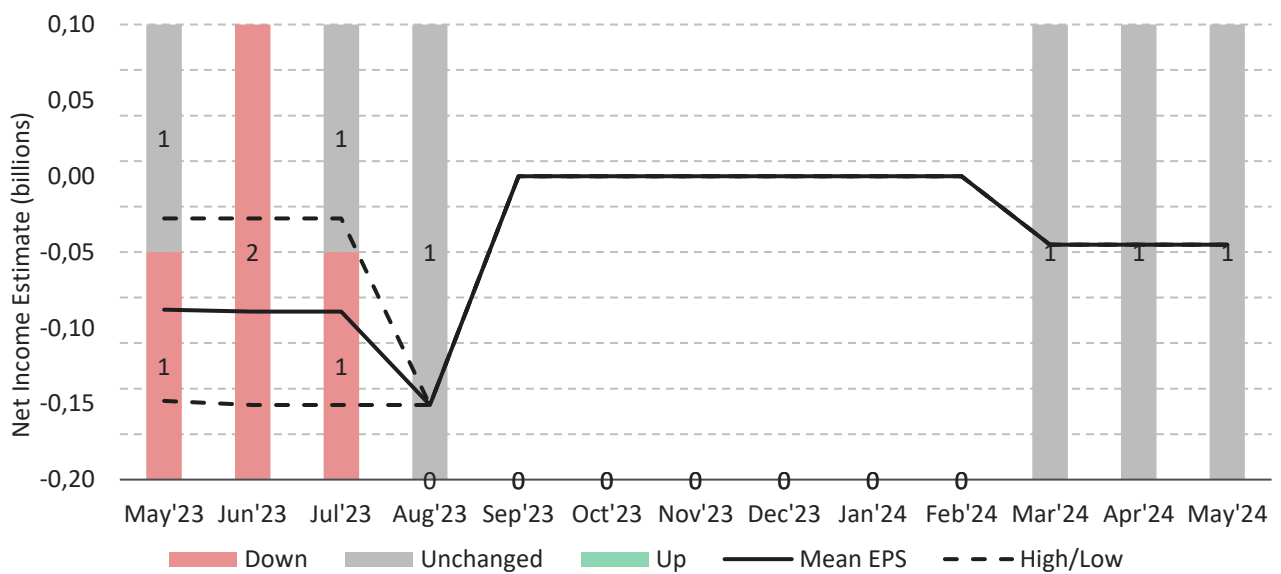
Source: FactSet

Graph 8: Free cash flow



Source: FactSet

Graph 9: Earnings revision

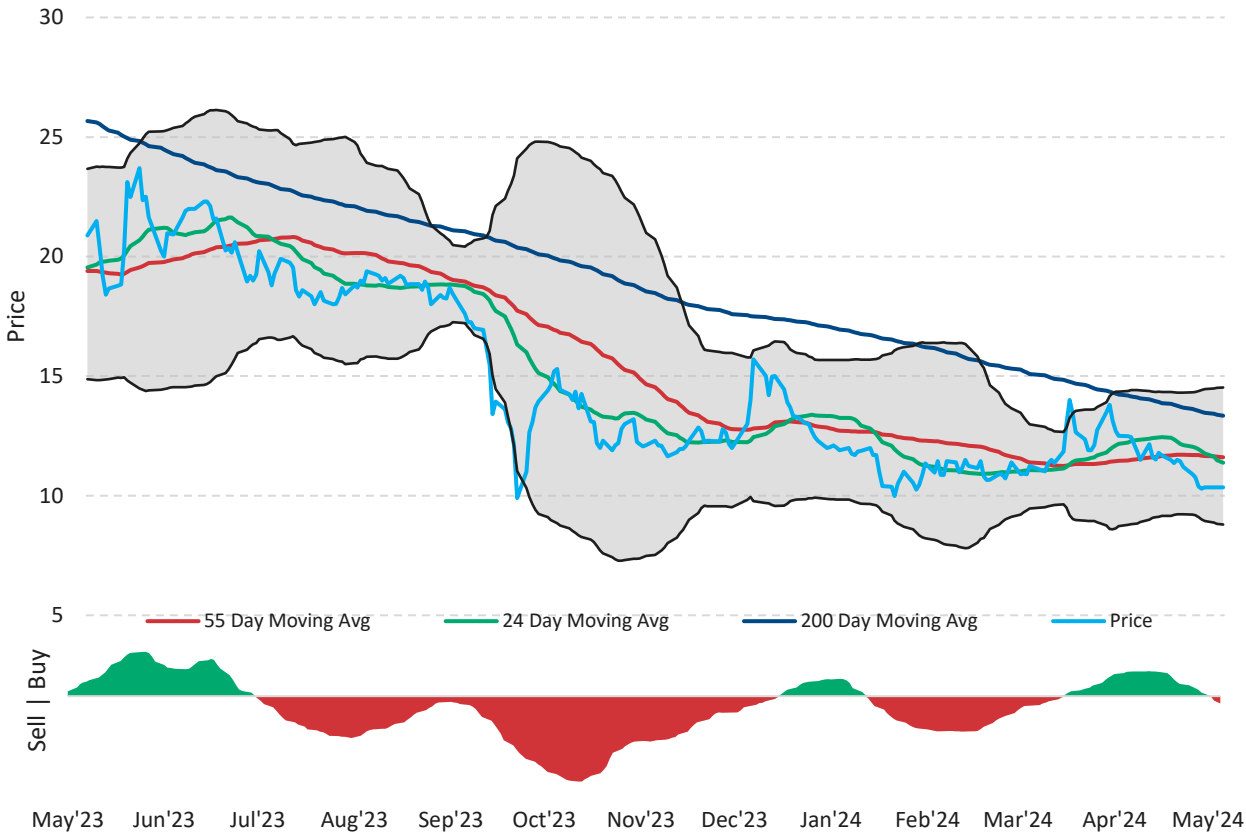


Source: FactSet (limited analyst coverage – no coverage from September 2023 to February 2024)



Graph 10: Price momentum

Last: 10.35 | Bollinger Bands: (50,3) [Upper/Lower]: 14.53/8.8



Source: FactSet



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