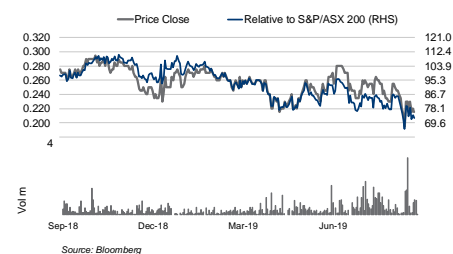


Genex Power

SPECULATIVE BUY

(no change)

Current price:	A\$0.22
Target price:	A\$0.30
Previous target:	A\$0.30
Up/downside:	39.5%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$58.14m
	A\$86.40m
Average daily turnover:	US\$0.09m
	A\$0.14m
Current shares o/s	312.4m
Free float:	69.3%



Price performance	1M	3M	12M
Absolute (%)	-12.3	-12.3	-23.2
Relative (%)	-9.4	-16.3	-27.4

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

– Genex Power

Powerlink to plug in pumped hydro

- The Queensland Government announced that it will provide a \$132m funding package for Powerlink to build a transmission line for the K2-H project to export its electricity.
- Our understanding is that the K2-H project will still need to contribute ~\$100m (\$50m GNX share) to the transmission project which is accounted for in our modelling.
- The major outstanding issue is EnergyAustralia committing to a binding off-take agreement which we expect will progress quickly.
- We maintain our SPECULATIVE BUY rating and 30cps price target with potential 40% upside on yesterday's close.

Queensland Government backs the transmission line

Queensland Premier Anastacia Palaszczuk announced a \$132m package for a transmission line to connect the K2-H project to the grid. The 186km single circuit power line will run from the project site near Kidston to Mt Fox near Ingham. Powerlink, a Queensland Government owned corporation, will take responsibility for the delivery of the transmission line and will own and operate the line.

K2-H owners will still need to contribute though

We understand that the package offered by the state government will not cover the entire cost of the transmission line and the K2-H project owners will need to contribute some additional capital to complete the project. We continue to carry the assumption that the project will spend \$100m (\$50m GNX share) towards the cost of the line. K2-H will not take part ownership of the line so we're treating the capital contribution as a form of pre-payment for capital recovery fees charged over several decades by Powerlink to K2-H.

EnergyAustralia still to take Final Investment Decision (FID)

EA currently have a non-binding agreement to take the energy produced by K2-H in addition to co-investing in K2-H as a 50/50 partner with GNX. The transmission line was the last major unknown for the project. The business case for EA should now be clear and we expect that a decision on whether or not to proceed with the project will follow soon. Given that the firm pricing from K2-H's contractors could expire by the end of CY19 we expect a decision would happen in the October-December quarter at the latest. If FID is taken this half we're not anticipating delays to K2-H commencing operations by the end of FY23. FID should also trigger some adjustments to the carrying value of K2-H on GNX's balance sheet as the project vehicle recognises the value of GNX's early work on K2-H.

Investment view

Today's news further cements the likelihood of K2-H proceeding. We don't see a need at this stage to update our assumptions on the economics of the project so we leave our price target at 30cps. The announcement should be positively received by the market as it further de-risks one of GNX's major value drivers. The next catalysts will be EnergyAustralia's decision on K2-H and GNX's debt restructure to proceed with the Jemalong solar project. We maintain our SPECULATE BUY rating.

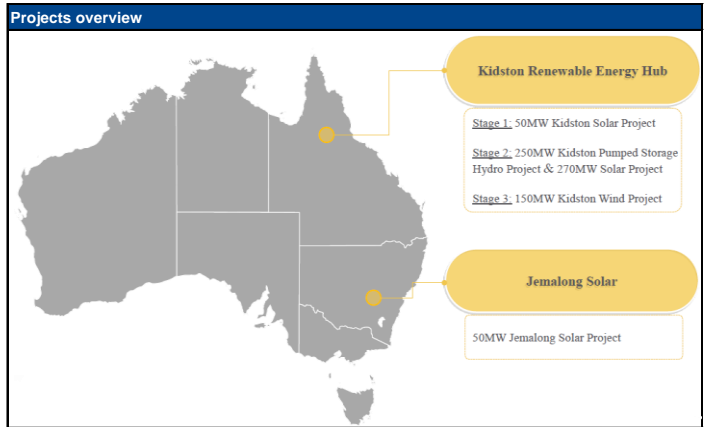
Financial Summary	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Revenue (A\$m)	8.27	10.82	18.58	24.39	23.86
Operating EBITDA (A\$m)	-1.72	5.59	15.18	20.31	19.71
Net Profit (A\$m)	-7.46	-5.48	12.06	4.02	2.37
Normalised EPS (A\$)	(0.025)	(0.018)	0.044	0.012	0.007
Normalised EPS Growth	(33.3%)	(28.8%)		(72.2%)	(41.2%)
FD Normalised P/E (x)	NA	NA	4.87	17.48	29.73
DPS (A\$)	-	-	-	-	0.004
Dividend Yield	0.00%	0.00%	0.00%	0.00%	1.76%
EV/EBITDA (x)	NA	29.79	18.25	14.10	13.93
P/FCFE (x)	NA	NA	NA	25.31	14.57
Net Gearing	596%	1187%	288%	262%	243%
P/BV (x)	4.28	7.95	1.50	1.41	1.40
ROE	(43.3%)	(46.2%)	45.7%	8.3%	4.7%
Normalised EPS/consensus EPS (x)			-3.68	-1.76	0.72

SOURCE: MORGANS, COMPANY REPORTS

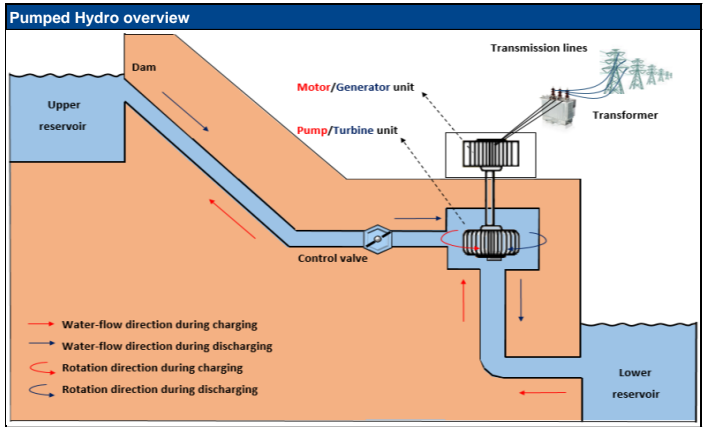
Figure 1: Business snapshot

Genex Power (as at 04-09-19)		GNX AU / GNX.AX		Utilities
Market cap (A\$m):	67.2	Rating:	SPECULATIVE BUY	
Shares outstanding (m):	312.4	Price (A\$):	0.22	
Free float (%):	69%	Target price (A\$):	0.30	
Company website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	39.5%	

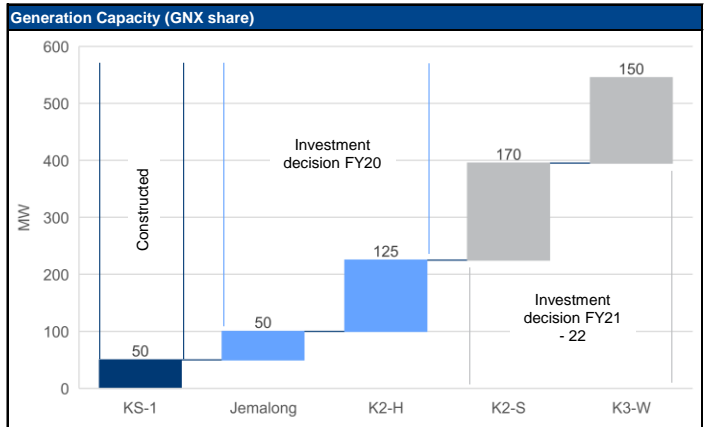
Company description
 GNX is redeveloping an old gold mine in North Queensland into an energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has plans to expand its energy generation with a second stage solar farm up to 270MW and a potential 150MW wind farm, on or near 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 approval for up to \$610m 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

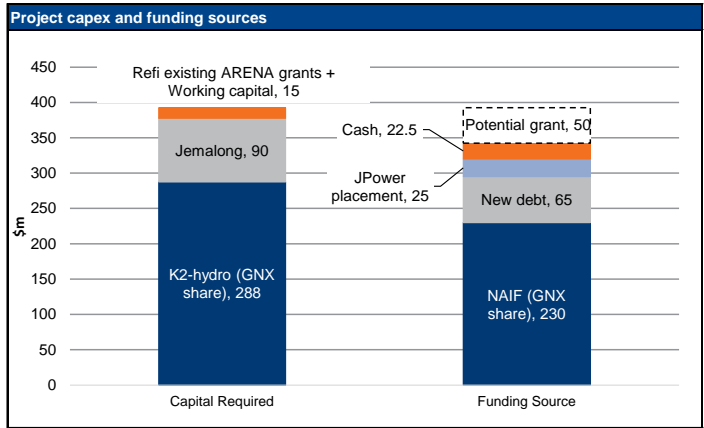
Value drivers:

- 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.

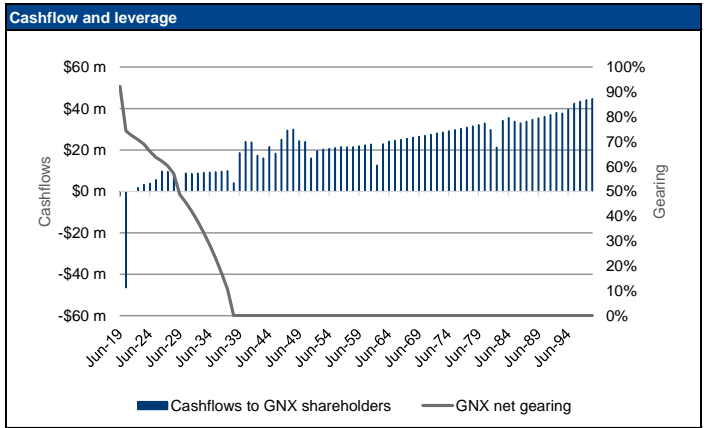
Risks:

- 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. 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	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	30.8	19.8	14.4	14.3	13.8	13.6	13.0	12.9	12.0	11.7
Price-to-earnings (x)	N/A	N/A	N/A	N/A	10	4.2	2.4	2.2	2.2	2.0	2.0
Dividend yield (%)	-	-	-	-	1.6	3.0	3.5	5.2	9.1	8.9	6.7
Net Debt / ND+E (%)	85.6	92.2	74.6	72.7	71.2	69.2	66.3	63.9	62.4	60.5	57.3
Profit and loss (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	18.6	24.4	23.9	23.9	23.7	24.0	23.6	24.5	24.2
Other inc	1.7	4.8	4.3	4.4	4.5	4.6	4.7	4.8	4.9	5.0	5.1
Expenses	(11.7)	(10.0)	(7.7)	(8.5)	(8.6)	(8.8)	(9.0)	(9.2)	(9.4)	(9.6)	(9.8)
EBITDA	(1.7)	5.6	15.2	20.3	19.7	19.6	19.3	19.5	19.1	19.9	19.5
D&A	(3.0)	(6.4)	(6.8)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)
Operating EBIT	(4.7)	(0.8)	8.3	12.3	11.7	11.6	11.4	11.6	11.2	11.9	11.6
Net Interest Expense	(2.7)	(4.7)	(4.9)	(5.3)	(5.0)	(4.7)	(4.4)	(4.1)	(3.9)	(3.6)	(3.3)
K2H equity accounted profit	-	-	13.8	(1.3)	(3.4)	0.9	6.9	7.3	7.6	8.0	8.3
Profit Before Tax	(7.5)	(5.5)	17.2	5.7	3.4	7.9	13.9	14.7	15.0	16.3	16.6
Tax	-	-	(5.2)	(1.7)	(1.0)	(2.4)	(4.2)	(4.4)	(4.5)	(4.9)	(5.0)
Statutory Net Profit	(7.5)	(5.5)	12.1	4.0	2.4	5.5	9.7	10.3	10.5	11.4	11.6
Exceptional items (post tax)	-	-	(9.7)	-	-	-	-	-	-	-	-
Underlying Net Profit	(7.5)	(5.5)	2.4	4.0	2.4	5.5	9.7	10.3	10.5	11.4	11.6
Cashflows (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	15.2	20.3	19.7	19.6	19.3	19.5	19.1	19.9	19.5
K2H SPV distributions	-	-	-	-	-	-	-	-	6.4	5.6	5.2
WC & non-cash adjustments	(0.5)	(0.8)	5.0	(6.0)	0.0	0.0	(0.5)	(0.0)	0.0	(0.0)	0.0
Gross operating cashflow	(2.2)	4.8	20.2	14.3	19.7	19.6	18.8	19.5	25.5	25.4	24.8
Net interest paid	(3.9)	(4.3)	(4.9)	(5.3)	(5.0)	(4.7)	(4.4)	(4.1)	(3.9)	(3.6)	(3.3)
Cash paid for Tax	-	-	(0.9)	(1.7)	(1.0)	(1.4)	(2.1)	(2.2)	(4.1)	(4.2)	(4.0)
Operating cashflow	(6.1)	0.5	14.4	7.3	13.7	13.5	12.3	13.2	17.6	17.7	17.4
Capex (GNX not K2H SPV)	(82.3)	(12.3)	(145.0)	-	-	-	-	-	-	-	-
Investing cashflow	(82.3)	(12.3)	(145.0)	-	-	-	-	-	-	-	-
Equity issuance/(returns)	3.2	2.1	46.5	-	-	-	-	-	-	-	-
Debt drawdown/(repaid)	85.1	2.2	110.0	(3.3)	(6.8)	(7.0)	(7.3)	(7.6)	(7.8)	(8.1)	(8.4)
Dividends paid	-	-	-	-	(1.8)	(3.3)	(3.8)	(5.6)	(9.8)	(9.6)	(7.2)
Financing cashflow	88.3	4.3	156.5	(3.3)	(8.6)	(10.3)	(11.1)	(13.2)	(17.6)	(17.7)	(15.6)
Net cashflow	(0.1)	(7.5)	25.9	4.0	5.1	3.3	1.3	-	-	-	1.8
Balance sheet (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	29.3	33.3	38.4	41.7	42.9	42.9	42.9	42.9	44.7
Receivables	0.9	2.0	1.3	1.2	1.2	1.2	2.5	2.5	2.5	2.6	2.5
Fixed Assets	118.2	113.3	196.4	188.4	180.5	172.5	164.5	156.6	148.6	140.6	132.7
SPV equity	-	1.9	70.7	69.4	66.0	67.0	73.9	81.2	82.5	84.9	88.0
Tax assets	-	-	-	-	-	-	-	-	-	-	-
Other	5.6	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Total Assets	135.6	134.5	311.7	306.3	300.1	296.3	297.8	297.1	290.5	285.0	281.9
Debt	102.1	103.7	222.5	219.2	212.4	205.4	198.1	190.5	182.7	174.6	166.2
Deferred Tax from SPV)	-	-	4.3	4.3	4.3	5.2	7.3	9.5	9.9	10.6	11.6
Other liabilities	18.3	22.4	19.0	12.9	12.9	12.9	13.7	13.7	13.7	13.7	13.8
Total Liabilities	120.4	126.1	245.8	236.4	229.6	223.5	219.0	213.7	206.3	199.0	191.5
Net Assets	15.3	8.4	65.9	69.9	70.5	72.8	78.7	83.4	84.2	86.0	90.4
Ave shares on issue (m)	303.9	312.4	467.4	467.4	467.4	467.4	467.4	467.4	467.4	467.4	467.4

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 the end of FY23.
- K2-S and K3-W have been progressed but not completed and are valued on a lower multiple compared to Jemalong and KS1.
- The FY23 equity value is discounted at 8% p.a. to a FY20 basis.

Figure 3: GNX valuation sum of the parts			Figure 4: Base case summary – valuation on multiples					
Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Debt (\$m)	Equity (\$m)
KS1 & Jemalong	16.7	5	Jemalong + KS1	97.7	2.4	236.4	(164.3)	72.1
GNX share of K2-H	50.6	16	K2-H	125	2.1	262.5	(230.0)	32.5
K2-S & K3-W	21.8	7	K2-S + K3-W	320	0.3	80.0	-	80.0
Total	89.1	29	Total	542.7	1.1	578.9	(394.3)	184.6
Estimated future number of shares								467.4
Discounted equity value (cps)								31

SOURCE: MORGANS

Our combined base case valuation is a 50/50 weighting of the DCF and multiples based valuation and is therefore 30cps.

Bull case valuation

Our key assumptions are:

- All projects are completed by FY23.
- The FY23 equity value is discounted at 8% p.a. to a FY20 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	97.7	3.1	302.9	(164.3)	138.5
K2-H	125	2.1	262.5	(230.0)	32.5
K2-S + K3-W	320	3.1	992.0	(440.0)	552.0
Total	542.7	2.9	1,557.4	(834.3)	723.0
Estimated future number of shares (m)					1015.4
Discounted equity value (cps)					57

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	16.7	5

SOURCES: MORGANS

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