

Genex Power

SPECULATIVE BUY

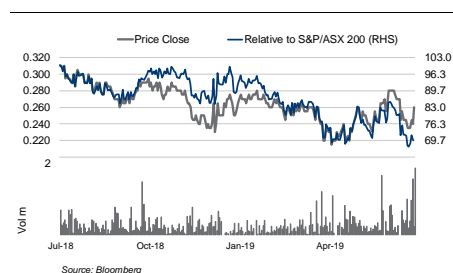
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Current price:	A\$0.26
Target price:	A\$0.36
Previous target:	A\$0.32
Up/downside:	38.5%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$68.70m
	A\$98.78m
Average daily turnover:	US\$0.06m
	A\$0.09m
Current shares o/s	303.9m
Free float:	69.3%

Key changes in this note

Model rolled forward for FY20.

NAIF loan interest rate assumptions reduced.



Price performance	1M	3M	12M
Absolute (%)	-3.7	10.6	-16.1
Relative (%)	-5.9	2.7	-23.7

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– Genex Power

NAIF backs K2-H

- NAIF today announced that the board had approved a loan up to \$610m for GNX's K2-H project which significantly de-risks project funding.
- We have rolled forward our model into FY20 and lowered our estimate of the interest rate on the NAIF debt to 2.5%p.a.
- We update our target price to 36cps and maintain our SPECULATIVE BUY rating.

Available debt should be more than enough to complete K2-H

GNX has received approval for a loan facility up to \$610m from the Northern Australia Infrastructure Facility (NAIF). The terms of the loan haven't been released but we understand that NAIF can offer debt on terms similar to 30 year government bonds. In our model we have assumed that the loan will be paid back within 25 years and with an interest rate of 2.5% p.a. The potential size of the loan is more than our estimate for the capex of the project (\$550m including charges for the transmission line) and we believe this figure has been determined with reference to projected borrowing capacity rather than project need. The final capex commitment will be determined when the project and offtake agreements are completed which we believe will happen in the next six months.

Rolling forward our numbers and capturing lower bond rates

We've rolled forward our model into FY20 and passed through the current 30 year government bond rates which lifts our base case valuation by 4cps (+13%). The K2-H project is capital intensive and will produce an asset with a useful life of up to 100 years. Financing it appropriately requires cheap debt with a long tenor to suit the multi-decade asset life and allow some free cash to be returned to shareholders following construction. NAIF's offer ticks both boxes and marks another step towards financial close.

Lots of pieces in place but there's still a few in play

We think the key catalyst to a rerate in GNX is financial close on the K2-H project. The outstanding items to close out are: finalisation of the transmission line agreement, potential grant funding and a binding offtake agreement with Energy Australia. PowerLink is due to release a final Environmental Assessment Report (<https://www.powerlink.com.au/projects/genex-kidston-connection-project>) shortly and we believe investment approval for the transmission line should follow shortly after that. We understand that GNX is in discussion with ARENA on a possible grant but the most significant piece to be determined is the offtake agreement with Energy Australia. We think the market is discounting the potential value of K2-H because of uncertainty around the earnings it will deliver. We remain confident that the revenue estimates we've developed, based on historical price data and GNX commentary, are accurate and the share price will converge with our price target when the offtake is finalised.

GNX remains a unique opportunity to invest in large scale storage

Energy storage remains the key obstacle to increasing the use of renewable energy in the electricity grid. The K2-H project will be one of GNX's major assets and an investment in the company offers shareholders the chance to participate in both renewables and large scale energy storage. We maintain our SPECULATIVE BUY rating with a target price of 36cps.

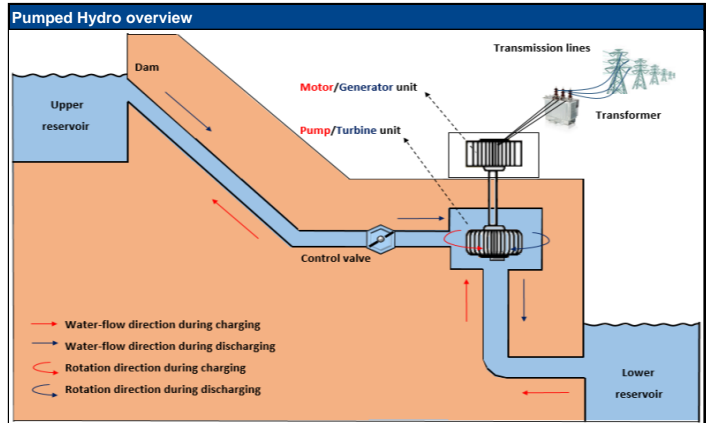
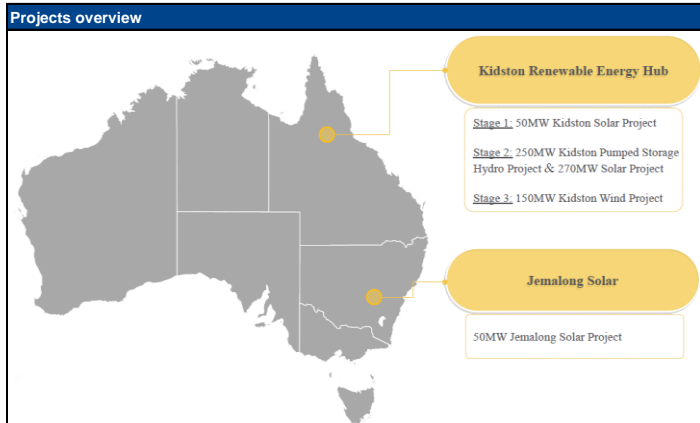
Financial Summary	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (A\$m)	0.00	8.27	12.52	20.29	25.80
Operating EBITDA (A\$m)	-7.12	-1.72	5.99	16.55	21.35
Net Profit (A\$m)	-8.61	-7.46	-3.34	13.39	5.06
Normalised EPS (A\$)	(0.037)	(0.025)	(0.013)	0.047	0.015
Normalised EPS Growth	(18.5%)	(33.3%)	(47.3%)		(69.2%)
FD Normalised P/E (x)	NA	NA	NA	5.50	17.89
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	28.70	16.96	13.87
P/FCFE (x)	NA	NA	NA	NA	65.75
Net Gearing	35%	596%	678%	247%	219%
P/BV (x)	3.98	5.17	6.01	1.82	1.70
ROE	(64.5%)	(43.3%)	(28.2%)	45.2%	9.8%
% Change In Normalised EPS Estimates			(11.0%)	11.7%	(1.1%)
Normalised EPS/consensus EPS (x)			0.94	11.81	14.53

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Business snapshot

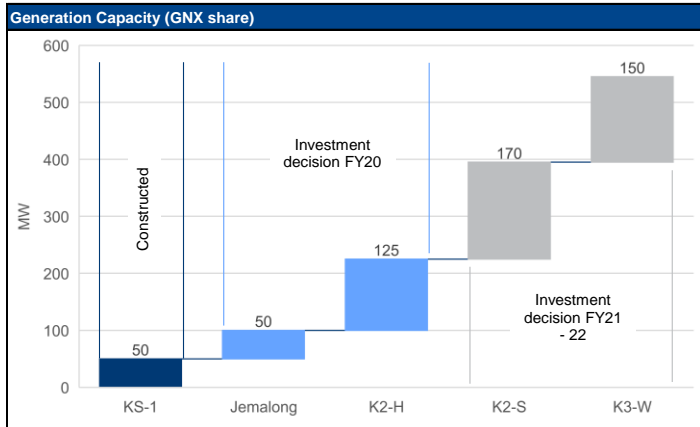
Genex Power (as at 11-07-19)		GNX AU / GNX.AX	Utilities
Market cap (A\$m):	79.0	Rating:	SPECULATIVE BUY
Shares outstanding (m):	303.9	Price (A\$):	0.26
Free float (%):	69%	Target price (A\$):	0.36
Company website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	38.5%

Company description
 GNX is redeveloping an old gold mine in North Queensland into an energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has plans to expand its energy generation with a second stage solar farm up to 270MW and a potential 150MW wind farm, on or near the same site, and a 50MW solar farm in central NSW. The output of the 50MW solar farm is contracted to the Qld government for 20 years and the company is in discussions with Energy Australia to develop and sell the output of the energy storage (pumped hydro) project for a term of at least 25 years. GNX has also obtained conditional approval for up to \$516m of low cost debt finance from the Northern Australia Infrastructure Facility. GNX was founded in 2011 and was listed on the ASX in 2015. The CEO, James Harding, was appointed on the 7th of May 2018 and the Chairman, Dr Ralph Craven, has held his position since the company listed.



SOURCE: GNX

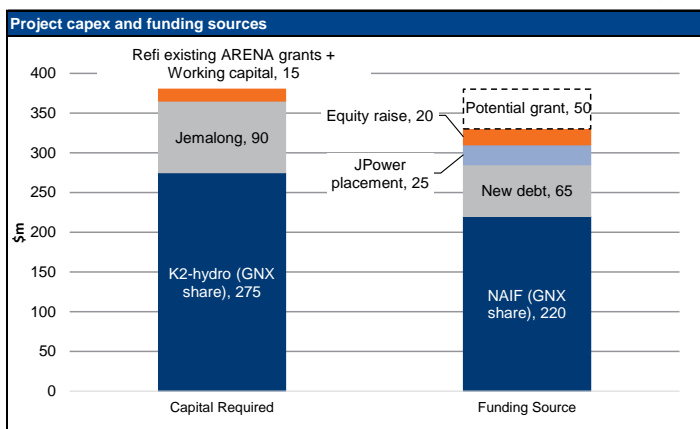
SOURCE: Journal of Power Technologies (2017)



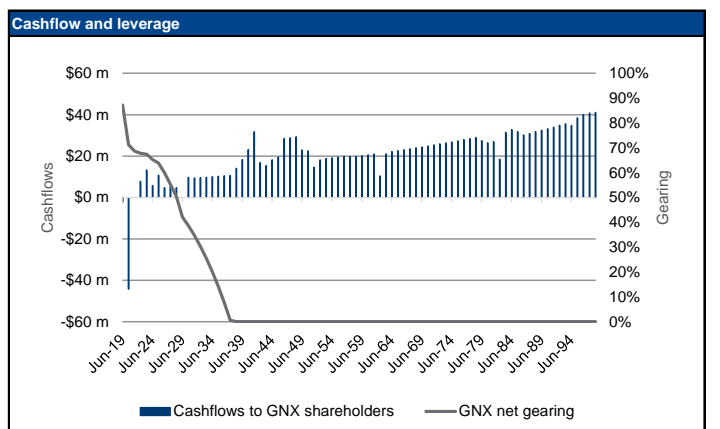
SOURCES: MORGANS, GNX

- Risks and Drivers**
- Value drivers:**
- Solar output of Stage 1 as price is contracted and locked in.
 - Price of the pumped hydro offtake agreement - not yet finalised.
 - NSW spot price of electricity as Jemalong will likely be uncontracted.
 - Spot price of LGCs as Jemalong will likely be uncontracted.
 - If carbon reduction targets increase, the value of future renewables projects will also increase.
- Risks:**
- Securing the final offtake agreement for the pumped hydro project at an attractive price.
 - Price of engineering contract to build K2-H pumped hydro project.
 - Cost to access new transmission line for K2-H pumped hydro project.
 - Construction risk during construction of the K2-H pumped hydro project.
 - Access to concessional funding (e.g. NAIF, ARENA) to fund projects at low costs of capital.
 - Electricity network congestion if too many other renewables projects nearby get constructed.
 - Marginal Loss Factors (MLF) on all projects other than KS-1.
 - Technological changes driving energy efficiency and alternative generation.
 - Interest rates.
 - Changes to tax regimes.

SOURCE: MORGANS



SOURCES: MORGANS, GNX



SOURCE: MORGANS

Figure 2: Financial summary

Key multiples & gearing	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	28.7	16.8	13.7	13.6	13.3	13.9	12.2	12.7	10.8	11.1
Price-to-earnings (x)	N/A	N/A	N/A	N/A	3	2.4	2.7	2.3	2.5	2.1	2.2
Dividend yield (%)	-	-	-	-	6.2	10.6	4.6	8.5	3.8	4.2	3.8
Net Debt / ND+E (%)	85.6	87.1	71.2	68.7	67.7	67.4	65.2	63.8	59.9	55.1	50.2
Profit and loss (\$m)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Revenue	8.3	12.5	20.3	25.8	25.5	25.5	24.3	26.4	24.7	27.0	25.4
Other inc (K2H cost recovery)	1.7	2.7	5.3	5.4	5.5	5.7	5.8	5.9	6.1	6.2	6.3
Expenses	(11.7)	(9.2)	(9.1)	(9.9)	(10.1)	(10.3)	(10.6)	(10.8)	(11.0)	(11.2)	(11.5)
EBITDA	(1.7)	6.0	16.6	21.3	20.9	20.9	19.5	21.6	19.8	21.9	20.2
D&A	(3.0)	(6.0)	(6.8)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)
Operating EBIT	(4.7)	(0.0)	9.7	13.4	13.0	12.9	11.6	13.6	11.8	14.0	12.3
Net Interest Expense	(2.7)	(4.0)	(4.1)	(4.6)	(4.3)	(4.1)	(3.8)	(3.6)	(3.3)	(3.0)	(2.6)
K2H equity accounted profit	-	-	13.6	(1.5)	2.7	6.9	5.8	6.2	6.5	6.8	7.2
Profit Before Tax	(7.5)	(4.1)	19.1	7.2	11.3	15.7	13.5	16.2	15.0	17.8	16.8
Tax	-	0.7	(5.7)	(2.2)	(3.4)	(4.7)	(4.1)	(4.8)	(4.5)	(5.3)	(5.1)
Statutory Net Profit	(7.5)	(3.3)	13.4	5.1	7.9	11.0	9.5	11.3	10.5	12.4	11.8
Exceptional items (post tax)	-	-	(9.5)	-	-	-	-	-	-	-	-
Underlying Net Profit	(7.5)	(3.3)	3.9	5.1	7.9	11.0	9.5	11.3	10.5	12.4	11.8
Cashflows (\$m)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	6.0	16.6	21.3	20.9	20.9	19.5	21.6	19.8	21.9	20.2
K2H SPV distributions	-	-	-	-	-	7.4	-	4.9	4.5	4.3	4.2
Working capital	(9.7)	(0.6)	5.4	(6.0)	0.0	0.0	(0.4)	(0.1)	0.2	(0.2)	0.1
Gross operating cashflow	(11.4)	5.4	21.9	15.3	21.0	28.3	19.1	26.3	24.4	26.0	24.5
Net interest paid	(2.7)	(4.0)	(4.1)	(4.6)	(4.3)	(4.1)	(3.8)	(3.6)	(3.3)	(3.0)	(2.6)
Cash paid for Tax	-	-	(0.8)	(2.2)	(2.1)	(3.9)	(2.3)	(4.5)	(3.9)	(4.6)	(4.1)
Operating cashflow	(14.1)	1.4	17.0	8.5	14.5	20.3	13.0	18.2	17.2	18.5	17.8
Capex (GNX not K2H SPV)	(74.0)	(4.3)	(145.0)	-	-	-	-	-	-	-	-
Investing cashflow	(74.0)	(4.3)	(145.0)	-	-	-	-	-	-	-	-
Equity issuance/(returns)	-	2.1	44.2	-	-	-	-	-	-	-	-
Debt drawdown/(repaid)	-	(7.0)	111.7	(6.6)	(6.8)	(7.0)	(7.3)	(7.5)	(7.8)	(8.1)	(8.3)
Dividends paid	-	-	-	-	(7.7)	(13.2)	(5.7)	(10.7)	(4.7)	(5.2)	(4.7)
Financing cashflow	-	(4.9)	155.9	(6.6)	(14.5)	(20.3)	(13.0)	(18.2)	(12.5)	(13.3)	(13.1)
Net cashflow	(88.2)	(7.8)	27.9	2.0	-	-	-	-	4.7	5.2	4.7
Balance sheet (\$m)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11	3	31	33	33	33	33	33	38	43	48
Receivables	1	1	1	1	1	1	3	3	3	3	3
Fixed Assets	118	114	197	189	181	173	165	157	149	141	133
SPV equity	-	-	69	67	70	69	75	76	78	81	84
Tax assets	-	1	-	-	-	-	-	-	-	-	-
Other	6	8	8	8	8	8	8	8	8	8	8
Total Assets	136	127	307	299	294	285	284	278	276	276	276
Debt	102	95	207	200	193	186	179	172	164	156	147
Deferred Tax from SPV)	-	-	4	4	6	6	8	8	9	10	11
Other liabilities	18	18	24	18	18	18	19	19	19	19	19
Total Liabilities	120	113	235	223	217	211	206	199	192	185	177
Net Assets	15	14	71	76	76	74	78	79	84	92	99
Ave shares on issue (m)	299	308	397	482	482	482	482	482	482	482	482

SOURCE: MORGANS RESEARCH, COMPANY

Base case valuation

Our base case valuation is a blend between a Free Cash Flow to Equity (FCFE) DCF and a multiples based valuation. Figure 3 summarises our sum-of-the-parts FCFE DCF which assumes a cost of equity of 8%.

Figure 4 summarises our multiples based valuation. Our key assumptions are:

- Jemalong and K2-H are completed by FY22.
- K2-S and K3-W have been progressed but not completed and are valued on a lower multiple compared to Jemalong and KS1.
- The FY22 equity value (\$196m) is discounted at 8% p.a. to a FY19 basis.
- A total of \$40m equity is raised to complete K2-H.

Figure 3: GNX DCF sum of the parts			Figure 4: Base case multiples-based valuation					
Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Debt (\$m)	Equity (\$m)
KS1 & Jemalong	22.9	8	Jemalong + KS1	100	2.4	242.0	(160.1)	81.9
GNX share of K2-H	59.3	20	K2-H	125	2.1	262.5	(220.0)	42.5
K2-S & K3-W	21.8	7	K2-S + K3-W	320	0.3	80.0	-	80.0
Total	104.0	34	Total	545	1.1	584.5	(380.1)	204.4
Estimated future number of shares								454.5
Discounted equity value (cps)								37

SOURCE: MORGANS

Our combined base case valuation is a 50/50 weighting of the DCF and multiples based valuation and is therefore ~36cps.

Bull case valuation

Our key assumptions are:

- All projects are completed by FY22.
- The FY22 equity value (\$736m) is discounted at 8% p.a. to a FY19 basis.
- Multiples are based on the top quartile of comparable transactions.

Figure 5: Bull case summary					
Asset	MW	Multiple (\$ / W)	EV (\$m)	Debt (\$m)	Equity (\$m)
Jemalong + KS1	100	3.1	310.0	(160.1)	149.9
K2-H	125	2.1	262.5	(220.0)	42.5
K2-S + K3-W	320	3.1	992.0	(440.0)	552.0
Total	545	2.9	1,564.5	(820.1)	744.4
Estimated future number of shares (m)					984.8
Discounted equity value (cps)					65

SOURCE: MORGANS

Bear case valuation

Our key assumptions are:

- Jemalong is completed.
- K2-H, K2-S and K3-W do not proceed.

Figure 6: GNX valuation bear case		
Component	Value (\$m)	Value (cps)
KS1 & Jemalong	22.9	8

SOURCE: MORGANS

Queensland

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