Renergen Limited

Energy

Company Update Report

Sell

Expenses continue to outpace revenue as part of the early life cycle phase

Analyst recommendation

Counter	Share price	Intrinsic value	Upside/(downside)
REN-ZA	R8.42	R7.8	(7%)

As at 28 November 2024

Executive summary

Renergen released its financial statements for the six months ended 31 August 2024 on 31 October 2024. We note the below highlights and remaining concerns:

1. Even though revenue increased by 8%, losses for the period increased by 63%. This is due to expenses ramping up quicker due to less capitalisation and increases relating to higher operational activities.
2. There were 2 388 tonnes of LNG produced during the period, in line to the 2 386 tonnes produced in 1H24. Delivering its first container of helium to its customer remaining a key priority for management.
3. 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. However, we are pleased to see that Standard Bank of South Africa was appointed as a joint underwriter of the Nasdaq IPO indicating some potential progress being made.

   We maintain our intrinsic value at R7.8 as the one year of discounting was offset by us extending our forecast by a year due to the delays.

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. Growth could potentially benefit from higher gas prices relating to risks of gas shortages in South Africa.
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 obtaining the required funding and reaching production volume guidance.

Financial results

Table 1: 1H25 results summary

Metric (R'000)	1H24	1H25	Y/Y %
Revenue	23 757	25 609	7.8
Gross profit/loss	10 760	882	-91.8
Other operating income	150	16 383	>100
Share-based payments expense	-4 622	-1 748	-62.2
Other operating expenses	-67 428	-80 643	19.6
Interest income	4 888	5 450	11.5
Interest expense and imputed interest	-8 892	-25 198	>100
Loss for the period	-43 504	-70 713	62.5
Cash used in operating activities	-12 974	-42 549	>100
Cash flows used in investing activities	-169 688	-91 696	-46.0
Proceeds from share issue	32 581	0	-100.0
Proceeds from disposals of interests in subsidiaries	0	0	-
Proceeds from borrowings	373 972	177 973	-52.4
Repayment of borrowings (capital)	-58 653	-348 720	>100
Loss per share (cents)	-29.91	-45.73	52.9

Source: Company financials

Half-year results commentary

Results were mainly characterised by the reduction in gross profit, higher other operating costs arising from commissioning of the helium system using utilities and power while not generating associated revenue and higher interest expenses.

LNG production during the period totalled 2 388 tonnes relative to 2 386 tonnes in the prior comparative period, resulting in a revenue increase of 8%, mainly reflecting the impact of LNG price increases.

The commissioning of additional assets led to an increase in the cost of sales, which negatively impacted gross profit.

Other operating expenses increased due to:

- Employee costs increased by R11.1 million.
- Deprecation increased by R8.6 million.
- Professional fees increased by R2.9 million.
- Insurance costs increased by R2.1 million.
- Repairs and maintenance increased by R1.6 million.
- Prior period had net foreign exchange losses of R9.1 million which was included in other operating expenses compared to the current period gains of R16.3 million which were classified as other operating income.

Interest expense increased by R16.3 million due to the change from capitalising it on the balance sheet to expensing it on the income statement.

Source: Company financials

Phases and exploration

Phase 1

LNG

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

The plant was running at approximately 35% nameplate capacity. Production fluctuated due to commissioning activities and maintenance issues. Overall, production remained relatively unchanged compared to the same period in the previous year.

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. The plant commenced LHe again on 19 July 2024 to utilise the output to cool the vacuum jacketed pipelines and the inline helium storage tank as a prerequisite. Delivering its first container of liquid helium to its customer remains a key priority.

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. Renergen'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.

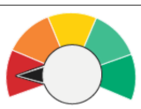
(iv) Long-term base LNG price of approximately R250 per gigajoule.

(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 -7%.
Dividend yield		Renergen does not pay any dividends.
Issuance		Shares increased by 69% from 2019 to 2024 with further issuance expected.
Catalyst	• Material increases in LNG and LHe prices. • 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. • Signing significant beneficial customer contracts.	
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 contains an accumulated loss of R21 million. Debt to total assets is 49%. Due to current loss-making position does not have a meaningful coverage ratios.

Risks		• Operational and execution on new developments risk. • Ownership dilution. • Unsuccessful capital raising which further raises a going concern risk as highlighted in the audit opinion. • Inflation risk on capex. • Energy prices and exchange rates. • Maintaining debt covenants. • Clarity on jurisdiction of NERSA still to be obtained from high court. • Valuation and completeness on rehabilitation provision. • 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. • Could become an acquisition target.
Regulation		Regulation is slightly elevated due to regulation around energy and the environment that could impact Renergen.
ESG		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.
Momentum price		Price momentum is negative.
Momentum earnings		In the last three months, losses for the next financial year have been revised upwards by 55.7%.
Piotroski score		Renergen has a Piotroski score of 3 out of 9.

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 2024 multiple of 2.5x 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	-5%	60%
Bull	R30	258%	10%
Weighted	R7.8	-7%	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

2029E EBITDA (R billion)	4.7
EBITDA multiple (x)	4.0
2028E enterprise value (R billion)	18.7
2028E estimated debt (R billion)	-11.8
2028E estimated net cash (R billion)	1.7
2028E equity value (R billion)	8.6
2028E shares outstanding (billion)	0.5
2028E 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	2028E	2029E
LNG production (mcf)	11 551 414	11 551 414
LNG rate (ZAR/mcf)	200	200
LNG revenue (R'000)	2 310 283	2 310 283
LHe production (mcf)	230 419	318 665
LHe rate (ZAR/mcf)	10 076	10 377
LHe revenue (R'000)	2 321 721	3 306 894
10% sold to the MGE (R'000)	-463 200	-561 718
Total revenue (R'000)	4 168 803	5 055 459
EBITDA (R'000)	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:

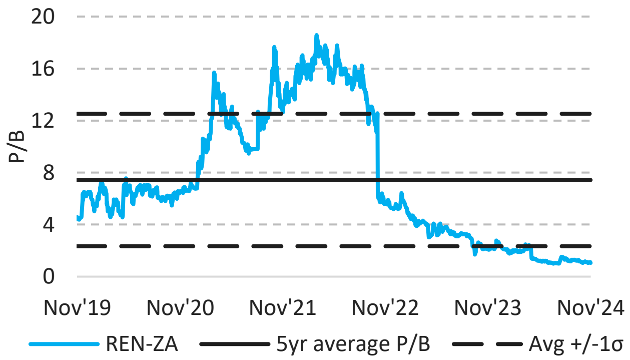
- We used managements production volume guidance which we then applied a 90% run rate. Due to the delays we extended our original forecasts for operation to reach target capacity by one year from FY28 to FY29.
- Revenue was reduced by 10% as part of the aimed R1 billion funding in exchange for the sale 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/$.
- The impact of future funding.

Table 6: Company data

52-week high	R17.06
52-week low	R7.75
Market value (bn)	R1.2
Price momentum	Negative
3m earnings revision (losses)*	55.7%
Fiscal year end	2025/02/28

Source: FactSet (limited FactSet analyst coverage)
*increase represents the increase in losses

Graph 1: Price to book



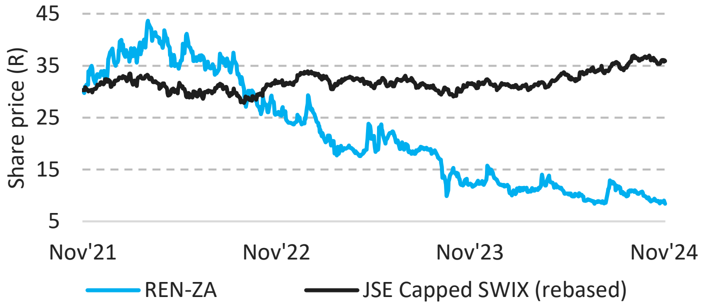
Source: FactSet

Table 7: Valuation multiples

Multiple	*Latest:*	*Last note:*
	Nov-2024	May-2024
P/S	40.3x	52.5x
P/B	1.1x	1.2x
EV/EBITDA	22.6x	29.1x
EV/EBIT	2927.6x	155.6x
EV/SALES	7.2x	9.2x
Dividend yield	0%	0%

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	-46.4%	-6.3%	-26.2%	-18.6%	-30.4%	-67.2%	-72.2%	-15.7%	-
JSE Capped SWIX	10.7%	-0.3%	1.1%	8.4%	13.7%	13.0%	24.1%	39.1%	38.7%

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*		

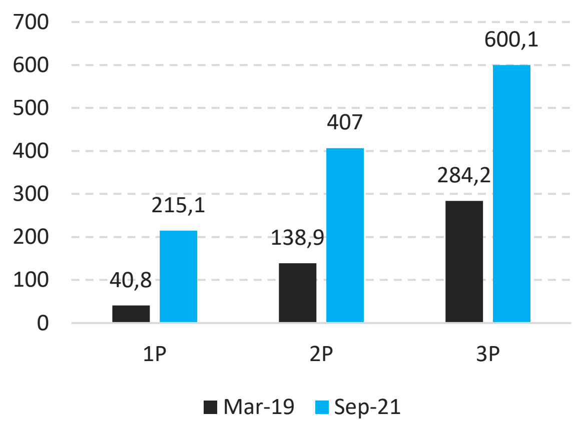
Balance sheet and cash flow (ZAR bn)	2019	2020	2021	2022	2023	2024		5Yr CAGR
Cash from operations	-36.9	-37.5	-24.5	-79.2	-70.6	-53.9		7.9%
Cash from investing activities	-13.3	-315.8	-196.3	-307.0	-440.8	-303.7		86.8%
Cash flow from financing activities	145.1	411.3	213.8	347.2	470.9	773.7		39.8%
Total 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

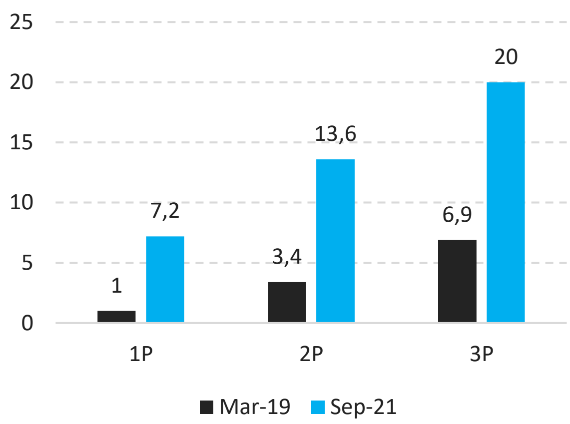
Total liabilities to assets (%)	27.0	60.5	73.5	75.4	55.8	51.2		63.3
ROA (%)	-24.1	-12.3	-5.9	-3.2	-1.6	-4.3		-5.4
ROE (%)	-31.2	-24.6	-18.8	-13.7	-4.7	-10.6		-14.5

Source: FactSet

Graph 3: Methane reserves (billion cubic feet)



Graph 4: Helium reserves (billion cubic feet)



1P: proven reserves

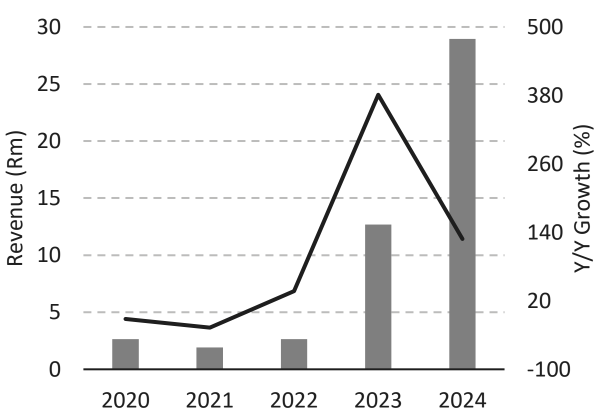
2P: 1P + probable reserves

3P: 2P + possible reserves

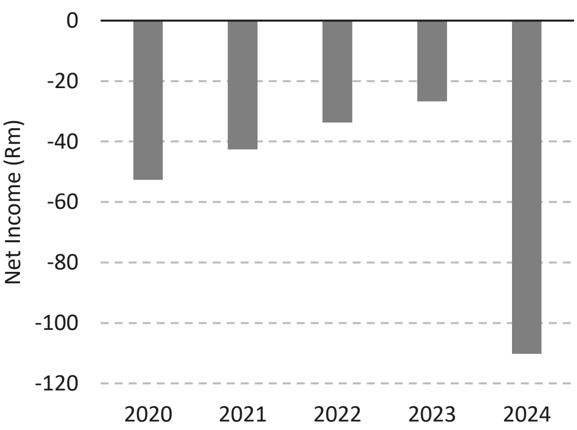
Source: 2022 company presentation

Source: 2022 company presentation

Graph 5: Revenue



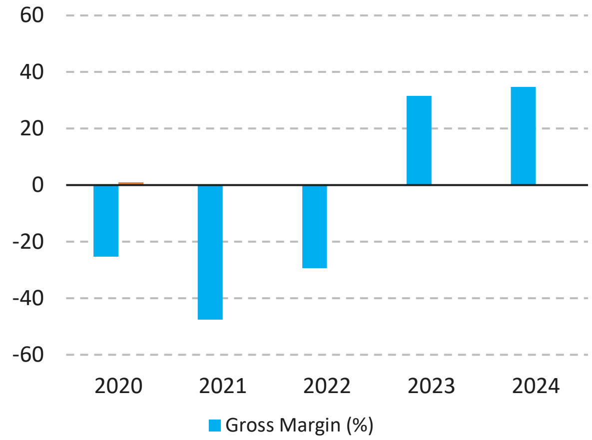
Graph 6: Annual net income



Source: FactSet

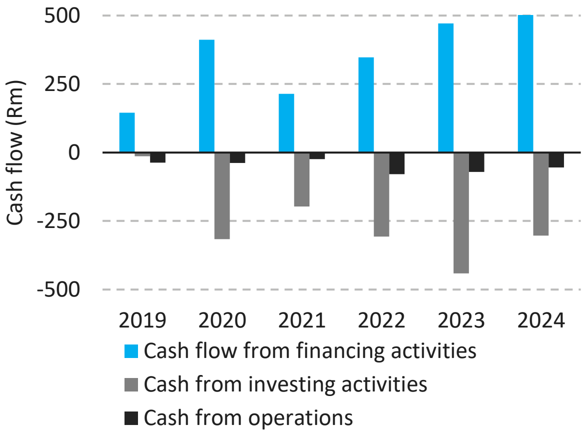
Source: FactSet

Graph 7: Gross margins



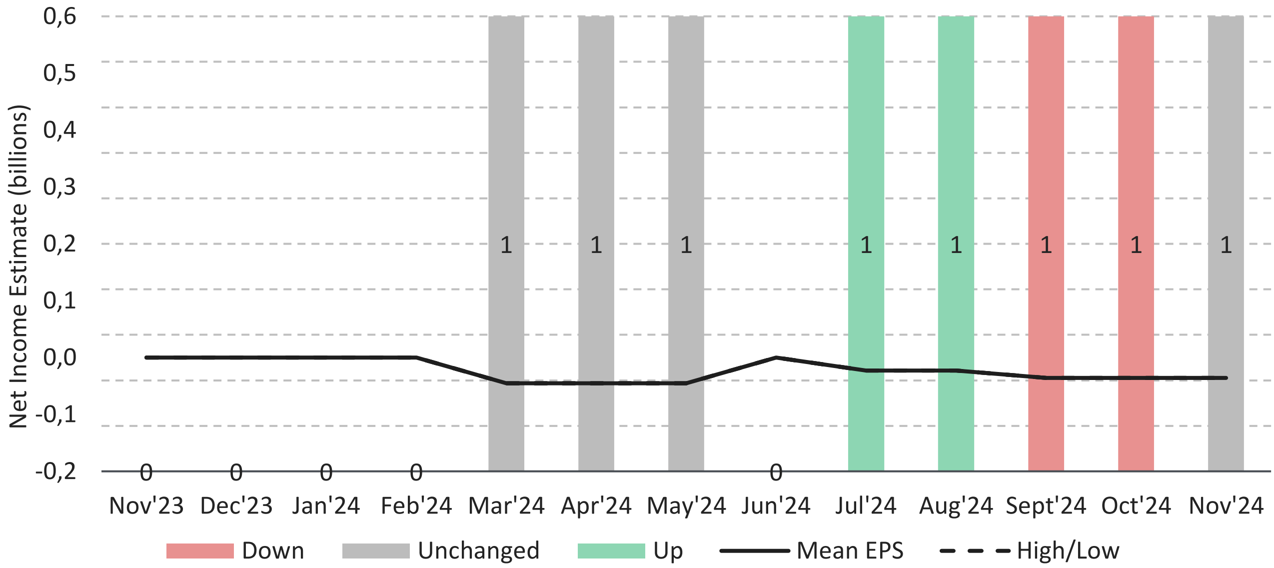
Source: FactSet

Graph 8: Free cash flow



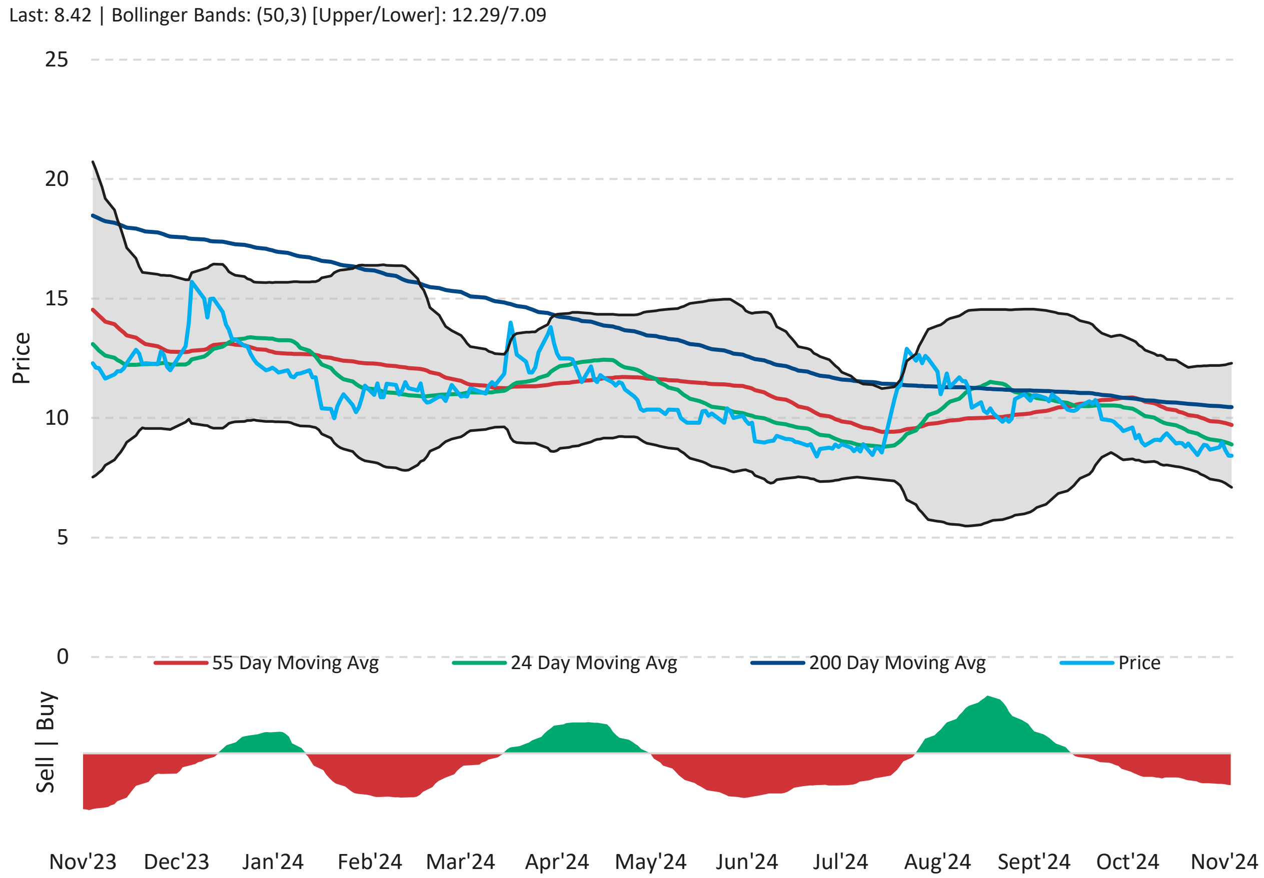
Source: FactSet

Graph 9: Earnings revision



Source: FactSet (limited analyst coverage)

Graph 10: Price momentum



Source: FactSet

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*Share price as at closing.

Analyst certification

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