Renergen – Cold Air in a Hot Balloon?

Perspectives: July 20th, 2022

Thriving countries and economies tend to produce ambitious and rapidly growing businesses, some of which choose to raise capital from the public by listing on the national stock exchanges. In this sense 'the public' includes corporate, institutional, and retail market participants. There are really only three main mechanisms to any new listing – (1) by the current owners selling off a piece of the business to the public, (2) by the current owners issuing fresh equity to the public, or (3) by an already listed business unbundling or spinning off a piece of itself to its existing set of shareholders - including the public.

We pay careful attention to all new listings of any size, shape, and context. They provide a rich vein of knowledge and, at times, sensible new investment ideas. During my career, I have seen a wide range of new listings – some were excellent, and some were terrible.

I respect and acknowledge that building any new business venture, including projects inside an already existing business, requires an element of strong promotion. All of us on planet earth spend our lives 'selling' ourselves to others, starting at birth. Those who cannot or will not sell themselves successfully are likely to struggle a bit more. There is an important dividing line between credible promotion and story-telling that sounds too good to be true, and that might eventually prove to be so.

JSE and Australian dual listed **Renergen** is a case study of a new and ambitious business venture that is busy raising capital from the public. They are developing an underground helium and liquified natural gas mining operation near the small town of Virginia deep in the Orange Free State of South Africa, somewhere between Bloemfontein and Johannesburg. Virginia has one high school, three fuel stations, three guest houses, one Spar, a pie shop, a traffic department, an establishment called 'The Kitty Club' signposted by a neon lit up "X", and a rather large jail for a very small town.

I will not bore you with the [*fascinating!*] finer details.

However, I would like to tell you about something important and factual in the public domain. In March 2022 Renergen announced, to great fanfare, a 'strategic partnership agreement' with a Canadian listed business called **Ivanhoe Mines**. Said agreement included Ivanhoe Mines paying US$13mn in cash for a small equity stake in Renergen upfront, with the intention to provide significant amounts of future equity funding, US$250mn or more, in exchange for becoming its eventual 55% controlling shareholder. In the words of Renergen's CEO "*This major transaction is a* ***landmark*** *deal for Renergen. Ivanhoe [Robert Friedland] is a* ***leader*** *in terms of finding and developing disruptive, world-class resources…*"

There was just one small catch – Ivanhoe Mines were to conduct a due diligence over a period of 120 days.

Late last week it was announced, to no fanfare and with no advance warning, that Ivanhoe Mines has decided to withdraw from their strategic partnership agreement with Renergen.

From our further work, it became clear to us that Mr. Robert Friedland is indeed a highly respected executive and experienced corporate investor and developer. He has a knack for operating in the most troubled mining jurisdictions of the world, particularly in Africa. He is also considered an astute promoter of his many successful mining ventures.

Mr. Friedland and his well resourced, experienced executive deal team at Ivanhoe had a lengthy period of 120 days with unfettered access to *everything* on the inside at Renergen. If they were indeed the smart money, then please can you tell me where the dumb money is now going to come from?

Our work continues…

Daniel Malan
Managing Director & Chief Investment Officer
daniel@perspectiveim.co.za

Perspective Investment Management
www.perspectiveim.co.za

Perspective
Investment Management