

Genex Power

Coffee is for closers so come get a cup

ADD (previously SPECULATIVE BUY)

Current price:	A\$0.20
Target price:	A\$0.34 ▲
Previous target:	A\$0.33
Up/downside:	70.0%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$166.2m
	A\$214.6m
Average daily turnover:	US\$0.37m
	A\$0.49m
Current shares o/s	401.8m
Free float:	69.3%



Price performance	1M	3M	12M
Absolute (%)	-18	-11.4	58.1
Relative (%)	-21.5	-16.6	27.7

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

– Genex Power

- GNX is raising \$115m in new equity to be ready to reach financial close on the Kidston Hydro project (K2-H).
- The additional cash raised allows GNX to reach financial close without needing a JV partner.
- We increase our base case valuation to 34cps (+6%) on updated K2-H modelling including the 100% ownership stake and additional equity.
- We upgrade our rating to ADD given our price target (70% upside) and the funding of K2-H being secured following the capital raise.

GNX's \$115m should get it to financial close

The new equity that GNX has raised will allow the company to fund K2-H without a joint venture partner. We think this drastically de-risks the company's prospects and secures the path for the most significant asset in GNX's development pipeline, especially now that it will have a 100% stake rather than a 50/50 share. GNX is looking forward to a mostly fixed revenue stream from the offtake agreement with EnergyAustralia (EA) that transfers energy market risk to EA. The offtake agreement is structured as three consecutive ten-year periods with the option for EA to purchase the asset at the end of the contract.

What's next in the development pipeline?

GNX also has a number of other projects at different stages of development. The 50MW Jemalong solar farm is in commissioning and the 50MW/75MWh Bouldercombe battery and 150MW Kidston Wind project are in early stages of planning and analysis. Bouldercombe is further progressed than the wind project with a site selected and GNX expects could be developed quickly. The potential expansion of the existing Kidston solar asset appears to be on the backburner which we think is unsurprising given the large increase in both rooftop and grid scale solar projects in Queensland.

Updating our valuation and financial model

Our valuation of GNX is still derived using a 50/50 blend of DCF and asset multiple (\$m/MW) methodologies. We have significantly updated our financial model to incorporate K2-H and we are using a more detailed DCF given the clarity we now have on how the project can proceed (higher ownership stake funded by new equity). We also update our asset-based valuation to exclude the solar expansion but it includes the Bouldercombe battery and a higher assumed multiples for the wind project. The net impact is to increase our valuation to 34cps (+6%).

Upgrade to ADD with K2-H funding secured

We've said for a long time that we see K2-H as the most significant value driver for the company. With the funding question resolved by the equity raise and the ownership structure simplified by dropping the JV partner we think GNX has been significantly de-risked. There are not many listed pure play renewable companies on the ASX to meet the growing investor demand for exposure. We think that as GNX completes the outstanding items to formally reach financial close (estimated to be by mid-May) the share price will move towards our valuation. GNX will still need to successfully construct K2-H but the company has structured its contract to transfer most of the risk onto its contractors. We upgrade our rating to ADD on the K2-H funding certainty and the upside we see to our price target of 34cps (70% upside).

Financial Summary	Jun-19A	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	10.82	10.25	13.13	21.68	47.44
Operating EBITDA (A\$m)	5.59	1.77	16.62	13.87	36.91
Net Profit (A\$m)	-9.17	-19.98	0.93	-1.45	1.94
Normalised EPS (A\$)	(0.030)	(0.050)	0.006	(0.002)	0.002
Normalised EPS Growth	101%	67%		(134%)	
FD Normalised P/E (x)	NA	NA	49.66	NA	80.21
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	28.9	114.7	10.6	41.9	25.7
P/FCFE (x)	NA	1.73	NA	NA	NA
Net Gearing	1187%	1077%	37%	189%	223%
P/BV (x)	7.40	7.06	1.12	1.13	0.66
ROE	(77%)	(202%)	3%	(1%)	1%
% Change In Normalised EPS Estimates			167%	(137%)	(36%)
Normalised EPS/consensus EPS (x)			-0.97	-0.22	0.83

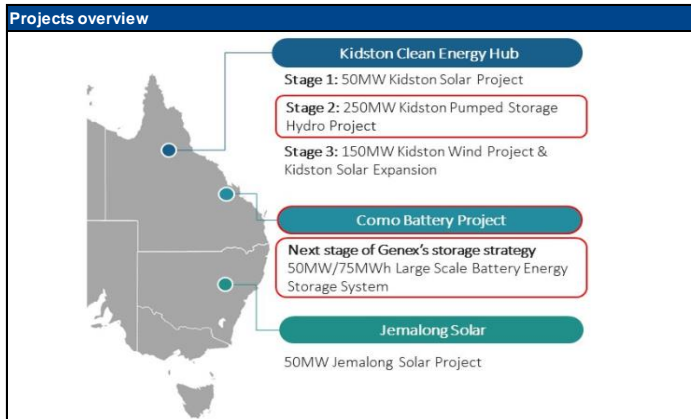
Genex Power

as at April 18, 2021

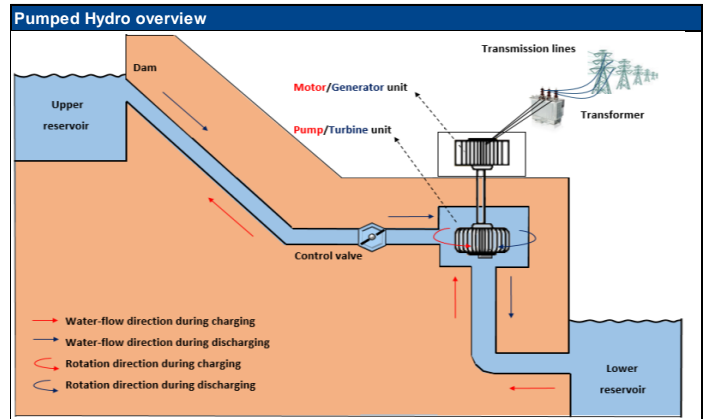
Market cap (A\$m):	214.6	Rating:	ADD
Shares outstanding (m):	401.8	Price (A\$):	0.20
Free float (%):	69.3	Target price (A\$):	0.34
Website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	70.0

Company description

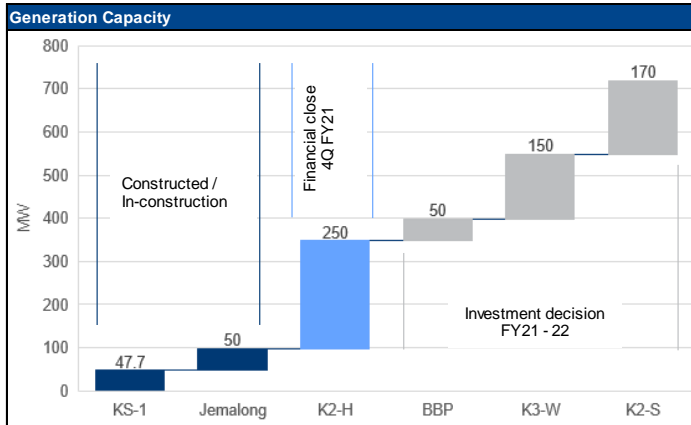
GNX is redeveloping an old gold mine in North Queensland into a 250MW energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has a second 50MW solar farm being commissioned at Jemalong in Central NSW as well as plans to expand with a 50MW/75MWh battery in Central Queensland and a potential 150MW wind farm near the Kidston site. The output of the existing Kidston solar farm is contracted to the Qld government for 20 years and the company has an offtake agreement with EnergyAustralia for the output of the pumped hydro project. 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, the Kidston site acquired in 2014 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



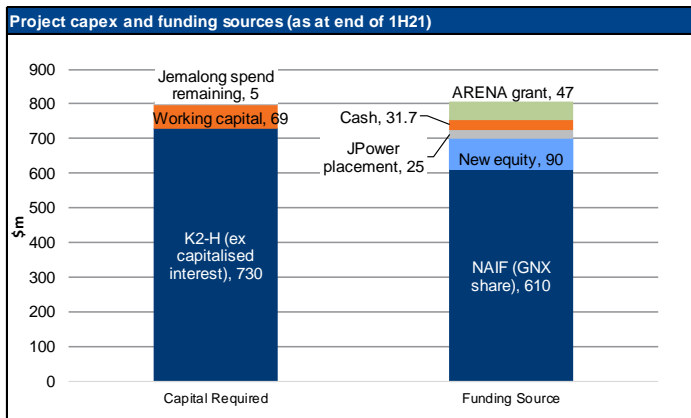
SOURCE: Journal of Power Technologies (2017)



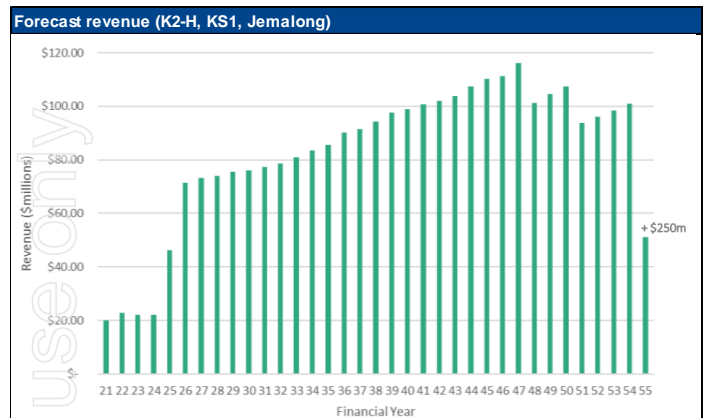
SOURCES: MORGANS, GNX

- Risks and Drivers**
- Value drivers:**
- Solar output of Stage 1 as price is contracted and locked in.
 - NSW spot price of electricity as Jemalong is currently uncontracted.
 - Spot price of LGCs as Jemalong is currently uncontracted.
 - If carbon reduction targets increase, the value of future renewables projects will also increase.
 - Progress on construction of K2-H.
 - Energy arbitrage and grid services prices for Bouldercombe battery project.
- Risks:**
- Construction and commissioning risk of the Jemalong, K2-H pumped hydro, Bouldercombe battery and K3-W wind projects.
 - Electricity network congestion for Jemalong and future wind / solar from an excess of renewable generation.
 - Non-renewal of K2-H offtake agreement following initial ten year period.
 - Increasing competition from increasing number of battery projects for Bouldercombe project for energy arbitrage and grid services.
 - Marginal Loss Factors (MLF) on all projects other than KS-1 and K2-H.
 - Technological changes driving energy efficiency and alternative generation.
 - Interest rates and inflation.
 - Changes to tax regimes.

SOURCE: MORGANS



SOURCES: MORGANS, GNX



SOURCE: GNX

Figure 1: Financial summary (includes KS1, Jemalong, K2-H, BBP and K3-W)

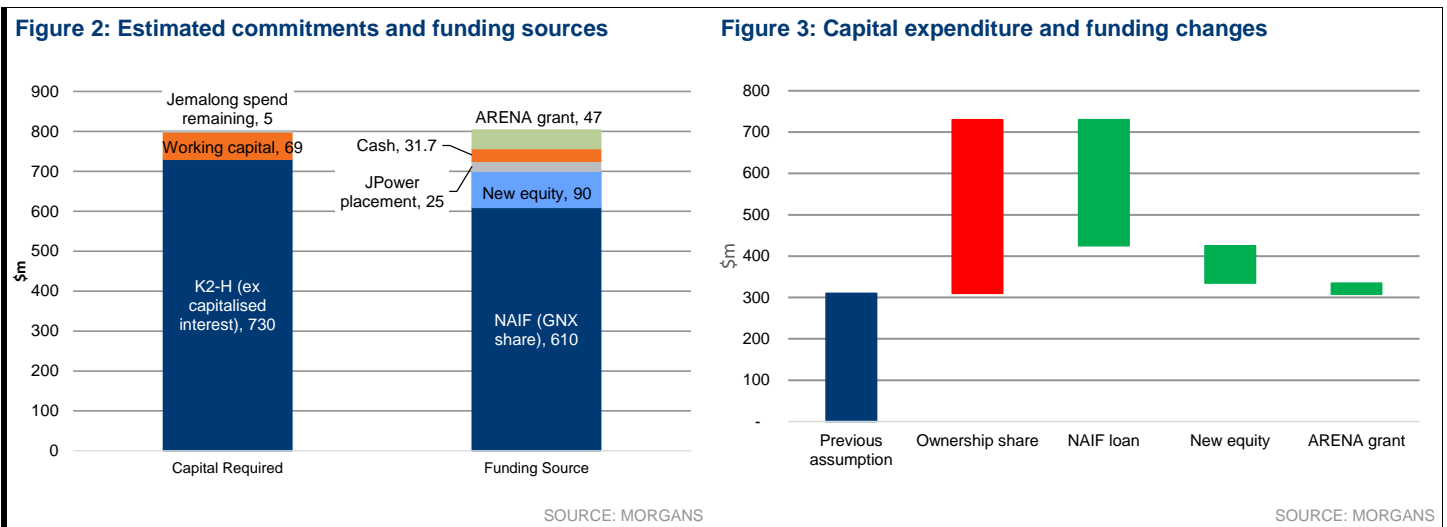
Key multiples & gearing	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	29.1	114.9	17.4	41.9	25.7	23.8	15.9	11.2	10.4	9.7
Price-to-earnings (x)	N/A	N/A	N/A	N/A	N/A	112	209	19	9	8	8
Dividend yield (%)	-	-	-	-	-	-	4.0	4.2	5.6	5.8	6.1
Free cashflow yield (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.6	30.3	31.3	32.4
Net Debt / ND+E (%)	85.6	92.2	91.5	27.2	65.5	69.1	73.7	73.5	71.5	69.2	66.6
Profit and loss (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	10.3	13.1	21.7	47.4	63.3	88.8	115.5	117.4	119.6
Other inc	1.7	4.8	2.0	12.7	-	-	-	-	-	-	-
Expenses	(11.7)	(10.0)	(10.5)	(9.2)	(7.8)	(10.5)	(16.6)	(18.9)	(21.2)	(21.5)	(21.8)
EBITDA	(1.7)	5.6	1.8	16.6	13.9	36.9	46.7	69.8	94.2	95.9	97.9
D&A	-	(6.4)	(8.0)	(7.6)	(9.0)	(16.0)	(20.4)	(26.6)	(32.8)	(32.8)	(32.8)
Operating EBIT	(1.7)	(0.8)	(6.2)	9.0	4.8	20.9	24.4	39.5	57.7	59.4	61.3
Net Interest Expense	(2.7)	(4.7)	(4.3)	(4.7)	(7.0)	(18.2)	(22.9)	(22.9)	(22.0)	(21.1)	(20.1)
Profit Before Tax	(4.4)	(5.5)	(10.5)	4.2	(2.2)	2.7	1.5	16.6	35.7	38.3	41.2
Tax	-	-	-	(2.1)	0.7	(0.8)	(0.4)	(5.0)	(10.7)	(11.5)	(12.3)
Statutory Net Profit	(4.4)	(5.5)	(10.5)	2.2	(1.4)	1.9	1.0	11.6	25.0	26.8	28.9
Cashflow hedges (post tax)	0.0	(3.7)	(9.4)	(1.2)	-	-	-	-	-	-	-
Total comprehensive income	(4.4)	(9.2)	(20.0)	0.9	(1.4)	1.9	1.0	11.6	25.0	26.8	28.9
Cashflows (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	1.8	16.6	13.9	36.9	46.7	69.8	94.2	95.9	97.9
WC & non-cash adjustments	(0.5)	(0.8)	(2.5)	(1.8)	0.1	0.0	(0.4)	0.0	0.0	(0.0)	(0.0)
Gross operating cashflow	(2.2)	4.8	(0.8)	14.8	14.0	36.9	46.3	69.9	94.2	95.9	97.8
Net interest paid	(3.9)	(4.3)	(3.4)	(4.7)	(7.0)	(18.2)	(22.9)	(22.9)	(22.0)	(21.1)	(20.1)
Cash paid for Tax	-	-	-	(2.4)	(0.6)	(4.4)	(5.7)	(6.1)	(6.4)	(6.9)	(7.4)
Operating cashflow	(6.1)	0.5	(4.1)	7.7	6.4	14.4	17.6	40.9	65.8	67.9	70.3
Capex	(83.0)	(12.2)	(38.0)	(93.6)	(297.6)	(514.6)	(172.9)	(31.0)	-	-	-
Investing cashflow	(83.0)	(12.2)	(38.0)	(93.6)	(297.6)	(514.6)	(172.9)	(31.0)	-	-	-
Equity issuance/(returns)	3.2	1.9	20.6	138.1	-	133.5	-	-	-	-	-
Debt drawdown/(repaid)	85.1	2.3	83.5	24.6	287.0	373.3	67.5	(24.4)	(33.5)	(34.5)	(35.4)
Dividends paid	-	-	-	-	-	-	(8.8)	(9.1)	(12.3)	(12.7)	(13.2)
Financing cashflow	88.3	4.3	104.1	162.7	287.0	506.8	58.7	(33.5)	(45.7)	(47.1)	(48.7)
Net cashflow	(0.7)	(7.4)	62.0	76.8	(4.2)	6.6	(96.6)	(23.5)	20.0	20.8	21.7
Balance sheet (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	65.5	142.3	138.1	144.7	48.1	24.6	44.6	65.4	87.1
Receivables	0.9	2.0	3.5	1.6	0.9	0.9	1.7	1.7	1.7	1.7	1.7
Fixed Assets	118.2	118.1	170.7	237.6	526.2	1,024.8	1,066.2	1,070.6	1,037.7	1,004.9	972.1
Other	5.6	11.0	14.2	58.1	59.4	63.0	177.5	174.9	166.9	158.6	150.0
Total Assets	135.6	134.5	253.9	439.6	724.7	1,233.4	1,293.5	1,271.7	1,250.9	1,230.6	1,210.8
Debt	102.1	103.7	188.0	214.5	501.5	874.8	942.3	917.9	884.4	850.0	814.5
Other liabilities	18.3	22.4	54.5	31.8	31.3	31.3	31.7	31.7	31.7	31.7	31.8
Total Liabilities	120.4	126.1	242.5	246.4	532.8	906.2	974.0	949.6	916.1	881.7	846.3
Net Assets	15.3	8.4	11.4	193.3	191.8	327.2	319.5	322.1	334.8	348.9	364.6
Shares on issue (m)	303.9	312.4	401.8	1,086.5	1,086.5	1,086.5	1,086.5	1,086.5	1,086.5	1,086.5	1,086.5

SOURCE: MORGANS RESEARCH, COMPANY

A refresher on Kidston pumped hydro

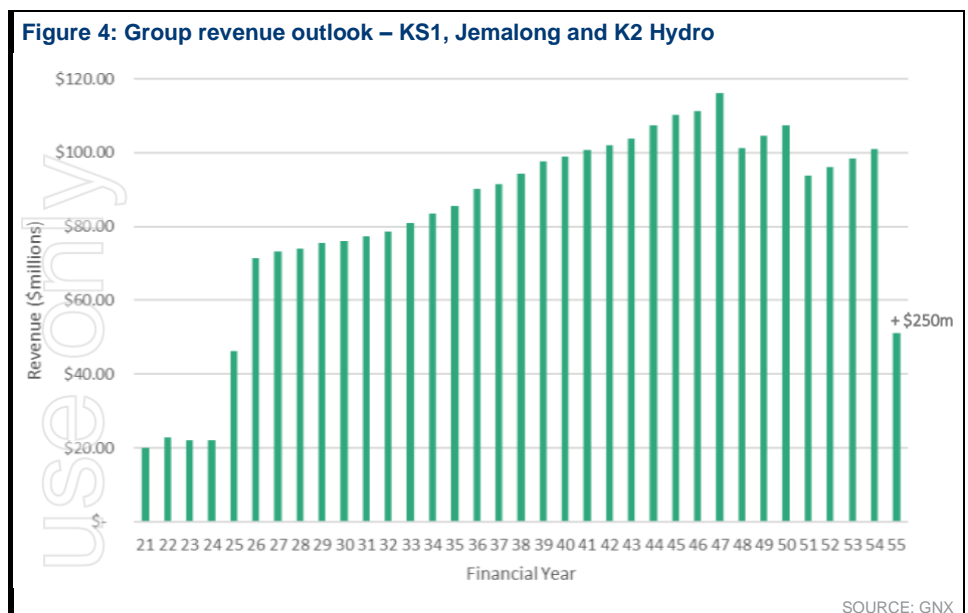
Getting it built

Building a highly capital intensive project like K2-H with a micro-cap's balance sheet has long been a challenge for the company. Prior to the recent capital raise, GNX was pursuing a joint venture partner to share the equity requirements in addition to utilising the large concessional debt on offer from the Northern Australia Infrastructure Facility (NAIF). The new equity raised means that a joint venture partner is no longer required and GNX can retain 100% ownership of the asset. The combination of new equity, 100% share of the NAIF loan and a larger ARENA grant than we were allowing for will provide the funding that the company will need for its increased stake in the project.



Steady operating cashflow post-construction

GNX forecasts that construction and commissioning will take between 3-4 years before the asset can begin operation and earning revenue. Once in operation K2-H will give GNX a mostly fixed revenue stream under a long term offtake agreement. The company has said that it expects revenue will average \$82.5m pa across 2025 – 2055 excluding any potential income from the Bouldercombe battery or Kidston wind project. This is in-line with our expectations which were based on a discount to the historical value of energy arbitrage. The price in the agreement will escalate over time although we understand that the majority will be with reference to a fixed escalator and a minority with reference to CPI.



Key factors in the offtake agreement

We think it is important for investors to understand the structure of the offtake agreement to be able to rank GNX against other investment options. The contract with EA transfers all of the wholesale market risk and opportunity away from GNX in return for fixed payments. In return we anticipate that GNX will need to keep the facility operational and we would also expect there to be performance benchmarks that K2-H will be required to meet. The terms of the agreement is for an initial ten year commitment with two further consecutive ten year periods at EA's option. If EA renews the agreement both times it then will have the right to purchase the asset from GNX for its written down value at the end of the agreement which is estimated to be \$250m. Pumped hydro assets can have useful lives of 80 years or more so we expect that the significant remaining value on offer to EA will mean that it will most likely commit to the full thirty year period of the agreement.

Financial forecasts

Forecast income statement

Figure 5: Forecast group income statement

Profit and loss (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	10.3	13.1	21.7	47.4	63.3	88.8	115.5	117.4	119.6
Other inc	1.7	4.8	2.0	12.7	-	-	-	-	-	-	-
Expenses	(11.7)	(10.0)	(10.5)	(9.2)	(7.8)	(10.5)	(16.6)	(18.9)	(21.2)	(21.5)	(21.8)
EBITDA	(1.7)	5.6	1.8	16.6	13.9	36.9	46.7	69.8	94.2	95.9	97.9
D&A	-	(6.4)	(8.0)	(7.6)	(9.0)	(16.0)	(20.4)	(26.6)	(32.8)	(32.8)	(32.8)
Operating EBIT	(1.7)	(0.8)	(6.2)	9.0	4.8	20.9	24.4	39.5	57.7	59.4	61.3
Net Interest Expense	(2.7)	(4.7)	(4.3)	(4.7)	(7.0)	(18.2)	(22.9)	(22.9)	(22.0)	(21.1)	(20.1)
Profit Before Tax	(4.4)	(5.5)	(10.5)	4.2	(2.2)	2.7	1.5	16.6	35.7	38.3	41.2
Tax	-	-	-	(2.1)	0.7	(0.8)	(0.4)	(5.0)	(10.7)	(11.5)	(12.3)
Statutory Net Profit	(4.4)	(5.5)	(10.5)	2.2	(1.4)	1.9	1.0	11.6	25.0	26.8	28.9
Cashflow hedges (post tax)	0.0	(3.7)	(9.4)	(1.2)	-	-	-	-	-	-	-
Total comprehensive income	(4.4)	(9.2)	(20.0)	0.9	(1.4)	1.9	1.0	11.6	25.0	26.8	28.9

SOURCES: MORGANS, COMPANY REPORTS

We have updated our financial forecast to include revenue from K2-H as well as the future Bouldercombe battery and K3-W wind projects. Our FY21 revenue forecast has increased significantly on the assumption that the \$9m in forgiven convertible notes will be treated as other income in addition the payments from UGL relating to the KS1 project. We have assumed that Jemalong's commissioning will be complete early in FY22 producing the uplift in net revenue in that year. In FY23 forecast revenue grows further with contributions from the Bouldercombe project and a partial year of output from the K3-W project. We have allowed for first revenue from K2-H in FY25 with revenue growing further in FY26 from a full year's contribution from the project.

Forecast cash flows

Figure 6: Forecast cash flow

Cashflows (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	1.8	16.6	13.9	36.9	46.7	69.8	94.2	95.9	97.9
WC & non-cash adjustments	(0.5)	(0.8)	(2.5)	(1.8)	0.1	0.0	(0.4)	0.0	0.0	(0.0)	(0.0)
Gross operating cashflow	(2.2)	4.8	(0.8)	14.8	14.0	36.9	46.3	69.9	94.2	95.9	97.8
Net interest paid	(3.9)	(4.3)	(3.4)	(4.7)	(7.0)	(18.2)	(22.9)	(22.9)	(22.0)	(21.1)	(20.1)
Cash paid for Tax	-	-	-	(2.4)	(0.6)	(4.4)	(5.7)	(6.1)	(6.4)	(6.9)	(7.4)
Operating cashflow	(6.1)	0.5	(4.1)	7.7	6.4	14.4	17.6	40.9	65.8	67.9	70.3
Capex	(83.0)	(12.2)	(38.0)	(93.6)	(297.6)	(514.6)	(172.9)	(31.0)	-	-	-
Investing cashflow	(83.0)	(12.2)	(38.0)	(93.6)	(297.6)	(514.6)	(172.9)	(31.0)	-	-	-
Equity issuance/(returns)	3.2	1.9	20.6	138.1	-	133.5	-	-	-	-	-
Debt drawdown/(repaid)	85.1	2.3	83.5	24.6	287.0	373.3	67.5	(24.4)	(33.5)	(34.5)	(35.4)
Dividends paid	-	-	-	-	-	-	(8.8)	(9.1)	(12.3)	(12.7)	(13.2)
Financing cashflow	88.3	4.3	104.1	162.7	287.0	506.8	58.7	(33.5)	(45.7)	(47.1)	(48.7)
Net cashflow	(0.7)	(7.4)	62.0	76.8	(4.2)	6.6	(96.6)	(23.5)	20.0	20.8	21.7

SOURCES: MORGANS, COMPANY REPORTS

We have significantly increased our forecast capital expenditure across FY22 – FY25 as GNX constructs K2-H in addition to our assumption that Bouldercombe and K3-W will be constructed over that period. We have also increased our FY21 equity issuance forecast to allow for the recently raised equity and for the additional J-POWER equity. In FY23 we have allowed for further capital required to fund the K3-W project with a 50/50 mix of debt and equity. Given that the commercial strategy for the Bouldercombe battery is not yet clear we have assumed that this will be funded 100% from equity.

A key unknown in our modelling is how quickly the NAIF debt will need to be repaid. We have assumed that the loan will be structured as a self-amortising loan, similar to a mortgage, with a 27 year tenor. Importantly we understand that this loan will need to be refinanced in 15 years at commercial rates. We have assumed that the refinanced portion at 15 years is in line with the structure of a 27 year loan term. Our estimate for future interest rates has been drawn from the implied rate derived from 15 year and 30 year Australian Government Bond yields with an assumed credit spread of 150bps for commercial rates. Larger principal repayments in the initial 15 years or higher rates on refinancing will reduce the available cashflow for equity holders compared to our model.

Forecast balance sheet

Figure 7: Forecast balance sheet

Balance sheet (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	65.5	142.3	138.1	144.7	48.1	24.6	44.6	65.4	87.1
Receivables	0.9	2.0	3.5	1.6	0.9	0.9	1.7	1.7	1.7	1.7	1.7
Fixed Assets	118.2	118.1	170.7	237.6	526.2	1,024.8	1,066.2	1,070.6	1,037.7	1,004.9	972.1
Other	5.6	11.0	14.2	58.1	59.4	63.0	177.5	174.9	166.9	158.6	150.0
Total Assets	135.6	134.5	253.9	439.6	724.7	1,233.4	1,293.5	1,271.7	1,250.9	1,230.6	1,210.8
Debt	102.1	103.7	188.0	214.5	501.5	874.8	942.3	917.9	884.4	850.0	814.5
Other liabilities	18.3	22.4	54.5	31.8	31.3	31.3	31.7	31.7	31.7	31.7	31.8
Total Liabilities	120.4	126.1	242.5	246.4	532.8	906.2	974.0	949.6	916.1	881.7	846.3
Net Assets	15.3	8.4	11.4	193.3	191.8	327.2	319.5	322.1	334.8	348.9	364.6
Shares on issue (m)	303.9	312.4	401.8	1,086.5	1,086.5	1,086.5	1,086.5	1,086.5	1,086.5	1,086.5	1,086.5

SOURCES: MORGANS, COMPANY REPORTS

Our forecast for GNX's net gearing peaks in FY24 at 74% at a group level as K2-H nears completion and is not contributing cashflow until FY25.

Comparison to energy peers

Figure 8: Peer company comparison (as at 11:40AM, 16 April 2021)

Name	Mkt Cap (A\$m)	EV (\$m)	EV/TTM EBITDA	EV/EBITDA FY21	EV/EBITDA FY22	P/E TTM	P/E FY21	P/E FY22	P/FCF	Dividend Yield
Average	5,856	8,890	14.95	15.54	13.06	53.31	54.25	27.27	16.79	6.05
GENEX POWER LTD	225	205	20.08	22.88	13.43	N/A	N/A	23.33	N/A	N/A
AUSNET SERVICES	7,032	16,096	12.98	13.21	13.48	20.01	20.56	23.42	N/A	5.32
SPARK INFRASTRUCTURE GROUP	3,799	4,961	N/A	6.08	6.1	35.54	55.51	55.51	19.42	6.24
APA GROUP	11,852	21,151	12.92	13.06	12.34	153.45	41.51	33.48	18.62	5.08
AGL ENERGY LTD	5,934	8,889	4.77	5.16	6.07	N/A	11.21	16.48	6.15	9.66
ORIGIN ENERGY LTD	8,269	13,069	N/A	6.61	5.82	N/A	26.23	15.81	9.17	4.79
MERIDIAN ENERGY LTD	13,388	14,935	25.49	22.2	22.03	68.19	63.71	60.97	30.03	2.98
CONTACT ENERGY LTD	5,149	6,178	15.4	13.94	13.59	35.82	38.15	35.47	17.37	5.14
NEW ENERGY SOLAR LTD	282	273	N/A	7.52	7.86	N/A	6.08	6.58	N/A	7.59
TILT RENEWABLES LTD	2,632	3,146	13.01	44.71	29.89	6.86	225.3	1.66	N/A	7.68

SOURCE: BLOOMBERG

With K2-H heading towards financial close and significantly de-risked we think it's worth reviewing how GNX compares to other energy utilities. We see GNX sitting between the regulated utilities and the integrated retailers in terms of the quality and predictability of its cashflows once its assets are constructed and operational. We do also note though that GNX will be more heavily geared than the integrated retailers following the construction of K2-H. Principal repayments on GNX's debts will initially constrict its ability to pay dividends (forecast FY24 dividend yield of 4%) but we expect this would grow steadily and with more certainty than the integrated retailers.

Valuation and risks

Changes in valuation

We reduce our DCF valuation to 29cps (-5cps) which we combine with our asset based valuation of 38cps (+8cps) to increase our valuation to 34cps (+2cps).

Our DCF has reduced as we have replaced our previously simplistic DCF with a more detailed model incorporating what we now know about how K2-H will be funded. Offsetting the decrease in our DCF is a significantly higher asset multiple valuation reflecting recent market offers for renewables companies such as Tilt. We have also removed the expanded Kidston solar project from our valuation as we think the challenging economics of grid scale solar given weak daytime prices will make it harder for the project to be viable.

Key assumptions in our DCF:

- Valuation is derived from free cashflow to equity.
- Cost of equity of 7.5% (based on 3% risk free rate, 6% equity risk premium and equity beta of 0.75).

Figure 9: Sum of the parts DCF

Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
KS1 + Jemalong	26.3	2	Jemalong + KS1	97.7	2.4	234.5	(149.8)	84.7
K2H	192.2	18	K2-H	250	3.3	825.0	(578.2)	246.8
K3W	57.1	5	Bouldercombe	50	0.4	19.0	-	19.0
Bouldercombe	41.0	4	K3-W	150	0.4	57.0	-	57.0
Total	316.6	29	Total	547.7	2.1	1,135.5	(728.0)	407.5
Number of shares								1,086.5
Discounted equity value (cps)								38

SOURCE: MORGANS

Key risks to our base case valuation:

- Economic viability of Bouldercombe battery and K3-W wind projects.
- Debt amortisation rate for NAIF debt.
- Construction risk.
- Electricity and carbon prices.
- Interest rates and inflation.
- Tax regimes.

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