

Genex Power Ltd (GNX \$0.088) Buy

| Analyst | Date | Price Target |
|----------------|-----------------------------|---------------------|
| Jon Bishop | 30 th March 2020 | \$0.30/sh |

Pumped Hydro: Binding Storage Services Agreement with Energy Australia**Key Points**

- GNX has signed a Binding Energy Storage Services Agreement (“ESSA”) with Energy Australia (“EA”) for the Kidston Pumped Hydro energy storage development. Key terms:
 - Up to 30yr term – Initial 10yr term with two 10yr options to extend;
 - Fixed annual rental with a revenue received escalator;
 - EA has an option to purchase GNXs project equity interest for a fixed cash payment should the full 30yr term be undertaken;
 - The ESSA is subject to standard Conditions Precedent including Financial Close before the current Dec 31, 2020, ‘sunset clause’ for the Project;
- GNX will continue to work with the other stakeholders, namely Qld Govt, J-Power and NAIF to re-align interests with the new ESSA structure;
- The Qld Govt – via Powerlink – had previously agreed to upgrade the transmission line to service the Pump Hydro Storage facility: We anticipate that they will re-engage on a similar basis in light of the new ESSA;
- NAIF had previously pledged up to \$610m in low cost and covenant project debt at effectively the Australian Govt bond rate plus a management fee;
- We would presume similar in this instance noting the BBB+ credit rating of EA;
- On that basis, 100% of the Project equity on a rental revenue agreement (post any operating costs) would likely be structured to achieve mid-single digits RoR before any buy-out fee;
- We anticipate that GNX will seek to farm-down its 100% Pump Hydro interest to c.50% ahead of completing FID. J-Power’s pre-existing interest in the Project would suggest they are the likely JV Partner;
- Financial close is targeted for the Sep Q on that basis and given the advanced nature of the Project (in terms of engineering, planning and costing) for works to commence shortly thereafter;
- Despite the State of Emergency regarding COVID19, we view that energy storage, reliable electricity transmission and grid stability will remain critical infrastructure and a matter of national security. Therefore unlikely to abnormally delay progress save for typical bureaucratic process;
- We will not adjust our \$0.28/sh Valuation and \$0.30/sh Price Target for now, awaiting more detail on the financial and project equity structure and key 3rd Party agreements;
- Suffice to say – and noting that the market is not pricing Kidston Stage 1 at full value lest the fully financed and under construction Jemalong Solar Projects at any value – this agreement implies substantial latent option value for a key strategic asset;

| ASSET VALUATION | | |
|---------------------------------------|-------------|---------------|
| | A\$m | A\$/sh |
| Kidston Solar PV (50MW) | 133 | 0.33 |
| Jemalong Solar PV (50MW) | 123 | 0.31 |
| Pumped Storage Hydro (250MW) | - | - |
| Kidston Solar PV (270MW) - risked 50% | (1) | (0.00) |
| LGCs - risked 50% | 0 | 0.00 |
| Corporate | (20) | (0.05) |
| Tax Credit | 40 | 0.10 |
| Peak Debt and Working Capital | (180) | (0.45) |
| Cash | 19 | 0.05 |
| Total | 115 | 0.28 |

Investment Case

GNX has resurrected the Pumped Hydro Storage Project in an extremely difficult macro environment. This highlights the strategic significance of the Pumped Hydro development and reaffirms the core reason for originally initiating coverage the business. We believe that the creditworthiness of the counterparty in EA ensures that the Project will again attract lowest cost funding to bring the development into operation. As a consequence, GNX will effectively create a synthetic bond, with up to 30yr term and including an option to sell its interests at the end of the 30yrs. The corresponding Rate of Return on what will be effectively an escalating (CPI index or similar) EBITDA will attract long term 'patient' investment money ultimately in our view. Financial Close will be the first point where such interest may manifest corporately, and noting J-Power's appetite for such assets, they would appear a logical suitor for the balance of the Pumped Hydro but also the other GNX renewables businesses. As final agreements and frameworks for GNX's interest in the Pumped Hydro Project materialise in the coming months, we believe that the market should re-impute value for Kidston Stage 2. This will be ahead of the current share price and the fair value for the remaining assets. We retain our Buy recommendation as a consequence.

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|-----------------------|-------|--------|---------------------|------|-------|
| Share Price | 0.088 | A\$/sh | Enterprise Value | 210 | A\$m |
| Price Target | 0.30 | A\$/sh | Debt | 192 | A\$m |
| Valuation | 0.28 | A\$/sh | Cash | 19 | A\$m |
| Shares on issue | 402 | m(dil) | Largest Shareholder | Mgmt | c.17% |
| Market Capitalisation | 38 | A\$m | | | |

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