



July 2023

US valuations are driven by a combination of valuation and story as the AI story has so well illustrated in the past few weeks. Renergen has a fantastic story to tell US investors on the roadshow which includes:

- Debt funded by the US government. There are very few companies globally that are funded by the US Government highlighting a very unique asset globally in demand.
- US Chip Act providing \$52.7bn of incentives for semiconductor manufacturing in the USA where Helium is an essential input in the manufacturing process.
- SpaceX uses several tons of Helium during launch to purge the engines and provide pressure to push fuel into the rocket engines. SpaceX is accelerating their launch program and will need significantly more Helium in the future.
- An unusually high Helium concentration, driven by a unique set of geological events providing an enormous reserve which underpins the valuation.
- Global shortage of Helium driven by supply problems from Russia, Algeria and the United States.
- This global Helium shortage has resulted in spot cargos trading at 10x the contract price.
- Renergen being declared strategic to US national security in 2018
- LNG prices in South Africa 4.5x more than in the United States, and we remain desperately short of natural gas.
- Project is capex heavy upfront but operationally light on costs (basically a big fridge) providing significant cash generation when in full production.

So Renergen has a very strong story to tell. What about the valuation?

There are five essential variables to calculate a valuation for Renergen. Three of them have third party estimates from numerous research houses - these are the cost of LNG (derived from forward oil prices), Helium prices (where 50% of production is already contracted) and the Rand/USD exchange rate. The two wild cards are the number of shares to be issued to raise \$400m over two years and the EV / EBITDA multiple that will be applied by US investors.

Based on company production guidance we estimate EBITDA of R7.4bn and debt of R14.837bn.

The best-case scenario is for 251m shares to be issued over the next two years. If the capital was to be raised on the JSE it would be an impossible task but US investors are likely to have a very different view and anything is possible.

Potential share in issue	Current shares in issue	New shares to be issued	USD price	
251,000,000	146,310,849	104,689,151	3.82	18.60
300,000,000	146,310,849	153,689,151	2.60	71.07
350,000,000	146,310,849	203,689,151	1.96	48.41
400,000,000	146,310,849	253,689,151	1.58	36.53
450,000,000	146,310,849	303,689,151	1.32	29.33
500,000,000	146,310,849	353,689,151	1.13	24.50
600,000,000	146,310,849	453,689,151	0.88	21.04
700,000,000	146,310,849	553,689,151	0.72	16.40
800,000,000	146,310,849	653,689,151	0.61	13.44
				8.22

The table below shows the number of shares issued against the EV / EBITDA multiple. To calculate the EV (enterprise value) you add the market cap (the second row in the table below) to the debt (R14.837bn). The EV / EBITDA multiples of 3.4x to 9x was taken from a US peer group of gas businesses. Montauk, a JSE & Nasdaq listed gas business, trades on 36x EV / EBITDA for 2023 and 12.4x EV / EBITDA to 2025, highlighting the wild valuations in US markets.

As the matrix below shows, 251m shares in issue on a 9x EV / EBITDA would imply a price of R207.52 (importantly this is in the first year of full production). A more conservative 500m shares in issue at a 6x EV EBITDA implies a price of R59.56. This is still a long way away from the current R19 share price.

Valuations multiples	3.4	4	5	6	7	8	9
	<b>10,444,920,000.00</b>	<b>14,906,520,000.00</b>	<b>22,342,520,000</b>	<b>29,778,520,000</b>	<b>37,214,520,000</b>	<b>44,650,520,000</b>	<b>52,086,520,000</b>
251,000,000	41.61	59.39	89.01	118.64	148.27	177.89	207.52
300,000,000	34.82	49.69	74.48	99.26	124.05	148.84	173.62
350,000,000	29.84	42.59	63.84	85.08	106.33	127.57	148.82
400,000,000	26.11	37.27	55.86	74.45	93.04	111.63	130.22
450,000,000	23.21	33.13	49.65	66.17	82.70	99.22	115.75
500,000,000	20.89	29.81	44.69	59.56	74.43	89.30	104.17
600,000,000	17.41	24.84	37.24	49.63	62.02	74.42	86.81
700,000,000	14.92	21.30	31.92	42.54	53.16	63.79	74.41
800,000,000	13.06	18.63	27.93	37.22	46.52	55.81	65.11

To underperform, the company would need to issue more than 500m shares at a multiple of 4x or less. Considering the backstory, the highly cash generative nature of the project and the experience of Montauk, we believe that this outcome has a low probability.

The absolute fallback if the company is unable to raise the funds would be a sale of the project to one of the global chemical majors - the likes of Linde, Dow Chemicals or BASF. The most recent transactions for similar type companies took place at an average of 8x EV / EBITDA and, considering the huge demand for Helium, this is not at all unreasonable.

I jokingly refer to PTSD (post-traumatic stress disorder) from which JSE investors suffer which partly explains why every single listing that has left South Africa for foreign shores has significantly outperformed. There is no reason to believe Renergen will be any different.

Brendon Hubbard

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