EDISON

Renergen

ASX listing expected as funding is confirmed

Funding update

Oil & gas

2018 activity was slower than planned for Renergen as its expected funding of the Virginia LNG/helium project in South Africa was delayed due to a long period of economic and political volatility. However, with a recently completed rights issue that unlocks a pre-agreed debt facility, Renergen can now start to order key equipment. The macro environment is more favourable, with helium prices potentially higher after the cessation of public auctions of the US strategic helium reserve. Longer term, Renergen is looking to the Australian markets for additional share liquidity, with an Australian Stock Exchange (ASX) dual listing planned for 2019.

Year end	Revenue (ZARm)	Adjusted EBITDA (ZARm)	Reported net income (ZARm)	Net (debt)/ cash (ZARm)	Cash from operations (ZARm)	Capex (ZARm)
02/17	2	(22)	(19)	12	(23)	(21)
02/18	3	(27)	(41)	3	(18)	(14)
02/19e	4	(35)	(41)	5	(31)	(107)
02/20e	27	(37)	(26)	(192)	(20)	(296)

Note: EBITDA normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Funding critical to getting project back on track

Funding uncertainty in 2018 has delayed ordering of long-lead items by c eight months vs our previous assumptions. However, the ZAR125m rights issue (c US$9m) has now closed, and this unlocks a pre-agreed ZAR218m debt facility. We estimate that to complete the Virginia project, Renergen will require c ZAR120m of additional funding, which we expect to come from a dual-listing on the ASX in 2019.

Project increasingly makes sense within SA context

Renergen's Virginia project is seeking to substitute polluting diesel with liquefied natural gas (LNG) for a growing fleet of heavy-duty trucks in South Africa. The rationale for this appears to be increasingly compelling as end users seek to avoid increasing fuel costs at the pump, while domestic environmental legislation is likely to progressively favour cleaner fuels such as natural gas.

Helium macro environment potential upside

From a macro perspective, the main change in 2018 was the final auction from the US strategic helium reserve. This achieved prices of US$280/mcf and should underpin further price support for helium, although the market remains opaque and difficult to forecast. We embed an increase in helium prices from US$200/mcf to US$280/mcf in our valuation models.

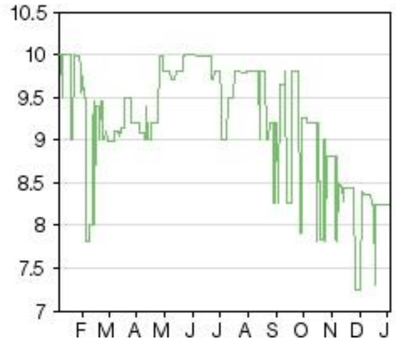
Valuation: Increased to ZAR21.8/share

Our core NAV at a 15% discount rate increases from ZAR19/share to ZAR21.8/share, mainly as a result of the increased helium price assumptions and further weakness in the rand (it would have fallen to ZAR16.6/share without these adjustments). Offsetting this is more equity dilution than we had previously planned, additional costs of the rights issue and delays to the ramp-up of LNG/helium production.

4 January 2019

Price	**ZAR8.24**
Market cap	**ZAR825m**
	US$/ZAR=14.0
Net cash (ZARm) at 31 August 2018	6
Shares in issue	100.1m
Free float	27%
Code	RENJ
Primary exchange	JSE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.8)	(9.2)	(16.0)
Rel (local)	(1.0)	(3.1)	(3.0)
52-week high/low		ZAR9.8	ZAR7.2

Business description

Renergen is an integrated alternative and renewable energy business that invests in early-stage alternative energy projects across Africa and emerging markets.

Next events

Debt facility drawdown	Q119
ASX listing	2019
LNG production start	H219

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Some slippage but project now moving forward

When we initiated on Renergen in March 2018 we expected the company to raise equity in Q218 to kick-start the placing of orders for its Tetra4 LNG/helium Virginia project. This would also start a gradual ramp-up in drilling from initially two wells per month in mid-2018 to six wells per month over a two-year period.

However, due to a period of significant economic and political volatility in South Africa, this fundraise has been delayed by six months. To overcome this the company has put in place an alternative funding package of a recently completed and fully underwritten rights issue that will be followed by a planned listing on the ASX in 2019.

Funding details

Renergen has issued 16.667m new shares via a fully underwritten rights issue (19.96747 rights shares for every 100 ordinary shares held) at ZAR7.5 per share, raising ZAR125m. In total, 14.85% of the rights were taken up by existing holders (55% of the pre-rights issue free float), with the balance taken up by Mazi Asset Management Property.

The rights issue was priced at a 9% discount to the 30-day volume-weighted average price; hence although the take up of the rights from existing holders is somewhat disappointing, the underwriting take up is not overly dilutive for investors. Following the finalisation of the rights offer, Mazi will hold 24.76% of Renergen's share capital.

In combination with previous equity issues, the rights issue also satisfies the minimum equity raise required to unlock a previously agreed ZAR218m debt facility with the Industrial Development Corporation. The combination of the equity and debt we estimate will fund Renergen for all its Virginia development costs for the next 12 months.

To meet Renergen's intended production ramp-up (including Edison assumptions), we estimate an additional ZAR120m of funding will be required. Renergen plans to list on the ASX in 2019 and we would expect some or all of the remaining equity required to be raised in this new market (Renergen has indicated it expects to raise a minimum ZAR50m on listing on the ASX).

ASX listing makes sense to increase liquidity

To give it more certainty over equity markets, Renergen has decided to look beyond its current JSE listing and has announced its intention to list on the ASX in 2019. The ASX listing makes sense, given the depth of the equity markets and familiarity with oil and gas investments.

Australia will also have some awareness of the helium opportunity; in January 2018 the private company Helium One, with an early-stage helium project in Tanzania, announced its intention to list on the ASX. However, there have been no further details on this to date.

Potential upside from both LNG and helium pricing

Renergen is seeking to ramp up production from its Virginia project at a time when there could be increasing prices for both LNG and helium in the South African domestic market.

LNG

LNG could become an increasingly attractive option for South African customers, both from an economic and a regulatory perspective. Until the recent drop in crude, fuel prices in South Africa were on a steady rise during 2018, with 93 octane unleaded fuel increasing from ZAR14.2 in January to ZAR16.8 in November. This was driven by a combination of increasing global oil prices and currency weakness (the rand weakened c 9% against the US dollar across the same period). This is sharpening the business case for Renergen's target audience of heavy-duty truck owners to find alternative fuel options.

Coupled with this is an increase in pressure on corporate sustainability and more demanding climate-change policies as noted in Renergen's most recent financial results. This is also likely to increase interest in customers moving away from traditional fossil fuels to cleaner fuels such as natural gas.

Helium

The year 2018 has been a landmark for helium markets with the final auction of the US strategic reserve to the private sector. The clamour for the last parcels to be released by the Bureau of Land Management (BLM) drove the auction price up 135% compared to the previous year to $280/mcf for Grade-A (or 99.99% purity helium). This contrasts with our previous long-term assumption for helium of $200/mcf in our initiation note.

Longer term the helium market remains opaque, largely because of the lack of clarity around global supply. Demand growth is likely to be relatively price inelastic (as shown by the BLM auction despite relatively loose current supply/demand dynamics) and any interruptions or delays are likely to only put upward pressure on prices. We have increased our long-term helium price assumptions to reflect this (see below).

Valuation and project assumptions

We assume a number of changes from our previous modelling of Renergen to reflect the following:

- We push back our ramp up of the Virginia project by 12 months. This reflects the delay in funding of long-lead items by c six to eight months and an additional contingency given the company needs to navigate an ASX listing in 2019 and progress its flagship project.
- We increase our base-case helium assumption from $200/mcf to $280/mcf in line with the most recent (and final) BLM auction. As discussed previously this is a crude assumption and there could be further volatility with helium prices for which we provide a sensitivity analysis in Exhibit 2.
- We include the ZAR125m rights issue at ZAR7.5/share (we previously assumed this would be raised at a 10% discount to the prevailing share price of ZAR9/share). The additional equity we believe is required to maintain reasonable project progress (ZAR120m) we assume is raised at around the current share price (ZAR8.25/share) less a 10% discount. The result of these various issuances is additional dilution in our model (ultimate share count increases from 107.9m to 116.3m).
- We move our long-term US dollar/rand exchange rate from 12 to 14 (reflecting the FX movement during 2018).

Based on the above assumptions, our core NAV at a 15% discount rate for Renergen moves from ZAR19.0/share to ZAR21.8/share, as shown in Exhibit 1.

Exhibit 1: Renergen valuation – diluted reflecting expected outstanding equity funding

Fully diluted share capital (post equity raises)		116.3m		Recoverable reserves		NPV/mcf	Risked	Value per share (risked)		
Asset	Country	Diluted WI	CoS	Gross	Net		NAV	ZAR/share		
		%	%	bcf	bcf	$/mcf	US$m	discount rate		
								15.0%	12.5%	10.0%
Net (debt)/cash - end August 2018		100%	100%				0.4	0.1	0.1	0.1
SG&A - NPV10 of three years		100%	100%				(6)	(0.8)	(0.8)	(0.8)
Equity raising of ZAR245m		100%	100%				18	2.2	2.2	2.2
Production/development										
Virginia	South Africa	90%	70%	144.8	130.4	1.9	169	20.4	28.1	39.1
Core NAV							**181**	**21.8**	**29.5**	**40.6**

Source: Edison Investment Research. Note: *Chance of success (CoS) only reflects development uncertainty. NPV models contain assumption that only 60% of drilled wells will be economic, reflecting geological risk.

The main positive drivers for the valuation increase are the higher helium price and the higher assumed US dollar/rand exchange rate. Both have a profound effect on valuation as shown in the sensitivity table (Exhibit 2). With our previous assumptions of $200/mcf helium and US$/ZAR12 our core NAV would have been ZAR16.6, a 13% reduction from our previous valuation.

Exhibit 2: Core NAV sensitivity to exchange rates and helium prices

	Helium price ($/mcf)						
US$:ZAR	**160**	**200**	**240**	**280**	**320**	**360**	**400**
10	13.0	13.9	14.8	15.7	16.6	17.5	18.4
11	14.3	15.3	16.2	17.2	18.2	19.2	20.2
12	15.5	**16.6**	17.7	18.8	19.8	20.9	22.0
13	16.8	18.0	19.1	20.3	21.5	22.6	23.8
14	18.1	19.3	20.6	**21.8**	23.1	24.3	25.6
15	19.3	20.7	22.0	23.4	24.7	26.1	27.4
16	20.6	22.0	23.5	24.9	26.3	27.8	29.2

Source: Edison Investment Research

Financials: Additional funding still required

Our financial forecasts include both the ZAR125m rights issue and ZAR218m debt issuance in the current financial year ending February 2019.

The rights issue was largely taken up by the underwriter, Mazi Asset Management Property (85.15% of the ZAR125m) which represents a potential overhang for investors in the near term. Mazi had not entered into any lock-in agreements associated with the rights issue. However, we understand it has allocated the shareholding to its long-term portfolio and indicated to Renergen management that it intends to hold its stake for a number of years. The underwritten portion of the rights issue carried a fee of 5%, amounting (with costs) to an additional ZAR6.2m of costs to Renergen (over and above the c 9% discount to the prevailing 90-day VWAP). As a result of the rights issue, Mazi had the right to nominate a director to the Renergen board (Francois Oliveir was appointed in November).

Beyond this financial year, we estimate that to maintain a reasonable degree of progress with the Virginia development Renergen will require an additional c ZAR120m of funding, which we assume to be equity, in the financial year ending February 2020.

Exhibit 3: Financial summary

Accounts: IFRS, Year-end: February, ZAR000s	2016	2017	2018	2019e	2020e	2021e	2022e
INCOME STATEMENT							
Total revenues	0	1,722	2,885	3,506	26,785	122,415	289,014
Cost of sales	0	(2,127)	(3,483)	(3,246)	(28,058)	(34,357)	(44,823)
Gross profit	0	(405)	(598)	260	(1,273)	88,059	244,191
SG&A (expenses)	(17,889)	(21,589)	(31,050)	(35,710)	(35,710)	(35,710)	(35,710)
R&D costs	0	0	0	0	0	0	0
Other income/(expense)	0	0	4,708	0	0	0	0
Exceptionals and adjustments	(1,518)	0	(12,359)	(1,654)	(3,000)	(3,000)	(3,000)
Depreciation and amortisation	(88)	(1,025)	(803)	(1,967)	(3,044)	(13,544)	(31,129)
Reported EBIT	(19,495)	(23,019)	(40,102)	(39,071)	(43,027)	35,804	174,352
Finance income/(expense)	2,942	1,279	597	336	16,576	1,807	2,336
Other income/(expense)	0	0	0	0	0	0	0
Exceptionals and adjustments	(2,946)	(3,156)	(3,532)	(1,931)	0	0	0
Reported PBT	(19,499)	(24,896)	(43,037)	(40,666)	(26,451)	37,612	176,688
Income tax expense (includes exceptionals)	0	6,234	2,436	0	0	(20,120)	(60,529)
Reported net income	(19,499)	(18,662)	(40,601)	(40,666)	(26,451)	17,492	116,159
Basic average number of shares, m	53	78	80	87	116	116	116
Basic EPS	(0.4)	(0.2)	(0.5)	(0.5)	(0.2)	0.2	1.0
Adjusted EBITDA	(17,889)	(21,994)	(26,940)	(35,450)	(36,983)	52,349	208,481
Adjusted EBIT	(17,977)	(23,019)	(27,743)	(37,417)	(40,027)	38,804	177,352
Adjusted PBT	(15,035)	(21,740)	(27,146)	(37,081)	(23,451)	40,612	179,688
Adjusted EPS	(0.3)	(0.2)	(0.3)	(0.4)	(0.2)	0.2	1.0
Adjusted diluted EPS	(0.3)	(0.2)	(0.3)	(0.4)	(0.2)	0.2	1.0
BALANCE SHEET							
Property, plant and equipment	7,145	21,756	32,615	135,913	429,221	465,000	509,706
Goodwill	0	0	0	0	0	0	0
Intangible assets	61,504	75,453	65,838	67,765	67,765	67,765	67,765
Other non-current assets	0	6,234	10,303	12,699	12,699	12,699	12,699
Total non-current assets	68,649	103,443	108,756	216,377	509,685	545,464	590,170
Cash and equivalents	41,721	12,401	3,037	222,786	26,028	10,741	85,194
Inventories	0	0	0	0	0	0	0
Trade and other receivables	4,134	8,933	2,459	3,084	3,084	3,084	3,084
Other current assets	6,503	0	0	0	0	0	0
Total current assets	52,358	21,334	5,496	225,870	29,112	13,825	88,278
Non-current loans and borrowings	0	0	0	218,000	218,000	218,000	218,000
Other non-current liabilities	26,612	30,113	34,156	29,689	29,689	29,689	29,689
Total non-current liabilities	26,612	30,113	34,156	247,689	247,689	247,689	247,689
Trade and other payables	3,490	5,503	11,433	16,885	16,885	16,885	16,885
Current loans and borrowings	0	0	0	0	0	0	0
Other current liabilities	0	0	0	0	0	0	0
Total current liabilities	3,490	5,503	11,433	16,885	16,885	16,885	16,885
Equity attributable to company	98,828	98,423	80,948	191,417	287,967	308,459	427,618
Non-controlling interest	(7,923)	(9,262)	(12,285)	(13,744)	(13,744)	(13,744)	(13,744)
CASH FLOW STATEMENT							
Profit before tax	(19,499)	(24,896)	(43,037)	(39,180)	(26,451)	37,612	176,688
Net finance expenses	(2,942)	(1,279)	(597)	(336)	(16,576)	(1,807)	(2,336)
Depreciation and amortisation	88	1,841	2,822	1,967	3,044	13,544	31,129
Share based payments	1,518	0	114	1,500	3,000	3,000	3,000
Other adjustments	5,921	4,453	10,169	2,267	16,576	1,807	2,336
Movements in working capital	(6,266)	(3,254)	12,090	4,827	0	0	0
Interest paid / received	0	0	0	0	0	0	0
Income taxes paid	0	0	0	(2,153)	0	(20,120)	(60,529)
Cash from operations (CFO)	(21,180)	(23,135)	(18,439)	(31,108)	(20,407)	34,036	150,288
Capex	49,512	(20,714)	(13,861)	(107,396)	(296,351)	(49,323)	(75,835)
Acquisitions & disposals net	0	0	0	0	0	0	0
Other investing activities	0	0	0	0	0	0	0
Cash used in investing activities (CFIA)	49,512	(20,714)	(13,861)	(107,396)	(296,351)	(49,323)	(75,835)
Net proceeds from issue of shares	72,957	13,427	23,480	146,536	120,000	0	0
Movements in debt	0	0	0	218,000	0	0	0
Dividends paid	0	0	0	0	0	0	0
Other financing activities	(60,186)	1,102	558	(6,283)	0	0	0
Cash from financing activities (CFF)	12,771	14,529	24,038	358,253	120,000	0	0
Increase/(decrease) in cash and equivalents	41,103	(29,320)	(8,262)	219,749	(196,758)	(15,287)	74,453
Cash and equivalents at end of period	41,721	12,401	3,037	222,786	26,028	10,741	85,194
Net (debt)/cash	41,721	12,401	3,037	4,786	(191,972)	(207,259)	(132,806)
Movement in net (debt)/cash over period	41,721	(29,320)	(9,364)	1,749	(196,758)	(15,287)	74,453

Source: Company data, Edison Investment Research

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