

Genex Power Ltd

(GNX \$0.27) Buy

EUROZ

Analyst	Date	Price Target
Jon Bishop	22 January 2019	\$0.80/sh

Offtake for Stage 2 Pumped Hydro to re-rate GNX

Investment case

We remain convicted that the Pumped Hydro – as a renewable-energy storage solution – remains the key differentiator for the GNX story. The agreement with EnergyAustralia 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 despatch-able, 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.

Key points

- GNX has signed a long term offtake and equity investment Term Sheet with EnergyAustralia (EA) for the Kidston Stage 2 Pumped Hydro Storage development;
- Under the terms of the deal, EA and GNX will form a 50:50 Joint Venture for the development of the Pumped Hydro development;
- EA will have full dispatch rights which will underwrite all revenues and support a long-term concessional loan from NAIF;
- The Revenue Guarantee is confidential, however we have determined a net annual EBITDA figure to support a project level IRR of 17%;
- NAIF commitment plus an expected ARENA grant early in the new CY will result in over 85% of the Pumped Hydro capex cost of circa \$400m gross being funded by low cost, long tenor finance;
- Finalisation of the terms to provide an upgraded 275kV transmission line should also occur shortly;
- BUY maintained. Our Valuation – applying NPV8 SOTP methodology – has been sensed checked against sector M&A transaction and peer trading metrics that consistently award these businesses with +12x EV:EBITDA multiples;
- Our Valuation is \$0.75/sh (prev. \$0.85/sh) after:
 - Inc. our Pumped Hydro valuation to \$130m (vs \$56m) via reducing risking;
 - Lowering our Stage 2 Solar val'n due to inc. risk weighting (awaiting commercialisation terms) to \$47m (vs \$129m);
 - Consequently, lowering our Large-scale Generation Certificates (LGC) valuation to \$10m (vs \$82m);
- Our unrisks valuation is \$1.00/sh net of the proposed Stage 3 wind farm;
- We set an \$0.80/sh Price Target awaiting the following short term catalysts:
 - Grid connection agreements for the 275KV transmission line;
 - Power Purchase Agreements/Offtake for Solar Stage 2;
 - ARENA grant;
 - NAIF credit committee approval.

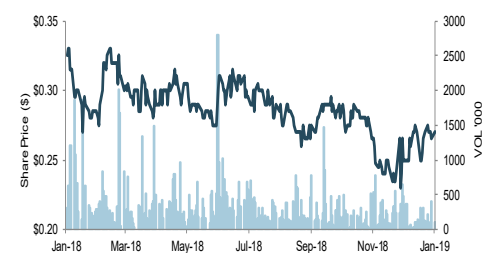
Genex Power Ltd	Year End 30 June	
Share Price	0.27	A\$/sh
Price Target	0.80	A\$/sh
Valuation	0.75	A\$/sh
Shares on issue	318	m, diluted
Market Capitalisation	79	A\$m
Enterprise Value	179	A\$m
Debt	-109	A\$m
Cash	9	A\$m
Largest Shareholder	Zhefu Hydropower	11.0%

Production F/Cast	2018f	2019f	2020f
Attrib. Power Generation (GwH)	146.0	144.5	221.9

Assumptions	2018f	2019f	2020f
Guaranteed Price Received (\$/MWh)	88	88	88
Electricity Price inflation	1.5%	1.5%	1.5%

Key Financials	2018f	2019f	2020f
Revenue (A\$m)	7	13	23
EBITDA (A\$m)	0	9	14
NPAT (A\$m)	-4	0	1
Cashflow (A\$m)	-10	4	6
CFPS (Ac)	-3	1	2
P/CFPS (x)	na	19.7	13.8
EPS (Ac)	-1	0	0
EPS growth (%)	na	na	1059%
PER (x)	na	1433.3	123.7
EV:EBITDA (x)	30538.0	17.7	27.3
EV:EBIT (x)	na	41.7	41.9
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%
ND:Net Debt+Equity (%)	6%	5%	11%
Interest Cover (x)	na	1.2	0.7

Share Price Chart



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Analysis

GNX has signed a long term offtake and equity investment Term Sheet with EnergyAustralia (EA) for the Kidston Stage 2 Pumped Hydro Storage development:

- Under the terms of the deal, EA and GNX will form a 50:50 Joint Venture for the development of the Pumped Hydro development;
- EA will have full dispatch rights which will underwrite all revenues and support a long-term concessional loan from NAFI;
- A Revenue Guarantee;

We view that as a consequence, GNX is on the cusp of a fundamental re-rating by virtue of effectively creating a synthetic bond: A product of low cost-tenor finance combined with long life assets and guaranteed revenue.

We believe that in the current low inflationary environment and broadly underperforming asset classes, that GNX’s portfolio of long life renewable energy assets offers stable recurring long term earnings.

This will be highly attractive to ‘patient money’ ie pension funds, and there is clear precedent building in the renewables sector for these reasons;

Deal Type	Announce Date	Target Name	Acquirer Name	"Announced Total Value (mil.)"	Payment Type	TV/ EBITDA	Deal Status	Target EV	Energy Type			Renew. Capacity (estimates)	EV/ MW	Country	Notes
									Wind	Solar	Hydro				
M&A	3/09/18	Tilt Renewables Ltd	Infratil Ltd,Mercury NZ Ltd	146.1	Cash	6.3x	Pending	1120.3	X	X	X	na	na	Australia	
M&A	24/05/18	Polenergia SA	PGE Polska Grupa Energetyczna SA	519.5	Cash	17.2x	Pending	585.7	X			249.3	2.3x	Poland	*also conv. Energy
M&A	4/04/18	Mytrah Energy Ltd	R&H Trust Co Jersey Ltd	56.7	Cash	0.8x	Completed	1433.4	X			1180	1.2x	India	
M&A	15/02/18	Solar Park Luino Srl	Aega ASA	3.6	Stock & Debt	1.5x	Completed			X		0.8	0.0x	Italy	Private
M&A	7/02/18	Saeta Yield SA	TerraForm Power Inc	3841.1	Cash	10.2x	Completed	3787.9	X	X		1028	3.7x	Spain	Private
M&A	30/10/17	Alterra Power Corp	Innergex Renewable Energy Inc	762.7	Cash or Stock	17.7x	Completed	791.9	X	X	X	777.5	1.0x	Canada	Sub.
M&A	16/10/17	Solartech Energy Corp	United Renewable Energy Co Ltd/Taiwan	399.4	Stock	15.7x	Completed	331.6		X		na	na	taiwan	
M&A	11/10/17	Frendy Energy SpA	Edison SpA	16.7	Cash	10.4x	Pending	43.5			X	na	na	Italy	
M&A	26/09/17	Alerion Cleanpower SpA	FRI-EL Green Power SpA	365.6	Cash	8.6x	Completed	504.8	X			na	na	Italy	
M&A	23/06/17	ENCAVIS Asset Mgt AG	Encavis AG	24.4	Cash	7.2x	Completed		X	X		na	na	germany	
M&A	11/05/17	Futuren SA	EDF Energies Nouvelles SA	461	Cash	21.9x	Completed	702.5	X			732	1.0x	France	
M&A	11/05/17	Futuren SA	Electricite de France SA	65.1	Cash	13.6x	Completed	702.5	X			732	1.0x	France	
M&A	7/03/17	TerraForm Power Inc	Brookfield Asset Mgt Inc	6213.5	Cash or Stock	18.0x	Completed	12086.3	X	X		2606.4	4.6x	United States	
M&A	7/03/17	TerraForm Global Inc	Brookfield Asset Mgt Inc	1254.7	Cash	11.6x	Completed	2173.5	X	X		919	2.4x	United States	
M&A	25/11/16	SPIC Jiangsu Electric Power Co Ltd	Shanghai Electric Power Co Ltd	711.9	Cash & Stock	7.4x	Completed		X	X		na	na	China	
M&A	31/10/16	Infinis PLC	3i Infrastructure PLC	751.6	Cash	5.1x	Completed			X	X	na	na	United Kingdom	*also does gas
M&A	29/06/16	Audax Renovables SA	Audax Energia SA	262.8	Cash	52.6x	Completed	584.2		X		185	3.2x	Spain	
M&A	6/06/16	Futuren SA	Private Investor,Boussard & Gavaudan Investment Mgt LLP	16.4	Cash	4.5x	Completed	702.5				732	1.0x		
M&A	30/05/16	ENCAVIS Asset Mgt AG	Encavis AG	865.6	Stock	13.7x	Completed		X	X		na	na	germany	
M&A	20/01/16	Capstone Infrastructure Corp	iCON Infrastructure LLP	1763.3	Cash	11.6x	Completed		X	X	X	541	0.0x	canada	*also does gas
M&A	2/12/15	Renewable Energy Generation Ltd	Helium Miracle 184 Ltd,BlackRock Inc (Fund: BlackRock Global Renewable Power Fund II LP)	141.8	Cash	4.6x	Completed	125.7	X	X		34.7	3.6x	United States	*also does gas
M&A	3/07/13	Renewable Energy Developers Inc	Capstone Infrastructure Corp	191.9	Cash and Stock	18.8x	Completed	193.1	X			143.2	1.3x	canada	*also develops tech
M&A	23/11/12	Western Wind Energy Corp	Brookfield Renewable Partners LP	294.2	Cash	33.7x	Completed	407.2	X	X		165	2.5x	canada	
M&A	10/08/12	Polenergia SA	Kulczyk Investments SA	129	Cash	9.1x	Completed	585.7	X			249.3	2.3x	Poland	*also conv. Energy
M&A	8/08/12	Shear Wind Inc	Renewable Energy Developers Inc	132.7	Cash	9.8x	Completed	150.9		X		na	na	canada	
M&A	1/08/12	Aerowatt	JMB Energie Group	191	Cash	12.6x	Completed	227.4	X	X		na	na	France	*also does other sources
M&A	19/06/12	SPP Five Co Ltd	Electricity Generating PCL	14.1	Cash	0.4x	Completed		X			8	0.0x	Thailand	
M&A	8/04/11	EDF Energies Nouvelles SA	Electricite de France SA	7517.3	Cash or Stock	15.3x	Completed	8085	X	X		na	na	France	
M&A	8/03/11	Iberdrola Renovables SA	Iberdrola SA	2205.6	Stock	5.5x	Completed	19266.2	X	X	X	12834	1.5x	Spain	*also does other sources
M&A	14/12/10	ERG Renew SpA	ERG SpA	39	Cash	4.5x	Completed	1019.4		X	X	1720	0.6x	Italy	
M&A	20/07/09	Canadian Hydro Developers Inc	TransAlta Corp	1759.2	Cash	29.6x	Completed	1497		X	X	na	na	Canada	*also does biomass
						Average		12.9x		2379.5	11.8	13.4	11.3		1.7
						Median		10.4x		702.5					1.3
						Max		52.6x		19266.2					4.6
						Min		0.4x		43.5					0.0

Whilst Revenue Guarantee is confidential, however we have determined a net annual EBITDA figure to support a project level IRR of 17%. We present the impact of these assumptions in our revised financial statements.

Applying Sector averages (based upon transactions cited in the table above) of 12.9x EV:EBITDA or even Pumped Hydro specific multiples of 11.3x, we estimate fully developed (Pumped Hydro and Stage 1 Solar) EV of \$730-840m, on EBITDA of -\$65m/yr.

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Netting off net debt of \$350m fully developed (\$100m Stage 1 plus net 50% share of \$400m required for Stage 2 Pumped Hydro and working capital) derives a market cap of \$380-\$490m.

This compares favourably with the current \$85m market cap implies that our \$0.75/sh Valuation is defensible.

Particularly as GNX has already agreed in principal, up to \$516m in low cost (we assume <4%), long tenor debt (circa 30yrs) with Northern Australia Infrastructure Facility ("NAIF").

After securing offtake as a key condition, the NAIF Term Sheet provides for a secured, subordinated loan subject to a number of conditions:

- Negotiation of satisfactory grid connection agreements (we expect news shortly);
- Economic analysis to determine concessionality that NAIF can offer the project (we understand to be complete and satisfactory);
- Finalisation of the snr debt funding (we anticipate short term news; with ARENA and/or the Clean Energy Fund likely candidates) and equity;
- NAIF Credit Approval/Board Investment Decision and final documentation and execution.

We anticipate an additional ARENA Grant to be awarded soon and documentation to be finalised with NAIF shortly thereafter.

We set an \$0.80/sh Price Target awaiting the following short term catalysts:

- Grid connection agreements for the 275KV transmission line;
- Power Purchase Agreements/Oftake for Solar Stage 2;
- ARENA grant;
- NAIF credit committee approval.

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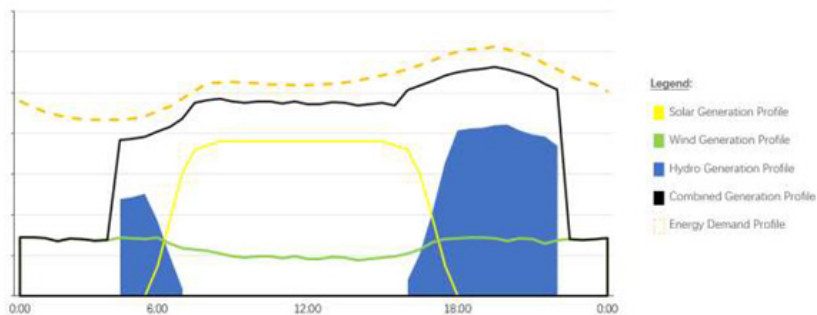
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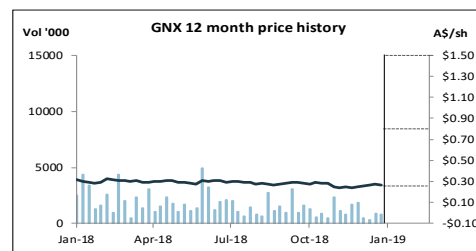


Key Variables

Val/ Sh	CPI								
\$0.75	-4%	-3%	-2%	-1%	0%	1%	2%	3%	4%
0.69	0.70	0.72	0.73	0.75	0.76	0.78	0.79	0.80	



Our Share Price Sensitivity



Our Market Sensitivity

Price Target: \$0.80/sh
Valuation: \$0.75/sh

Bull Scenario - \$1.50

GNX successfully funds Stage 2 and 3 into development and/or attracts corporate interest per Duet Group and Pacific Hydro.

Base Scenario: \$0.80/sh

GNX successfully sources project funding for Stage 2 within the coming months.

Bear Scenario: \$0.25/sh

Electricity prices received are below long term projections and/or Stage 2 does not proceed.

Company Summary

Genex Power Ltd (ASX: GNX) is an emerging renewable energy power generator. A third phase of renewable generation will only add to the attractiveness of its Kidston Renewable Power Hub in far north Queensland. Kidston already comprises a two-stage solar farm (50MW Stage 1 due end CY'17; 270MW Stage 2 - CY'19) as well as a 250MW Pumped Hydro power storage solution. Stage 1 and 2 are designed to meet peaking electricity demand in a rising NEM price environment. Stage 3 wind will enhance baseline, 24/7, 365 generation and revenue profile of the business.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

Technology	State	Owner	Location	Capacity (MW)	Capital cost* (A\$/m)	Capital efficiency (A\$/m/MW)
Commissioned						
Wind	Vic	RES Australia	Ararat	240	450	1.9
Actively constructing						
Wind	SA	Neoen and Megawatt Capital	Hornsedale Stage 2	100	800	8.0
Wind	SA	Neoen and Megawatt Capital	Hornsedale Stage 3	109		
Wind	NSW	Goldwind	White Rock - Stage 1	175	400	2.3
Wind	Qld	RATCH	Mt Emerald	180	380	2.1
Wind	NSW	Partners Group and CWP Renewables	Sapphire	270	588	2.2
Wind	NSW	Global Power Generation Australia	Crookwell 2	91	200	2.2
Financial commitment and will start in 2017						
Wind	NSW	Infigen Energy	Bodangora Wind Farm	113	236	2.1
Wind	NSW	PARF	Silverton	200	460	2.3
Solar	Qld	ESCO Pacific/ Palisade	Ross River	148	225	1.5
Solar	Qld	FRV	Lilyvale	100	400	4.0
Solar	SA	Snowy Hydro	Tallem Bend	100	200	2.0
Solar	NSW	Neoen	Griffith, Parkes, Dubbo	95	230	2.4
Solar	Vic	Overland Sun Farming	Yatpool, Iraak, Wemen	320	500	1.6
Solar	SA	Lyon Group	Riverland Solar Farm	330	700	2.1
Solar	Qld	APA group	Darling Downs	107	217	2.0
Solar	Qld	Genex Power	Kidston, FNQ	50	100	2.0
Announced but no financial close						
Wind	Vic	Goldwind	Stockyard Hill Wind Farm	500	n/a	
Solar + Battery	Qld	Genex Power	Kidston Renewables Hub	520	750	1.4
Solar + Battery	Vic	Lyon Group	Nowingi Solar + Battery Farm	250	660	2.6

Australian Renewable Energy Projects

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Market Statistics				Year End 30 June			
Share Price	\$0.27	A\$/sh	Directors				
Issued Capital			Dr R Craven	NE Chair			
FP Ord	303.9	m	J Harding	CEO			
Opt. (var)	36.2	m	S Kidston	Exec Dir			
Perf Rights		m	B Guo	Fin Dir			
Total Dil. FPOrd	318.1	m	A du Mee	NE Dir			
			Yongqing Yu	NE Dir			
Market Capitalisation	\$79	m	M Addison	MD			
Enterprise Value	\$179	m	Shareholders				
Debt	-\$109		Zhefu Hydropower	11.0%			
Cash	\$9	m	Board & Mgmt	-20%			
Asset Valuation				A\$m	A\$/sh		
			A\$m	A\$/sh			
Kidston Solar PV (50MW)			160	0.48			
Pumped Storage Hydro (250MW)			134	0.40			
Kidston Solar PV (270MW) - risked 50%			47	0.14			
LGCs - risked 50%			10	0.03			
Corporate			(18)	(0.06)			
Unpaid Capital			7	0.02			
Debt			(109)	(0.33)			
Cash			9	0.03			
			-	-			
Total			250	0.75			
F/Cast Production (A\$m)				2018a	2019f	2020f	2021f
Attrib. Power Generation (Gwh)							
Kidston Solar PV (50MW)	146	145	143	142			
Kidston Solar PV (270MW)			77	765			
Pumped Storage Hydro (250MW)			-	76			
Total Power (Gwh)	146	145	220	907			
Op. Costs (O&M plus pumping tariff) - (\$/MWh)	40.67	41.28	41.90	42.53			
Assumptions							
Inflation	1.5%	1.5%	1.5%	1.5%			
Guaranteed Price Received (\$/MWh)	88.0	88.0	88.0	88.0			
Peak Pricing (\$/MWh)	100.0	100.0	100.0	100.0			
Pumping Tariff (\$/MWh)	35.0	35.0	35.0	35.0			
Ratio Analysis (A\$m)				2018a	2019f	2020f	2021f
CF (A\$m)	(10)	4	6	48			
CF / Sh (Ac/sh)	(3)	1	2	15			
CF Ratio (x)	na	20	14	2			
Earnings (A\$m)	(4)	0	1	25			
EPS (Ac/sh)	(1)	0	0	8			
EPS Growth (%)	na	na	11	36			
Earnings Ratio (x)	na	1,433	124	3			
E'prise Val. (A\$m)	183	154	393	373			
EV : EBITDA (x)	30,538	18	27	6			
EV : EBIT (x)	na	42	42	8			
Net Debt / ND+Eq (%)	6%	5%	11%	10%			
Interest Cover (x)	na	1	1	5			
EBIT Margin (%)	na	0	0	1			
ROE (%)	(0)	0	0	0			
ROA (%)	(0)	0	0	0			
Div. (Ac/sh)	-	-	-	-			
Div. payout ratio	-	-	-	-			
Div. Yield	-	-	-	-			
Div. Franking	-	-	-	-			
Profit and Loss (A\$m)				2018a	2019f	2020f	2021f
Energy Sales	7	13	19	72			
Deferred Revenue	-	-	-	-			
Interest Revenue	0	0	4	2			
Other Revenue	-	-	-	-			
TOTAL REVENUE	7	13	23	74			
Operating Costs	2	1	1	6			
Dep/Amort	-	5	5	17			
Writeoffs (explor)	-	-	-	-			
Corp O/H	4	3	3	3			
Provisions	1	-	-	-			
EBITDA	0	9	14	64			
EBIT	(1)	4	9	47			
Interest Expense	3	4	12	12			
NPBT	(4)	0	1	36			
Tax	1	0	0	11			
NPAT	(4)	0	1	25			
Minority Interest	-	-	-	-			
NET PROFIT	(4)	0	1	25			
Net Abnormal Profit/(Loss) after Tax	-	-	-	-			
Net Profit After Abnormal	(4)	0	1	25			
Cash Flow (A\$m)				2018a	2019f	2020f	2021f
+ Net Profit	(4)	0	1	25			
+ Working Capital Adjustment	(7)	-	-	-			
+ Dep/Amort	-	5	5	17			
+ Provisions, W/O	1	-	-	-			
+ Tax Expense	1	0	0	11			
- Tax Paid	-	1	(0)	6			
- Deferred Revenue	-	-	-	-			
= Operating Cashflow	(10)	4	6	48			
-Capex + Development	100	0	242	25			
-Exploration	1	1	1	1			
-Assets Purchased	-	-	-	-			
+Asset Sales	-	-	-	-			
+Other	-	-	-	-			
= Investing Cashflow	(101)	(1)	(243)	(26)			
+ Equity Issues (Rts,plc,opts)	0	25	-	-			
+Loan Drawdown/Receivable	100	-	250	-			
+Other	0	-	-	-			
-Loan Repayment	-	-	5	5			
-Dividends	-	-	-	-			
= Financing Cashflow	109	25	245	(5)			
Period Surplus	(2)	28	8	16			
Adj. FX effects	-	-	-	-			
CASH	9	37	45	61			
Balance Sheet (A\$m)				2018a	2019f	2020f	2021f
Assets							
Cash	9	37	45	61			
Current Receivables	2	2	2	2			
Other Current Assets	0	0	0	0			
Non-Current Assets	153	148	386	394			
Total Assets	164	187	433	457			
Liabilities							
Borrowings	109	109	354	349			
Current Accounts Payable	5	5	5	5			
Non-Current Liabilities	9	9	9	9			
Other Liabilities	-	-	-	-			
Total Liabilities	123	123	368	363			
Net Assets	42	65	65	95			

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