



March 14th 2022

Renergen

Update; billionaire investor + global helium shortage all power company

RENERGEN



Open	3,990.00	Mkt cap	4,978 ZAR	52-wk high	4,200.00
High	4,122.00	PE ratio	-	52-wk low	1,550.00
Low	3,978.00	Div yield	-		

7-day chg	-1.5%
30-day chg	+2.9%
90-day chg	+9.7%
6 months chg	+79.9%
1-year chg	+84.4%
Year to date chg	+11.8%

JSE: REN Price : R39.89 cents Mcap: R4,944m 52wk high/low : 4200C / 2174C

It was mid-January 2021 when I selected alternative energy company, the dual listed Australian & Johannesburg counter Renergen, to be my "wild card" stock for the year. The price was R13.00 the time of selection. At the close of 2021, Renergen was trading at R33.90 a share giving a return for the period of +161%.

It was only in late-2020 that I had confidence that the risk metrics in recommending the stock had crossed my own threshold as I was of the belief the stock would quickly move in 2021 from being a speculative exploration stock, to one moving rapidly to commercialisation. That was indeed the scenario, as a slew of corporate updates in 2021 indicated and latterly 2022 have indicated.

During 2021, not only has Virginia Phase 1 (VP1) been commissioned pretty much near to time & budget, but a series of offtake agreements for the production of LNG and helium have been undertaken. This secures a revenue stream and de-risked to a certain extent the project.

The November update on the methane and helium reserves, the first since March 2019, saw the 1P methane reserves increase 427% and the helium 1p by 620%. But the US\$800-US\$900 million capex demand for VP2 remained. How would that be funded?

In early-January 2022, I again selected Renergen as my "wild card" stock despite a strong run in 2021 and speculated on its near-term corporate trajectory. That price then was a R33.79. Today, Renergen is trading as I write is trading at R39.89.

Overnight I reported on my #Twitter feed @smalltalkdaily that the Australian Stock Exchange had halted trading in Renergen. In a separate missive by Renergen's sponsor, they stated that was "pending an announcement relating to the Company concluding an investment by a strategic global partner. The investment by the partner will significantly de-risk the Phase 2 project".

That came at 8.00am on SENS when Robert Friedland an American/Canadian billionaire financier in the mining industry, stated his listed Ivanhoe Mining vehicle was taking an initial equity stake in Renergen with options to increase this to US\$250 million (R3,8 billion). Since the early 1980's, Friedland has specialized in securing funding for the exploration and development of mineral and energy resources and technology ventures.



Anthony Clark

Financial & Industrial Small & Medium Market Cap Analyst
Food Producers & Agriculture Analyst
+27 (083) 300 7009
anthonyc@smalltalkdaily.net

Follow me on Twitter @SmallTalkDaily



This morning on SENS, Renergen in a detailed announcement stated that global commodities investor, billionaire Robert Friedland via his Canadian-listed entity the C\$13 billion valued Ivanhoe Mining, would take an initial 4.35% stake (5,631,787 shares) stake in Renergen at an equivalent price of A\$3.24 equal to a 5% discount to the 30-day VWAP.

The Rand equivalent price is R35.625 a share to raise an initial R200.6 million or A\$18.3 million or US\$13.3 million.

https://www.moneyweb.co.za/mny_sens/renergen-limited-renergen-progresses-funding-for-phase-2-helium-lng-development-with-initial-placement-and-complementary-strategic-pa/

Renergen closed last Friday on the ASX at A\$3.30 a share or R37.78 on the JSE.

This may seem a small initial stake, however, there is a much bigger endeavour behind this initial touch point.

Ivanhoe has given an undertaking to elect to provide equity funding up to US\$250 million at a discount of 10% to 30-day VWAP as the ultimate runway.

The first phase was the 4.35% direct stake, the second subscription paves the way for a stake in Renergen up to 25%, again at a 10% discount to the 30-day VWAP with the ultimate shareholding stake in Renergen increasing to 55% given equity funding options.

Ivanhoe Mining will become a strategic investor in Renergen and possibly its largest shareholder. I wonder what the investment community (who have backed and piccy-backed Friedland) will make of his new endeavour and (if) this will now see further interest from other global investors towards Renergen?

At a stroke of a pen, or legal contract, a once small exploration venture in the Free State which is now entering its commercial production phase via Virginia Phase 1 (VP1) project has attracted the interest of a well-known global investor in early-stage commodity investment with a Rolodex of contacts and investors to die for.

Renergen is now firmly placed on a global investment stage not one limited to the Johannesburg and Australian stock exchanges.

Renergen, without any form of disrespect to the works done by the current management team by this analyst, has literally been legitimised by Friedland and Ivanhoe placing a global spotlight on the capabilities of the projects and annualised potential for the production of liquid natural gas (LNG) and more importantly helium.

This is now world-class (not) local is lekker.

Virginia phase 2 (VP2) was estimated by the company to have a capex of between US\$800 million to US\$900 million.

I understood this would be financed by a 30% equity portion and the balance with debt mechanisms as well as some cash flow from the production from VP1. The former now seems to be a 'done deal' and the stock is rallying given the Ivanhoe announcement.

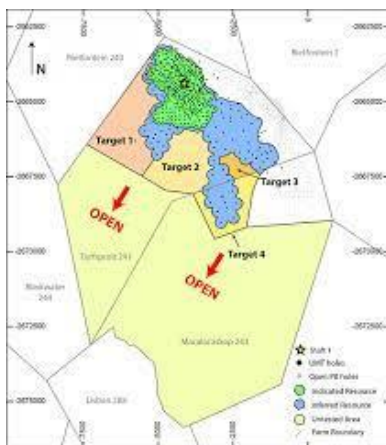
With varying supply contracts in place for delivery in 2024/25 for Renergen's much-larger expected production from VP2 of helium and LNG, there was a need to get a funding mechanism in place to start a project that will be ten times larger than VP1 and may even see additional expansion (if) demand for the gases exceeds initial estimates.



Given the time zones, I'd wager that later this afternoon when the NYSE and Toronto Stock Exchanges open, Ivanhoe Mining will itself have to issue an update to shareholders and investors on its investment commitment in Renergen.

Ivanhoe has material interests in Africa, especially in the DRC, but within South Africa (via a swift Google search) it operates a platereef mine in the Bushveld where it intends to mine for palladium, rhodium, nickel, platinum, copper and gold.

Ivanhoe Mines indirectly owns 64% of the Platreef Project through its subsidiary, Ivanplats, and is directing all mine development work. The South African beneficiaries of the approved broad-based, black economic empowerment structure have a 26% stake in the Platreef Project. The remaining 10% is owned by a Japanese consortium of ITOCHU Corporation; Japan Oil, Gas and Metals National Corporation; and Japan Gas Corporation.



Key features of the Platreef DFS include:

- Indicated Mineral Resources contain an estimated 41.9 million ounces of platinum, palladium, rhodium and gold with an additional 52.8 million ounces of platinum, palladium, rhodium and gold in Inferred Resources.
- Enhanced Mineral Reserve containing 17.6 million ounces of platinum, palladium, rhodium and gold – an increase of 13% – following stope optimization and mine sequencing work.

- Development of a large, safe, mechanized, underground mine with an initial four Mtpa concentrator and associated infrastructure.
- Planned initial average annual production rate of 476,000 ounces (oz.) of platinum, palladium, rhodium and gold (3PE+Au), plus 21 million pounds of nickel and 13 million pounds of copper.
- Estimated pre-production capital requirement of approximately US\$1.5 billion



With global investment concerns regarding mining and as well as the ESG considerations, this analyst speculates if part of the interest in Renergen by Ivanhoe is the ability for Renergen to supply a cleaner, lower carbon footprint fuel (LNG) to assist in the power generation of its domestic mines alongside the already considered renewable energy sources?

This would 'green' the Platreef operation as well as mitigate the material energy supply risk from a faltering Eskom.

Should Ivanhoe become a material purchaser of LNG from Renergen's VP2, given the supply agreements already signed with Consol Glass and Italtile, such a move would give further security and de-risk the Virginia entire project above and beyond the short-term funding demands.

A long-term supply agreement, should it be a consideration, would be a cherry on the investment cake.

Overall

- ✓ Investment by strategic investor
- ✓ Equity funding of VP2 secured
- ✓ Current global helium demand curtailed due to major supply issues; Renergen waits to come onstream.



I turned positive on Renergen in January 2021 after many years of watching the company from afar.

I was awaiting the inflection point where I believed it was emerging from its pupa of being a speculative exploration stock, to one where it would chrysalis to a commercial operating entity. That was 2021 in my mind and that has transpired.

As an analyst that has had his eye on Renergen for some years and with a far closer stance since December 2020, this latest news event from Renergen regards a strategic investor is further evidence of the viability and de-risking of the project.

One of the market's main concerns regards VP2 was how the project would be funded? With the injection of Ivanhoe investment and any additional spin-off deals, a substantial proportion of the initial capex has been raised without the need of a series of highly dilutive rights issues to existing shareholders.

Yes, there will be dilution, but at a stroke of a pen, pretty much all of the equity funding has been raised guaranteeing the security of the project and its viability to production.

As I speculated in my Top stocks note published on January 12th where I made additional commentary based on my own opinions and permutations on Renergen;



What do I anticipate as being the key considerations and possible permutations for Renergen in 2022 to enable me to select the counter for a second successive year?

One of the key market issues for Renergen in 2022 and beyond will be the funding requirement of VP2.



Currently, Renergen has a dual listing on the Johannesburg Stock Exchange and Australian Securities Exchange.

Trading in the counter is active in both markets, with a wide spread of institutional and private shareholders, though the private investor, seems to this analyst, to have a frenetic interest in the counter's daily trading.



I'd postulate that in order to broaden the access point to institutional investors, that Renergen should now consider undertaking a listing in the United States, perhaps on the technology-related NASDAQ market?

There is a precedent.

Renewable energy business Montauk has a JSE and NASDAQ listing with a current value of US\$1.4 billion.

US investors have a better grasp & coverage of the alternative energy sector and such a move, perhaps, would give Renergen a better profile given the now proven commerciality of its VP1 and VP2 project.

Such a move, if undertaken, may inevitably lead to a placement to create liquidity, raise expansion capital for VP2, broaden the Renergen shareholder base and introduce established institutional investors into the counter.

There has been material de-risking of Renergen with the successful completion of VP1. I'm surprised that given the quality of the reserves and resource that a strategic investor has not popped their heads above the parapet and taken an equity stake in the counter?

I also wrote in my Anthony Clark column in the Financial Mail in the end of February edition that I was confident that Renergen would attain my ultimate target of R60.00. I remain of that view.

Having recently visited the Free State site on February 4th again, I saw the material progress from my original visit in April then last September 2021.



Hot commissioning of the VP1 plant – nee ‘gas running through the plant’ – was planned for December 2021 with commercial operations to begin in March. That was public knowledge.

The shipping delays and the Festive holidays, given all the equipment is imported from China then commissioned in the Free State, has pushed back the hot commissioning to March and commercial production to April I understand.

I believe the last key component for VP1 is at Durban harbour and waiting to offloaded around January 12th.

Thus, Renegen will only have missed out on one month’s production revenue, hardly a train smash for a R1bn project that was instigated pre-Covid and the seizing of the global economy and shipping supply chain.

Stars align for the helium market

This is a good time to be a helium producer. Demand for the element (in gaseous form) which is used in industries as diverse as medicine (cools the magnets in MRIs), aerospace, semiconductor and fibre optic cable manufacturing, high speed internet, and much more continues to rise.

Supply, on the other hand, has fallen. The U.S. government, through the Bureau of Land Management BLM), was once a major seller, but it is now dismantling the Federal Helium Reserve and removing itself from the marketplace.

Not surprisingly, prices have skyrocketed. These global events have heightened the potential for Renegen especially its helium production.



Recently the major global producers have had production issues that have severely limited the production of liquid helium.

The Gazprom-owned giant Amur gas processing plant in Russia's Far East exploded damaging three of its helium trains. This site was a vast potential future supplier. The Russian sanctions (may) also play a part in tightening global helium supply as & when Amur



Qatar recently announced expansion of its own helium expansion had been delayed until 2025.

Problems with equipment, poor maintenance and pressures has seen the helium site as managed by the Bureau of Land Management (BLM) in Texas, United States is also offline with the site currently in a tug of war regards a sell-off by the Government.

And over the weekend, the gaseous information site The Edelgas Group stated that another major global producer, Algeria, has curtailed helium production to push more LNG through its facilities to meet soaring demand for natural gas from Europe due to the Russian-Ukraine conflict.

All in all, seems like helium and LNG are the talking points of the specialised gaseous investment world and Renergen is square in that sphere with production estimated to commence at VP1 in a modest fashion in the coming weeks ramping up to full production from VP1 and VP2 in 2024/25.

Disclaimer:

This publication has been issued by @Smalltalkdaily Research™. It is confidential and issued for the information of @Smalltalkdaily Research™ clients only. It shall not be reproduced in whole or in part without the permission of the analyst. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law. This publication is not to be construed as providing investment services in any jurisdiction where the provision of such services is not permitted. It is provided for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security, and @Smalltalkdaily Research™ will have no responsibility whatsoever arising here from or in consequence hereof. The user assumes the entire risk of any use made of this publication. Any decision to purchase securities mentioned in this publication must take into account existing public information on such security or any registered prospectus. The information contained herein has been obtained from sources which @Smalltalkdaily Research™ believe to be reliable but is not guaranteed for accuracy, completeness or otherwise. Opinions and estimates constitute @Smalltalkdaily Research™ judgement as of the date of this material and are subject to change without notice. The securities described herein are subject to fluctuation in price and/or value and investors may get back less than originally invested. Past performance is not indicative of future results. @Smalltalkdaily Research™ may from time-to-time own securities mentioned herein. The research analyst who prepared this report certifies that the view expressed herein accurately reflect the research analyst's personal views about the subject security and @Smalltalkdaily Research™ may from time to time have dealings and paid for agreements with some of the companies mentioned in the reports however all opinions are unbiased and fully independent and views expressed are not guided by said companies mentioned herein in the report nor their management.