

Genex Power Ltd (GNX \$0.255) Buy

Analyst	Date	Price Target
Jon Bishop	11 th July 2019	\$0.70/sh

\$610m in Concessional Funding Approved by NAIF

Key Points

- The Northern Australia Infrastructure Facility (“NAIF”) Board has approved the investment decision for up to \$610m of concessional debt funding for the Kidston Stage 2 Pumped Hydro Development;
- The amount is an increase in the nominal \$516m announced in Jun 2018;
- Though terms are confidential, we assume a tenor of 20yrs with a modest amortisation schedule;
- Cost of finance we assume to be sub-3%;
- The NAIF approval is a key condition precedent for the recently announced (6th June 2019) \$25m share subscription agreement with J-Power to be applied solely to GNX’s equity requirements for the Stage 2 Pumped Hydro development;
- Under the terms of the J-Power subscription, the minimum subscription price (representing a 19.99% interest in GNX’s expanded capital) is \$0.255/sh and the maximum (for 15%) is ~\$0.36/sh;
- The equity agreement with J-Power that is conditional on:
 - NAIF Approval
 - Approval at EGM;
 - Financial close of K2-Hydro before end CY’19 – GNX is targeting Sep Q end;
- As previously published, we view that the J Power investment suggests a good flow of news to follow quickly with confirmation of NAIF (now complete) and ARENA funding, plus Transmission Line upgrade and Energy Aust offtake agreements;
- We maintain our \$0.70/sh Price Target highlighting a number of short term catalysts:
 - EGM Approval of J-Power Subscription Agreement;
 - Closing of the Jemalong-Kidston Stage 1 refinancing;
 - ARENA Grant for Kidston Stage 2;
 - Finalisation of the EnergyAustralia Pumped Hydro equity and offtake agreements;
 - Powerlink connection approval by the Qld State Govt;
 - Powerlink Transmission Line upgrade commitment;
 - Financial close on both Pumped Hydro and Jemalong projects as a consequence and commencement of development; (Sep Q)
 - Power Purchase Agreements/Oftake for Solar Stage 2.
- We validate our 70cs Price Target (ie 2.9x issue price and 1.9-2.7x J-Power Subscription) noting fully commissioned EV:EBITDA of 5.0x vs:
 1. Renewable peer multiples are closer to 12x (2.5x issue price);
 2. Pacific Hydro and Duet transactions capitalised future earnings at 15x or (3x the placement price).

Investment Case

We remain convinced that the Pumped Hydro – as a renewable-energy storage solution – remains the key differentiator for the GNX story. The recent agreement with Energy Australia is an endorsement of this and moves the project towards imminent financial close. We view that the strategic benefit of this infrastructure in a market that is increasingly reliant upon intermittent renewable electricity generation makes GNX an obvious candidate for patient money looking for stable, defensible recurring earnings

base with considerable upside potential. Longer term, with astute financial engineering, we view that GNX's Kidston portfolio will be of increasing attraction to infrastructure funds and/or large utilities. Simply the business offers +80yrs of dispatchable, renewable electricity with a financial structure that boasts low cost, long tenor. We believe that GNX can re-rate in-line with utility style multiples per the major infrastructure and utility players in the market. BUY.