

Genex Power ^{GNX}

Signs K2-Hydro PPA with Energy Australia

Rating*:	BUY	Price Target*:	\$0.33
Risk:	Speculative	Share Price:	\$0.14

*Note: Rating and Price Target recorded at pre-announcement levels as detailed in our research report dated 28 February 2020.

- Signs PPA with EA: GNX has signed a binding Energy Storage Services Agreement with Energy Australia (EA) for the K2-Hydro (K2H) project. The deal is for a term of up to 30 years, structured with an initial term of 10 years and two 10-year options (at EA's election). The deal provides EA with full dispatch rights to the project in return for a fixed rental payment (which will escalate over time). If EA exercises both options, it has the right to acquire GNX's stake in K2-Hydro at the expiry of the 30-year term for a fixed cash payment.
- Term difference lowers interest: The original, non-binding term sheet with EA was "long term" (we now assume this was a fixed 30 years), which meant that the borrowing rate from NAIF would have been based on the 30-year bond rate (currently 1.7%). Under the new deal, we believe the lending will be based on the 10-year bond rate (currently 0.8%), reducing interest costs in the initial lease term (although longer term interest rate resets may result in higher costs).
- Equity arrangement altered: The previous agreement also envisaged EA taking a 50% stake at the project level; the new agreement will see GNX take a 100% stake at the project level. However, we understand that GNX is engaging with interested parties with a view to farming out 50% of its equity. With GNX still to be reimbursed for the partner's share of incurred costs on the project, and the possibility of government grants being included, we envisage minimal additional cash being required from GNX to fund its equity portion.
- Other stakeholders remain interested: GNX has previously announced that other stakeholders (including J-Power and NAIF) remain interested in the project, having extended various funding agreements. We estimate a total funding package of around \$700m, with around \$100m equity and \$600m debt.
- Investment view: All three of the key stakeholders in the K2H project (J-POWER, NAIF and EA) have now reaffirmed their financial commitment to the project. This announcement paves the way for financial close on the K2-Hydro project, which is expected to be achieved within 3-6 months. This would add significant potential upside to the GNX valuation. BUY maintained.

Disclosure: E.L. & C. Baillieu Limited has acted in a corporate advisory role and raised capital in a placement for GNX, and earned fees in relation to that activity in the past 12 months.

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