

04 September 2024

Helium Lifts Off

NEED TO KNOW

- Major milestone – liquid helium production up and running
- Ramp up to full production capacity now the focus
- SBSA provides ZAR155m funding for Phase 2 runway

Major milestone for Renergen (RLT) – helium plant online and delivering liquid helium: The liquid helium plant at the Virginia Gas Project in South Africa is now fully operational and accumulating liquid helium for sale. RLT has taken operational control of the Phase 1 plant from the manufacturer.

Reliable production and ramp up to full capacity now the focus: RLT's major focus is to bring both the helium and LNG plants up to full capacity of 310kg per day of liquid helium and 50 tons per day of LNG. RLT aims to be running both plants at capacity by the end of FY25 (February 2025). The May 2024 quarter saw LNG at an average of 15 tons per day. In the first week of September, RLT has aligned the annual maintenance of its plants to the contractual maintenance of its power supply by Eskom.

Funding facility provided by Standard Bank of South Africa (SBSA): As RLT furthers its plans for the globally significant Phase 2 and an IPO on the Nasdaq, SBSA has provided a short term funding facility for ZAR155m (A\$12.9m), with RLT directors pledging shares as security.

Investment Thesis

LNG and helium production key near-term catalysts: With the helium and LNG plants now completely under RLT's control, FY2025 is an important operational year for RLT. Ramping up production for both plants will be key catalysts for share price performance, as well as provide crucial opportunities to ensure that Phase 1 provides 'proof of concept' for Phase 2.

Growth and value in Phase 2: RLT continues to progress the globally significant Phase 2. With a large reserve base supporting 12x Phase 1 production for multiple decades, Phase 2 is the key to RLT's long-term growth and value. At full production, we estimate EBITDA of ZAR6.8bn (A\$566m).

The world is short on helium, S Africa is short on energy; RLT has major strategic assets: Helium is in strong demand with tight supply. The US government is very interested in helium as a strategic commodity, while SA's regular blackouts are impacting residents and businesses. RLT's helium and LNG are coming online at an ideal time and are major strategic assets.

Sale of 5.5% of project shows see-through value of A\$745m v current market cap of A\$134m: RLT sold 5.5% of the project to a locally owned Black Economic Empowerment private equity fund specialising in energy. The transaction generated ZAR550m (A\$43.4m) and demonstrates the value placed upon the project by a industry participant.

Valuation is A\$4.89/ZAR66.56 – Blended Valuation

Our valuation is a blend of 30% to the extrapolation of the recent corporate transaction and 70% to our DCF. Phase 2 is the key component of the DCF.

Risks

Key risks: Phase 1 production issues and Phase 2 funding and development.

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Renergen is a producer of LNG and helium. Its principal asset is a 100% shareholding in the Virginia Gas Project, the first and only onshore petroleum production right in South Africa. www.renegen.co.za

Valuation	A\$4.89 (from A\$4.91)
Current price	A\$0.92
Market cap	A\$143m
Cash on hand	ZAR 60.528m (31 May 24)

Additional Resources

[Video Chat - Stef Marani at MST Energy Summit](#)

Upcoming Catalysts / Next News

Period	
CY2024	Ramp up of helium production
CY2024	Ramp up of LNG production
CY2024	Phase 2 funding progress

Share Price (A\$)



Source: FactSet, MST Access

Figure 1: Financial summary, year-end 28 February

Year end 28 February			12 month relative performance versus S&P/ASX Small Ordinaries Index				
MARKET DATA							
Price	\$	0.92	\$A				
Valuation (diluted)	A\$/ZAR	4.89	ZAR				
Market Capitalisation	A\$/ZARm	143					
52 week high / low	\$	3.20/1.36					
Shares on issue (basic)	m	141.2					
Options / Performance shares	m	1.0					
Other equity (Phase 2 capital raising)	m	121.6					
Potential shares on issue (diluted)	m	263.8					

INVESTMENT FUNDAMENTALS		FY23A	FY24A	FY25E	FY26E	FY27E	PROFIT AND LOSS ZARm						
Reported NPAT	ZARm	(35.9)	(176.1)	(35.8)	(5.3)	(18.1)	Revenue	12.7	29.0	149.6	354.4	366.0	
Underlying NPAT	ZARm	(35.9)	(176.1)	(35.8)	(5.3)	(18.1)	Operating Expenses	(58.9)	(155.4)	(137.4)	(230.4)	(251.5)	
EPS Reported (undiluted)	ZARm	(27.3)	(123.9)	(25.2)	(2.8)	(6.0)	Gross profit	(46.2)	(126.4)	12.2	124.0	114.5	
EPS Underlying (undiluted)	ZARm	(27.3)	(123.9)	(25.2)	(2.8)	(6.0)	Other income						
Underlying EPS growth	%	2.4%	-354.0%	79.7%	88.9%	-114.5%	Other operating costs	0.0	0.0	0.0	0.0	0.0	
P/E Reported (undiluted)	x	nm	nm	nm	nm	nm	EBITDA	(22.3)	(108.6)	12.2	124.0	114.5	
P/E Underlying (undiluted)	x	nm	nm	nm	nm	nm	Depreciation & amortisation	(3.0)	(18.4)	(51.4)	(109.8)	(112.8)	
Operating cash flow / share	ZAR	(50.0)	(38.1)	11.1	74.0	67.1	EBIT	(25.2)	(127.0)	(39.2)	14.2	1.7	
Price to operating cash flow	x	nm	nm	104.5	15.6	17.2	Net interest	(0.9)	(11.9)	3.4	(19.5)	(19.8)	
Free cash flow	ZARm	(511.4)	(357.6)	(817.1)	(7,976.3)	(15,121.3)	Pretax Profit	(26.2)	(138.9)	(35.8)	(5.3)	(18.1)	
Free cash flow per share	ZAR	(362.2)	(253.3)	(578.8)	(5,649.6)	(10,710.5)	Tax expense	(9.7)	(37.2)	0.0	0.0	0.0	
Price to free cash flow	x	nm	nm	nm	nm	nm	NPAT	(35.9)	(176.1)	(35.8)	(5.3)	(18.1)	
Free cash flow yield	%	nm	nm	nm	nm	nm	Adjustments & Significant items						
Book value / share	ZAR	595.1	935.7	910.4	2,656.1	4,796.6	Underlying NPAT	(35.9)	(176.1)	(35.8)	(5.3)	(18.1)	
Price to book (NAV)	x	1.9	1.2	1.3	0.4	0.2	BALANCE SHEET ZARm						
NTA / share	ZAR	595.1	935.7	910.4	2,656.1	4,796.6	Cash	55.7	471.1	486.7	591.2	685.9	
Price to NTA	x	1.9	1.2	1.3	0.4	0.2	Receivables	38.1	32.7	32.7	32.7	32.7	
Year end shares	m	138.8	142.1	142.1	240.9	362.5	Inventory	0.1	2.1	2.1	2.1	2.1	
Average Shares on Issue	m	131.4	142.1	142.1	191.5	301.7	Other	77.6	93.3	93.3	93.3	93.3	
Market cap (Spot)	ZARm	1,603.2	1,641.3	1,641.3	2,782.4	4,186.9	Current assets	171.5	599.1	614.7	719.2	814.0	
Market cap (Spot)	A\$m	127.0	130.0	130.0	220.4	331.7	PPE, Development and Exploration	1,371.7	1,877.1	2,664.7	10,665.2	25,788.2	
Net debt /(cash)	ZARm	870.4	780.8	1,604.2	7,140.1	19,241.1	Other	357.6	232.9	232.9	232.9	232.9	
Net debt /(cash)	A\$m	70.2	63.0	129.4	575.8	1,551.7	Non current assets	1,729.4	2,110.0	2,897.6	10,898.1	26,021.1	
Enterprise value	ZARm	2,473.6	2,422.1	3,245.5	9,922.5	23,428.0	Total Assets	1,900.9	2,709.1	3,512.4	11,617.3	26,835.1	
Enterprise value	A\$m	199.5	195.3	261.7	800.2	1,889.4	Accounts Payable	92.3	82.3	82.3	82.3	82.3	
EV/Sales	x	195.0	83.7	21.7	28.0	64.0	Borrowings	104.5	487.5	493.8	523.4	543.2	
EV/EBITDA	x	nm	nm	266.1	80.0	204.6	Other	3.6	1.8	1.8	1.8	1.8	
EV/EBIT	x	nm	nm	nm	700.1	13,785.3	Current liabilities	200.4	571.6	577.9	607.5	627.2	
Dividend per share	ZARc	0	0	0	0	0	Borrowings	821.7	764.4	1,597.1	7,207.8	19,383.9	
PRODUCTION AND PRICING				FY25E	FY26E	FY27E	Provisions	38.7	52.1	52.1	52.1	52.1	
LNG Transport				382.5	382.5	382.5	Non current liabilities	860.3	816.5	1,649.2	7,259.9	19,435.9	
LNG Wholesale				250.0	250.0	262.5	Total Liabilities	1,060.7	1,388.0	2,227.1	7,867.4	20,063.2	
LNG (ZAR/mcf) - Blended Pricing				289.8	276.5	286.5	Share Capital	1,134.8	1,170.1	1,170.1	3,640.1	6,680.1	
Helium (USD/mcf) Stage 1 Contract Pricing				215.4	220.8	226.3	Reserves	21.7	27.1	27.1	27.1	27.1	
Helium (USD/mcf) Stage 1 Market Pricing				350.0	350.0	358.8	Accumulated Profits / (Losses)	(316.2)	46.5	10.7	5.4	(12.7)	
Helium Stage 1 Blended Pricing				242.3	246.6	252.8	Total Equity	840.2	1,243.6	1,207.8	3,672.5	6,694.4	
Stage 1 / Stage 2 Blended Pricing				242.3	246.6	252.8	CASH FLOW ZARm						
BCF		Methane			Helium			Operating cash flow	(70.6)	(53.8)	15.6	104.5	94.8
		Mar-19	Oct-21	% Change	Mar-19	Oct-21	% Change	PPE and Exploration	(440.8)	(303.7)	(832.7)	(8,080.7)	(15,216.0)
1P		40.8	215.1	427%	1.0	7.2	620%	Investing cash flow	(440.8)	(303.7)	(832.7)	(8,080.7)	(15,216.0)
2P		139.0	407.0	193%	3.4	13.6	300%	Debt Raised / (Repaid)	(101.6)	193.3	832.7	5,610.7	12,176.0
3P		284.2	600.1	111%	6.9	20.0	190%	Proceeds from issue of shares	572.5	30.4	0.0	2,470.0	3,040.0
								Other	0.0	550.0	0.0	0.0	0.0
								Financing cash flow	470.9	773.7	832.7	8,080.7	15,216.0
								Net Increase/Decrease	(40.5)	416.1	15.6	104.5	94.8
								Cash at Beginning of Year	95.1	55.7	471.1	486.7	591.2
								Ex Rates					
								Year end cash	54.6	471.8	486.7	591.2	685.9

Source: RLT, MST estimates.

RLT's Major Catalyst and Focus: Bring Helium and LNG to Nameplate – Target FY2025

With the helium and LNG plants now completely under RLT's control, FY2025 is an important operational year for RLT. Ramp up of production for both plants is a key catalyst for share price performance, as well as a crucial opportunity to ensure that Phase 1 provides 'proof of concept' for Phase 2.

Helium plant: lift off – the importance of helium to RLT

2023 and 2024 proved challenging for the helium plant at RLT's Virginia Gas Project. As the LNG plant continued to ramp up through 2023, the helium side of the operation struck some difficulties, and has been significantly delayed compared to original expectations. However, RLT has managed to work through a difficult situation, bringing in both the plant's manufacturer and an external helium consultant. These parties trained RLT's local staff and, since 24 July, the plant has been producing liquid helium for their customer.

Helium is crucial to the long-term business case for RLT, as it will represent the primary earnings stream for Phase 2 of the project.

As mentioned above, RLT has appointed an independent helium consultant to bolster the helium plant for operation, given the performance test is complete and the plant is now in RLT's possession. The consultant, which has decades of experience in commissioning and running liquid helium plants, has already engaged and reviewed the relevant design data and assessed the overall progress of the commissioning team. It has indicated that no fundamental issues are likely to exist with the plant going forward and has confirmed that the current processes being employed to produce helium are standard for a helium plant.

RLT is now in control and producing helium

After producing almost no helium in CY2023 and minimal helium so far in CY2024, RLT has taken over operation of the facility and will ramp up production over the remainder of FY2025.

July 24, 2024 marked a milestone day for RLT with the first production of liquid helium for its customer.

The timeline to helium production

Since early April 2024, the manufacturer has brought the helium cold box to the temperature required to liquify helium in batches from its wells, and helium was produced to a level of 99.999% purity in early June.

The helium plant was shut down and brought back up on several occasions. RLT has noted that the shutdown and restart process took over 60 days in the early testing period, but that process has now been refined to around 9 days, with potential to further improve this time.

The entire plant operated at the proper temperature, pressure and production flow parameters before the manufacturer completed a 7-day performance test. The performance test measured several critical criteria including recoverability, purity and overall efficiency to ensure the plant performs in accordance with the original design specifications.

A recap on the helium plant

The liquid helium plant had been fully commissioned and produced first liquid helium in January 2023. Ramp up continued over the next few months, including the integration of the helium plant with the LNG plant.

During the May quarter 2023, RLT identified a defect (a leak in the cold box) which reduced the efficiency of the helium liquefaction process. The system produced liquid helium but was unable to sustain efficient long-term production due to a loss in the vacuum of the cold box, which led to a loss of insulation and subsequent temperature rises in the system. The manufacturer was responsible for repairing the issue, with the cold box removed and taken offsite to a suitable engineering and repair facility for inspection. The cold box was successfully repaired in the August quarter 2023 and delivered back to site to be reinstalled and recommissioned.

In the November quarter 2023, the helium cold box was reconnected to the utility and process piping; the system was leak-checked and tested, and the vacuum space monitored for leaks over a period of several consecutive days to ensure all components were operating within design specification.

Additional wells required

To ramp up to full production, additional wells will need to be brought online. Two new wells have been drilled, both of which are above-average blowers. These wells were completed in July 2024. Initial samples indicate helium concentrations of over 3% in the wells, and flow rates in excess of 100,000 standard cubic feet per day each. Final flow rates will be ascertained post completion of the wells.

LNG plant: a quick recap – back on track after maintenance

During the November quarter, RLT decided to bring forward routine scheduled annual maintenance of the process plant to coincide with the helium cold box repair, and operations were halted. The shutdown ran longer than RLT had expected owing to issues with refrigerant compressors. The manufacturers and assemblers of these components, together with the RLT project and engineering teams, diagnosed the problem and the required fixes. Several design changes have also been implemented.

1QFY25 – production bouncing back

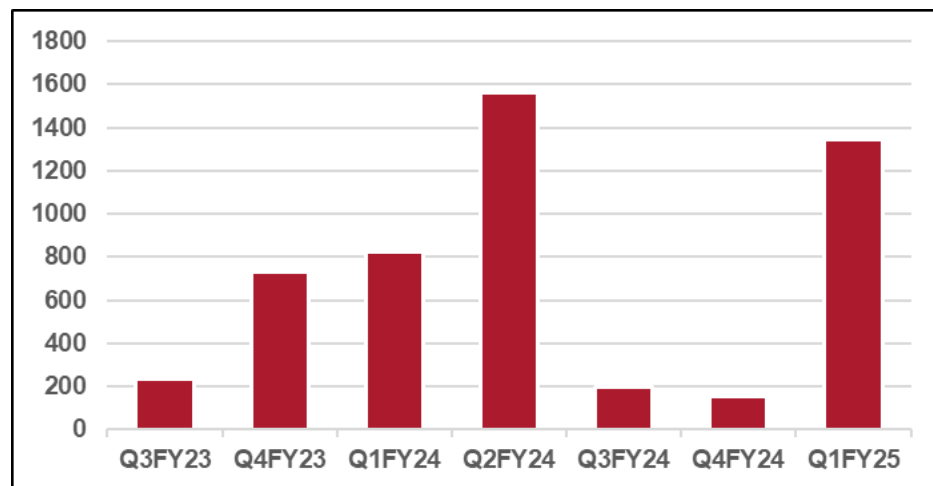
The planned and unplanned maintenance of the plant was undertaken and completed in February 2024. **As a result of the losses suffered due to the delay, RLT will seek compensation from insurance cover and/or a contractual claim against the manufacturer.**

LNG production ramped up gradually over CY2023. While the annual maintenance saw a significant drop in production in the November 2023 and February 2024 quarters, the August quarter 2023 had previously seen LNG production reach its highest level at 1,564 tons (an average of 17 tons per day), still short of the 50 tons per day nameplate capacity of the plant.

A total of 154 tons were produced in the February 2024 quarter as the plant transitioned from a complete outage into operating plant status.

The resumption of production in the May quarter saw 1,344 tons of LNG produced (an average of 15 tons per day compared to capacity of 50 tons per day). RLT is planning to ramp up to full production during the remainder of FY2025.

Figure 2: LNG plant performance over last 7 quarters – production (tons)



Source: RLT

RLT annual plant maintenance to align with Eskom power maintenance

Due to Eskom scheduling their contractual maintenance on RLT's power infrastructure in the first week of September 2024, RLT have aligned its annual maintenance program to coincide, thus minimizing downtime of the plants.

During the shutdown period, RLT will retain helium in the tanks to reduce time required when restarting the plant, and will connect additional wells and increase production once maintenance is completed. This is the second annual maintenance shutdown for the LNG plant.

Short Term Funding Facility to Provide Runway to Phase 2

Facility of ZAR155m provided to lead into Nasdaq IPO

RLT is preparing for a potential IPO in the US with a Nasdaq listing in 2024, subject to market and other conditions. The potential Nasdaq listing would align with the strong connection of RLT's helium to the US, with the key debt financiers (notably, DFC) and customers for Phase 2 (notably, Linde) located in the US.

The Standard Bank of South Africa (SBSA) has provided a short-term funding facility to RLT for ZAR155m (A\$12.9m) to provide RLT with funding leading into the Nasdaq IPO. Managing Director and CEO Stefano Marani and Chief Operating Officer and Director Nick Mitchell (co-founders of RLT), have, through associated entities provided security over the loan in terms of a total of 17,314,575 RLT shares, with a value of ZAR199.9m (A\$15.92m). The security is capped to the value of ZAR155m. The pledge of securities is for a period of 12 months.

SBSA are also a senior debt provider for Phase 2 with US\$250m committed.

SBSA Joint Underwriter for Nasdaq IPO

SBSA has also been appointed as a Joint Underwriter in the RLT Nasdaq IPO.

Regulatory Review Gives All Clear

RLT has faced allegations regarding potential irregularities in its business practices and South African corporate governance. A particular party in South Africa has made significant accusations against the company including questioning the ongoing corporate governance and the legitimacy of the original acquisition of the asset in 2015. After thorough reviews, the relevant South African regulatory bodies have cleared the company and its directors of any alleged wrongdoing, leaving no grounds for further inquiry or action. This represents a strong outcome for RLT and allows the company to get on with business and focus on its objectives of ramping up helium and LNG production.

Phase 2 Guidance Refresh: What's Happened, What's Next

Key Phase 2 milestones achieved

- Pre-feasibility and feasibility studies for Phase 2 completed
- Front-end engineering and design completed
- Funding process advanced with the U.S. International Development Finance Corporation (DFC) and Standard Bank and funds committed
- Additional offtake agreements with several top-tier global industrial gas companies secured
- Environmental and Social Impact Assessment (ESIA) submitted to the regulatory authority for review and consideration, with the mandatory public consultation processes having been completed

Guidance for Phase 2 going forward

RLT has provided guidance for Phase 2 in terms of key capital and operational inputs and profitability. We discuss this guidance in more detail in the Valuation and Financials sections.

Phase 2 drilling of 350 wells (the majority of which will be slant wells) will occur over a period of 3–4 years. RLT expects this will begin in CY2024, and will commence alongside the construction teams breaking ground on the civil works subject to receiving the environmental authorisation.

RLT is targeting to achieve commercial operation of Phase 2 during CY2027, and expects to operate at 75% capacity and ramp up to full capacity over an estimated 6- to 9-month period.

Capex

RLT estimates Phase 2 capital cost of US\$1.16 bn, broken down as follows:

- upstream costs (including exploration and drilling): ~30% of total budgeted Phase 2 capex
- midstream costs (to be used to build the LNG and liquid helium plant): ~58%
- downstream costs (LNG and liquid helium distribution infrastructure): ~12%.

Production

RLT targets production levels of 4,200 kg per day of liquid helium and 34,000 GJ (32,200 Mcf) of LNG (approximately 12x larger than Phase 1).

Profitability

RLT has provided EBITDA guidance on a full operating basis for Phases 1 and 2 together of ZAR5.7–6.2bn per annum (A\$475m - A\$515m). RLT expects the project to be in full operation during CY2027. The key underlying assumptions for the EBITDA guidance are a long-term liquid helium spot price of US\$600 per MCF (US\$29,220 /kg) and long-term base LNG pricing of ZAR250 per GJ.

Expected costs of distribution, storage and dispensing have not been disclosed.

Offtake agreements

Helium: RLT has secured 10- to 15-year take-or-pay offtake agreements with several top-tier global industrial gas companies for just over half its expected liquid helium production capacity. The balance is earmarked for sales in the international spot market, giving RLT exposure to potential helium price upside.

LNG: RLT expects to contract a majority of the LNG on 5- to 8-year take-or-pay agreements, servicing the industrial, logistics and potentially gas-to-power industries. RLT also expects that the LNG offtake agreements in Phase 2 will be finalised closer to the plant coming into operation. RLT expects it will be able to obtain favourable pricing given the scarcity of energy sources in South Africa, where energy prices have historically risen at levels above those of domestic inflation rates.

Refresher on Phase 2 Funding – Multiple Sources Sought

Planning for a much bigger Phase 2

Production increase of 12x from Phase 1

The Phase 1 pilot plant is designed for a maximum of 2,700 GJ (56 tons) of LNG and around 350 kg of liquid helium per day. RLT's planned operating capacity is 50 tons of LNG and 310 kg of helium. The upgrade of RLT's reserves in late 2021 led to a significant increase in the proposed size of Phase 2. RLT expects Phase 2 will be some 12x greater than Phase 1.

Figure 3: Phase 2 set to be a significant jump from Phase 1

	Helium (kg/day)	LNG (GJ/day)
Phase 1 (Max Capacity)	350	2,700 (56 tons)
Phase 2 (current plan for first year of production)	4,200	34,400 (716 tons)

Source: RLT.

Significant potential upside in reserve, even after Phases 1 and 2

2P total gas (methane + helium) is equivalent to 65,000,000 standard cubic feet (scf) per day for the remainder of the licence tenor. Phases 1 and 2 combined will consume less than 90% of the Virginia Gas Project's P1 reserves, indicating there is still significant upside within the current reserve.

Funding an expanded Phase 2 – equity, debt, US listing, other sources

RLT is progressing its funding plans for the globally significant Phase 2 expansion of the Virginia Gas Project, and has indicated a preliminary Phase 2 cost estimate of approximately US\$1.16 bn.

Debt funding: US\$750m secured for the project, targeting 75% of project cost

RLT has stated that the project will have a target debt ratio of around 75%. The remaining funding will consist of equity funding, including the potential sale of more of the project similar to the recent sale to MGE. RLT will then be required to fund its remaining 94.5% stake in the project, leaving US\$290m (on our assumptions) to finance via equity arrangements. During the Phase 1 build, not all the equity was raised upfront. RLT has indicated it will take a staged approach to equity raising during the Phase 2 build.

Equity funding: potential US listing with further multistage equity raisings – good alignment between company, customers and debt financiers

RLT is also preparing for a potential IPO in the US with a Nasdaq listing in 2024, subject to market and other conditions. The potential Nasdaq listing would align with the strong connection of RLT's helium to the US, with the key debt financiers (notably, DFC) and customers for Phase 2 (notably, Linde) located in the US.

During the Phase 1 build, not all the equity was raised upfront, and in order to minimise dilution RLT is planning to take a staged approach in raising the equity during the Phase 2 build. RLT expects that the first raising will target approximately US\$150m.

Possible alternative financing options for Phase 2

Given the long-life nature of Phase 2 and the high demand for RLT's LNG and helium products, alternative forms of finance could also be sought. These include:

- further project-level investment
- convertible notes
- strategic investors
- prepaid sales contracts.

Valuation: Sale of Asset Reflects Its Value, NPV Well Above Market Price – Blended Valuation A\$4.89/ZAR66.56

Given the demand for RLT's product in the energy and helium markets, we see a strong possibility for government support, both domestic and international, for the project. This could take the form of grants, low-interest loans and/or tax relief.

Our valuation methodology uses a blended valuation, which equates to A\$4.89/ZAR66.56. We believe it is prudent to value RLT on a blended valuation, demonstrating the industry value as well as a full DCF value for the Phase 2 project and the required equity to be raised. Our valuation is a composite of 70% DCF and 30% based on an extrapolation from the recent corporate transaction.

With 5.5% of the Virginia Gas Project sold to a market participant, we believe that the price paid for a share in the project by a willing buyer needs to be reflected in the valuation – this price represents 30% of our blended valuation.

Our valuation is basically unchanged at A\$4.89, but we have made some modelling changes. We have pushed back first capex for Phase 2 from FY25 to FY26, which is offset by decreasing our production estimates for FY27 and FY28. We believe this is conservative, as we expect that RLT will take valuable lessons from Phase 1 and apply them to Phase 2. As a result, the company may well start production ahead of our current estimates. We model production for Phase 2 commencing in FY2028 at 20% capacity, rising to 100% capacity in FY2029.

We also consider that, in order to bring the significant value in Phase 2 (the commercial-scale plant) of the project to fruition, a significant amount of equity (25% of the cost) will need to be raised. We expect that, as Phase 1 of the project demonstrates reliability over the next year, we will see share price appreciation. We have assumed that part of the equity required to fund the project will be raised in FY2026 and part in FY2027. We have assumed a raising price of ZAR20/A\$1.66.

Figure 4: Valuation summary

DCF Valuation Summary	Unrisked Valuation		Ownership	Valuation		Previous Valuation	
	A\$	ZAR		A\$	ZAR	A\$	ZAR
Phase 1 and 2 Valuation	5.24	3.78	94.5%	4.95	64.93	4.96	65.01
SG&A	-0.23	-2.89	100%	-0.23	-2.89	-0.23	-2.89
Net Debt	-0.17	-2.11	94.5%	-0.16	-1.99	-0.16	-1.99
Total DCF Valuation	4.83	-1.22		4.55	60.05	4.57	60.12
Selldown Valuation	5.68	70.37	100%	5.68	70.37	5.71	70.37
Blended valuation			% of Valuation	Valuation		Valuation	
				A\$	ZAR	A\$	ZAR
DCF			70%	3.19	45.45	3.20	45.51
Selldown			30%	1.70	21.11	1.71	21.11
Total				4.89	66.56	4.91	66.62

Source: MST estimates.

General assumptions – life of operations, equity raisings, discount rate

RLT's production licence lasts until 2042. The company has an option to extend the life of the licence by 30 years. We have assumed the life of the project is extended by 10 years from 2042 as there are more than sufficient reserves for this.

We have also taken into consideration the increase in equity from the proposed US listing and raising of US\$290m to partly fund the Phase 2 construction, with the additional shares being added to our fully diluted share base. We have assumed 25% of the funding is covered by the equity raising.

We apply a relatively high 11% discount rate.

Phase 2 assumptions – on a whole new scale, bringing risk but also opportunity

We believe the project will very likely proceed, given the very strong demand for RLT's products, particularly helium – the project is almost a necessity for the market. We believe the helium market needs the supply and that the LNG market in South Africa has large growth potential for heavy vehicles, industry and power generation in particular.

Significantly higher production: Phase 1's operating capacity is around 310 kg of helium and 50 tons of LNG per day. With an increase in reserves, RLT developed a plan for Phase 2 to produce at a rate approximately 12x that of Phase 1. This equates to 4,200 kg of liquid helium and 34,400 GJ (~600 tons) of LNG per day.

Capex estimate: We have assumed capex of US\$1.2 bn, which is above RLT's latest guidance of US\$1.16 bn for Phase 2. We assume the capex is split over FY25 and FY26. We have first gas from Phase 2 in FY27, with our first year of full production being FY29.

Figure 5: Key assumptions

ASSUMPTIONS	
Well Depletion Rate	
Well Depletion Rate	5%
Helium Percentage	
Helium Percentage Phase 1	3%
Helium Percentage Phase 2	3%
Inflation Rates	
Transport LNG	3%
Wholesale LNG	5%
Helium Contract Stage 1	3%
Helium Market Stage 1	0%
Helium Contract Stage 2	3%
Gas Extraction	5%
Gas Liquefaction & Pipeline	5%
Gas Transportation	5%
Other	5%
Maintenance Capex Growth	5%
Financial Assumptions	
ZAR/USD	19
ZAR/AUD	12
Discount Rate	11%
Interest on Loans	US Treasury + 4%
Capex and Phase Timing	
Capex Phase 2 US\$b	1.20
Commencement Phase 2	Q4 CY2027

Source: MST.

Pricing assumptions

We have increased our LNG pricing profiles but acknowledge that, as more contracts are signed (particularly with methane), adjustments may be needed. We view our pricing assumptions (shown in Figures 6 and 7) as conservative.

LNG pricing: LNG pricing is a key to the valuation.

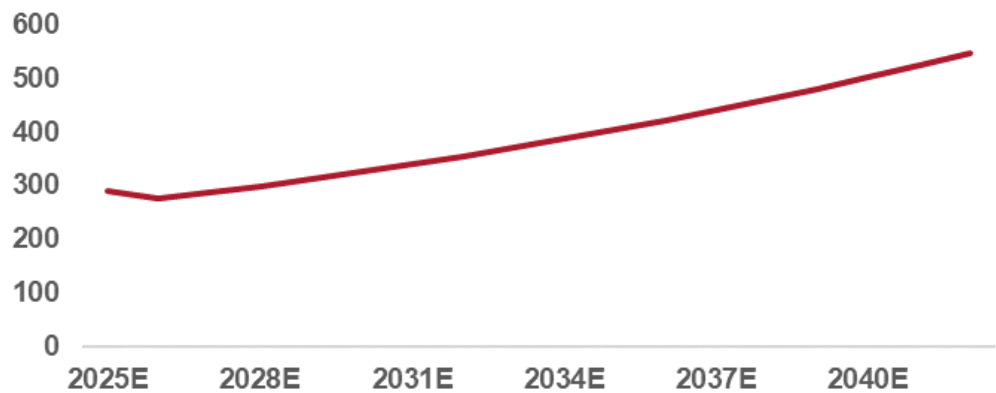
Heavy vehicle LNG is priced at a 25% discount to the South African diesel price, which is regulated by the SA government and highly correlated to the Brent crude price.

RLT will price its LNG to wholesale customers at a 'bulk rate'. For Phase 2, we assume that RLT sells its LNG for power generation (38%), industrial use (42%) and transport (20%). Our price forecast represents a weighted average of the three prices, as the LNG is priced differently for each type of user.

Helium pricing: We assume that 100% of Phase 1's helium is sold under the Linde contract at US\$320mcf and inflated at 2.5% per annum as per the contract.

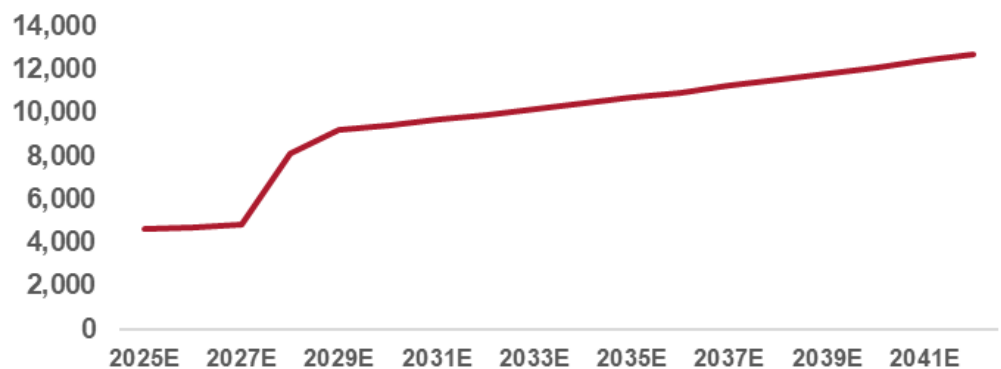
We assume Phase 2 pricing, beginning in FY2027, is 65% contracted and 35% spot, with pricing of the contract at US\$375mcf and inflated at 2.5% per annum. Spot pricing is at US\$600mcf and escalates at the same rate. We consider these estimates to be conservative given helium market conditions.

Figure 6: LNG price assumptions (ZAR/mcf)



Source: MST

Figure 7: Helium price assumptions (ZAR/mcf)



Source: MST

Positive catalysts for the share price

Although we see some of the value of Phase 2 reflected in the current share price, there are several catalysts that we would expect to drive the share price towards our valuation.

- **Consistent performance of Phase 1 LNG and helium plants/positive cash flow** would prove project viability, begin to create positive cash flow and increase confidence in Phase 2.
- **Funding and FID of Phase 2:** The key to Phase 2 progressing is funding. The amount of funding required is large relative to RLT's size. Attaining funding is a key risk, and completing the funding will be a major positive catalyst for the stock.
- **Development of Phase 2** is a key catalyst for the share price (and key to our valuation).
- **Signing of further customer contracts** would increase the market's confidence in take-up of LNG in South Africa as a transport fuel or industrial energy source. Several such contracts are currently under negotiation. Further signing of helium contracts would also increase confidence in the project.
- **Further increase in reserves:** The Virginia Gas Project is 187,000 hectares. The reserve only covers a fraction of the project. There is strong potential for the reserves to grow substantially and further extend life or give potential for additional plants to be constructed.
- **Price increases in helium and LNG above our estimates:** The valuation is sensitive to price increases in both products.
- **Increase in helium percentage in gas:** RLT has had drilling results of up to 12% helium in the gas. An increase in helium percentage would lead to an increase in profitability for the project (we assume reserve % of 3%).

Risks to the share price and valuation

- **Poor performance of Phase 1 LNG and helium plant and equipment:** Reliable output from the liquification plants is a key driver of value for RLT. Any disruptions to this output would be seen as a negative for the valuation.
- **Unable to fund or delay in funding:** The key to Phase 2 progressing is funding. The amount of funding required is large relative to RLT's size. Attaining funding is a key risk – if this does not occur or is delayed, it would be a negative catalyst for the stock.
- **Delays and increased cost for Phase 2:** As the key driver of long-term value in RLT, any delays or increased costs for Phase 2 would be seen negatively by the market and decrease our valuation.
- **Lower-than-expected conversion to LNG – heavy vehicle and wholesale markets:** RLT's strategy relies on the South African heavy vehicle and wholesale markets market adopting LNG. Slower-than-expected rates of conversion would be unfavourable to the share price and valuation.
- **Increased drilling and construction costs** would have direct negative effects on the valuation.
- **Competition from other gas sources:** Imported LNG is seen as a future alternative energy source for South Africa and may be competitive with Phase 2's LNG. This may impact pricing and lead to closer alignment with global LNG prices.
- **Inability to sign additional helium customers:** As a key value driver, any issues with signing helium customers would be negative.
- **Decreased product prices:** The valuation is sensitive to price decreases in both helium and LNG.
- **Political risk/fiscal changes in South Africa:** Energy policy has followed a difficult path in South Africa. RLT has all approvals in place; however, the risk remains that policy and fiscal regime change could detrimentally affect the company. Changes in fuel tax affecting LNG would reduce its competitiveness with diesel and may require a change in strategy.

Financials: Projected Revenue and EBITDA

Cash flow improvement now LNG plant back up and running

At the end of the May quarter, RLT had ZAR60.528m (A\$4.9m) in cash.

The effects of the shutdown in the LNG plant and the repairs to the helium plant saw a negative cash flow from operations of ZAR48.2m, capex and exploration of ZAR61.4m and net repayment of borrowings of ZAR300.8m (the key being the repayment of the bridging loan of ZAR374m).

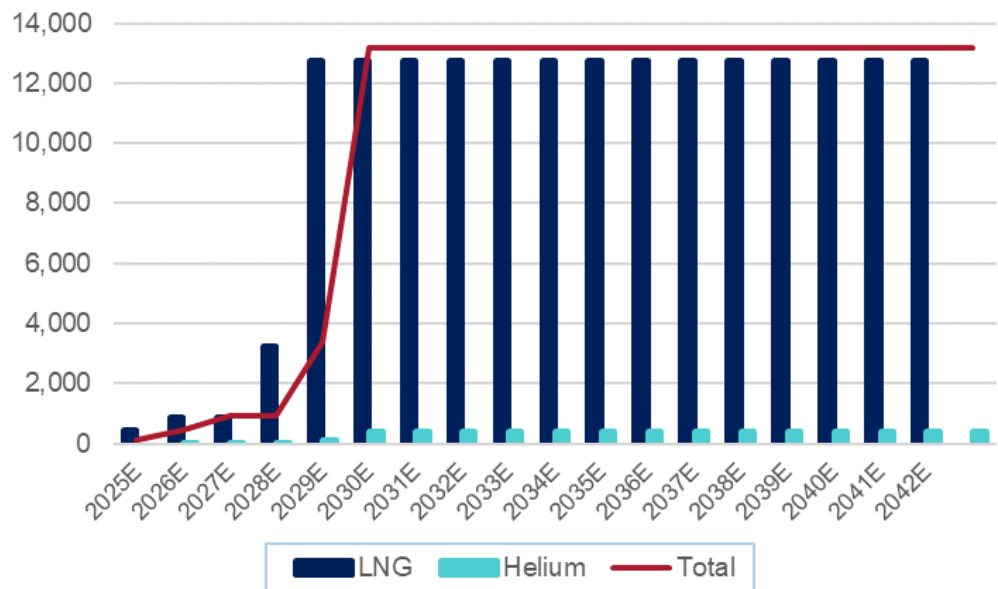
RLT commented in the May quarterly report that it expected operating cash flows to improve post the completion of the performance test of the helium facility and subsequent commercial production of liquid helium. With the helium facility coming into production, we expect that revenues will increase from previous reporting periods. We anticipate that this new revenue stream and increased production from LNG will improve operating cash flows. RLT added that the combination of increased revenue from start-up of the helium facility, combined with funding initiatives in advanced stages, it expects to see the company through to nameplate capacity with positive cash flow generation.

The ramping up of LNG and helium production will reduce cash burn, but we expect to see a small positive cash flow in FY2025.

We assume full production for Phase 2 in FY2029

We assume Phase 2 will commence production in FY27 and will ramp up to full production rates over a period of 18 months.

Figure 8: Production estimates: helium and LNG (mcf '000) (FY)



Source: MST.

We forecast EBITDA of ZAR6.8bn in that first full year

RLT is guiding EBITDA for the first full year of production for Phase 2 (FY2029) of ZAR5.7–6.2 bn. We model EBITDA for that year at ZAR6.8bn.

Figure 9: Total revenue, costs and EBITDA (ZARm) (FY)



Source: MST.

Personal disclosures

Michael Bentley received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

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Renegen (RLT.AX) | Price A\$0.92 | Valuation A\$4.89;

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Additional disclosures

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