

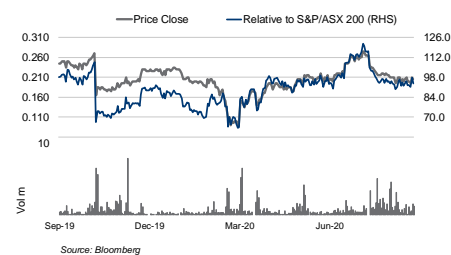
Genex Power

SPECULATIVE BUY

(no change)

Current price:	A\$0.205
Target price:	A\$0.36
Previous target:	A\$0.36
Up/downside:	75.6%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$74.55m
	A\$104.9m
Average daily turnover:	US\$0.16m
	A\$0.22m
Current shares o/s	401.8m
Free float:	69.3%

No changes to forecasts in this note



Price performance	1M	3M	12M
Absolute (%)	-6.8	2.5	-19.6
Relative (%)	-3.7	3	-7.4

Max VICKERSON, CFA

T +61 7 3334 4804

E max.vickerson@morgans.com.au

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

– Genex Power

Financial close delayed on K2-H

- GNX announced that it isn't expecting to reach financial close by 30 September 2020 with further discussion required with Powerlink.
- NAIF has extended its conditional approval for funding to 31 January 2021 and we think J-Power will likely extend as well.
- The Queensland election means news flow will be limited until November.
- We retain our SPECULATIVE BUY rating and target price of 36cps.

Financial close to slip on Kidston Hydro

GNX announced that it doesn't expect to achieve financial close by 30 September 2020 on the Kidston Hydro project (K2-H). While the Queensland Government reconfirmed its commitment to provide \$132m in capital funding to the transmission line we understand further discussions are required to finalise the operating cost contribution that the project joint venture will be required to make. The company obviously does not believe this will be resolved within the next week and with the Queensland election it's unlikely significant progress can be made until November. The Queensland Government will enter the caretaker period on 6 October until after the results are clear from the election to be held on 31 October 2020.

Funding packages unlikely to pose a problem

GNX also announced that the Northern Australia Infrastructure Facility (NAIF) has agreed to extend its conditional funding approval to 31 January 2021. We do not expect any issues extending the agreement for J-Power to acquire new equity in GNX which was always subject to financial close on K2-H anyway. We don't think it's likely there will be any significant changes to the EPC pricing but the offer will need to be extended. We also understand the offtake agreement will need to be extended if financial close is not reached until 31 December 2020.

Bouldercombe battery supplier and site selected

GNX has also announced it has selected a supplier for its battery project. We understand the supplier is a tier one international supplier but a purchase commitment will not be entered into until financial close. A site has also been selected on Powerlink land nearby to a 275kV/132kV substation ensuring a strong connection to the grid and likely favourable marginal loss factors. GNX is progressing discussions with potential joint venture partners but we understand the project is likely to have more exposure to spot prices (energy and FCAS) and a smaller focus on fixed payments.

Investment view

We think the fundamentals of the K2-H project remain sound and we retain our price target (36cps) and SPECULATIVE BUY recommendation. There has been a benign share price reaction to news that financial close has been delayed which we think points to the market already being cautious towards K2-H's prospects. We think the election does add more uncertainty to the project but we still believe that with most of the pieces of the puzzle in place it is most likely that the project will proceed. We still see financial close as being a major catalyst to closing the gap between our valuation and the share price.

Financial Summary	Jun-19A	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	10.82	10.25	19.34	21.42	20.57
Operating EBITDA (A\$m)	5.59	1.77	13.43	15.07	14.09
Net Profit (A\$m)	-9.17	-19.98	1.82	1.89	1.33
Normalised EPS (A\$)	(0.030)	(0.050)	0.005	0.005	0.003
Normalised EPS Growth	19.5%	67.2%		1.8%	(29.9%)
FD Normalised P/E (x)	NA	NA	37.98	41.60	59.30
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	29.2	115.9	18.4	15.8	16.2
P/FCFE (x)	NA	1.77	NA	35.89	47.55
Net Gearing	1187%	1077%	356%	314%	280%
P/BV (x)	7.58	7.24	2.75	2.63	2.55
ROE	(77%)	(202%)	10%	6%	4%
Normalised EPS/consensus EPS (x)				0.70	0.19

SOURCE: MORGANS, COMPANY REPORTS

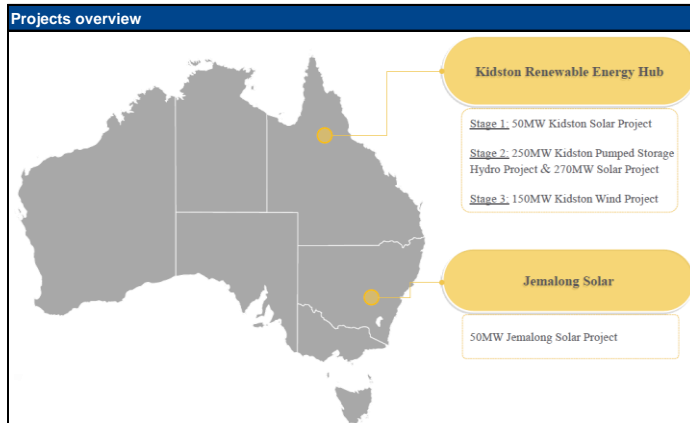
Genex Power

as at September 24, 2020

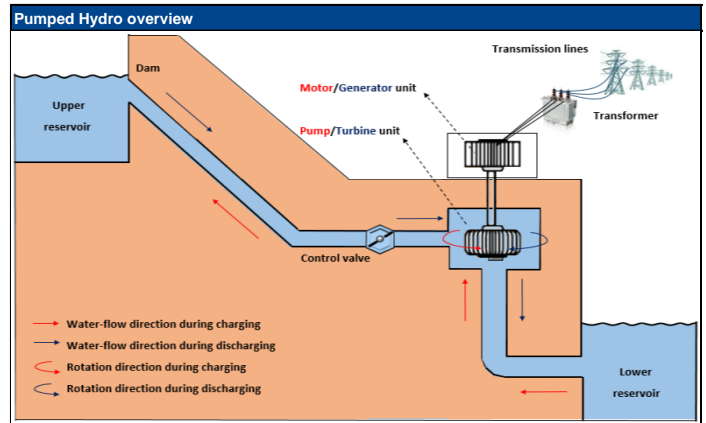
Market cap (A\$m):	104.9	Rating:	SPECULATIVE BUY
Shares outstanding (m):	401.8	Price (A\$):	0.205
Free float (%):	69.3	Target price (A\$):	0.36
Website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	75.6

Company description

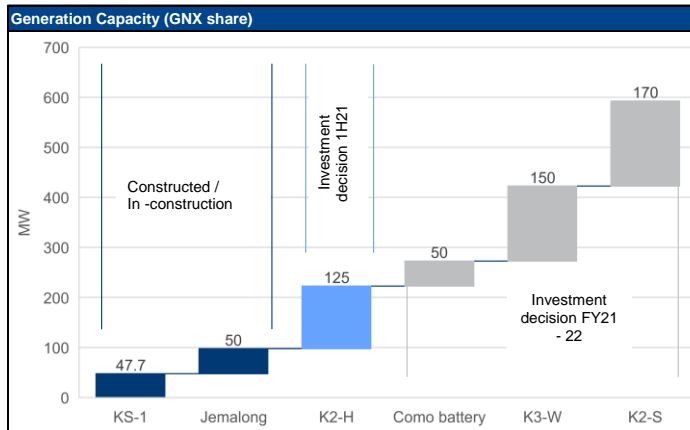
GNX is redeveloping an old gold mine in North Queensland into an energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has a second 50MW solar farm under construction at Jemalong in Central NSW as well as plans to expand with a possible second stage solar farm up to 270MW 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 is in discussions with Energy Australia to sell 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



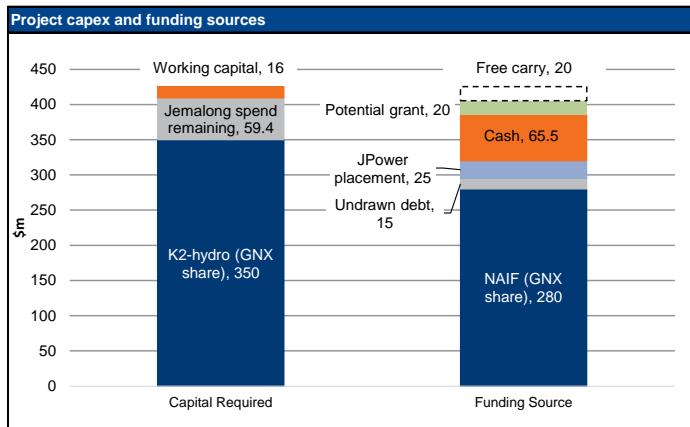
SOURCE: Journal of Power Technologies (2017)



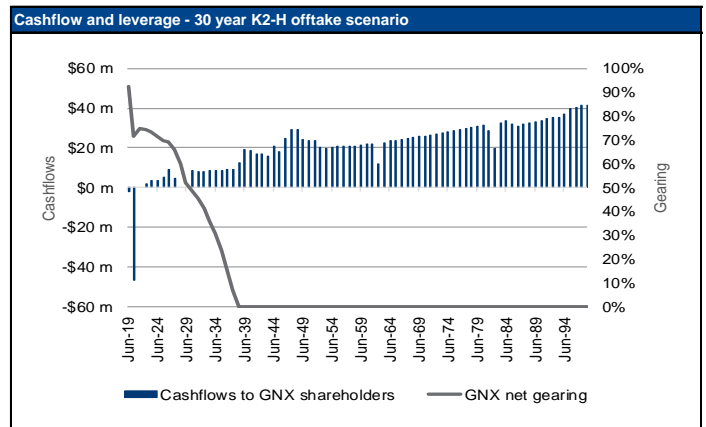
SOURCES: MORGANS, GNX

- Risks and Drivers**
- Value drivers:**
- Solar output of Stage 1 as price is contracted and locked in.
 - NSW spot price of electricity as Jemalong will likely be uncontracted.
 - Spot price of LGCs as Jemalong will likely be uncontracted.
 - If carbon reduction targets increase, the value of future renewables projects will also increase.
 - Pricing of K2-H offtake agreement.
 - The Como project offers upside potential to our valuation.
- Risks:**
- Pumped hydro joint venture agreement not yet finalised.
 - Queensland Government commitment to partially fund the K2-H transmission line not yet finalised.
 - Cost to access new transmission line for K2-H pumped hydro project.
 - Construction risk of the Jemalong and K2-H pumped hydro projects.
 - Access to concessional funding (e.g. ARENA) to fund projects at low costs of capital.
 - Electricity network congestion if too many other renewables projects nearby get constructed.
 - Marginal Loss Factors (MLF) on all projects other than KS-1 and K2-H.
 - Technological changes driving energy efficiency and alternative generation.
 - Interest rates.
 - Changes to tax regimes.

SOURCE: MORGANS



SOURCES: MORGANS, GNX



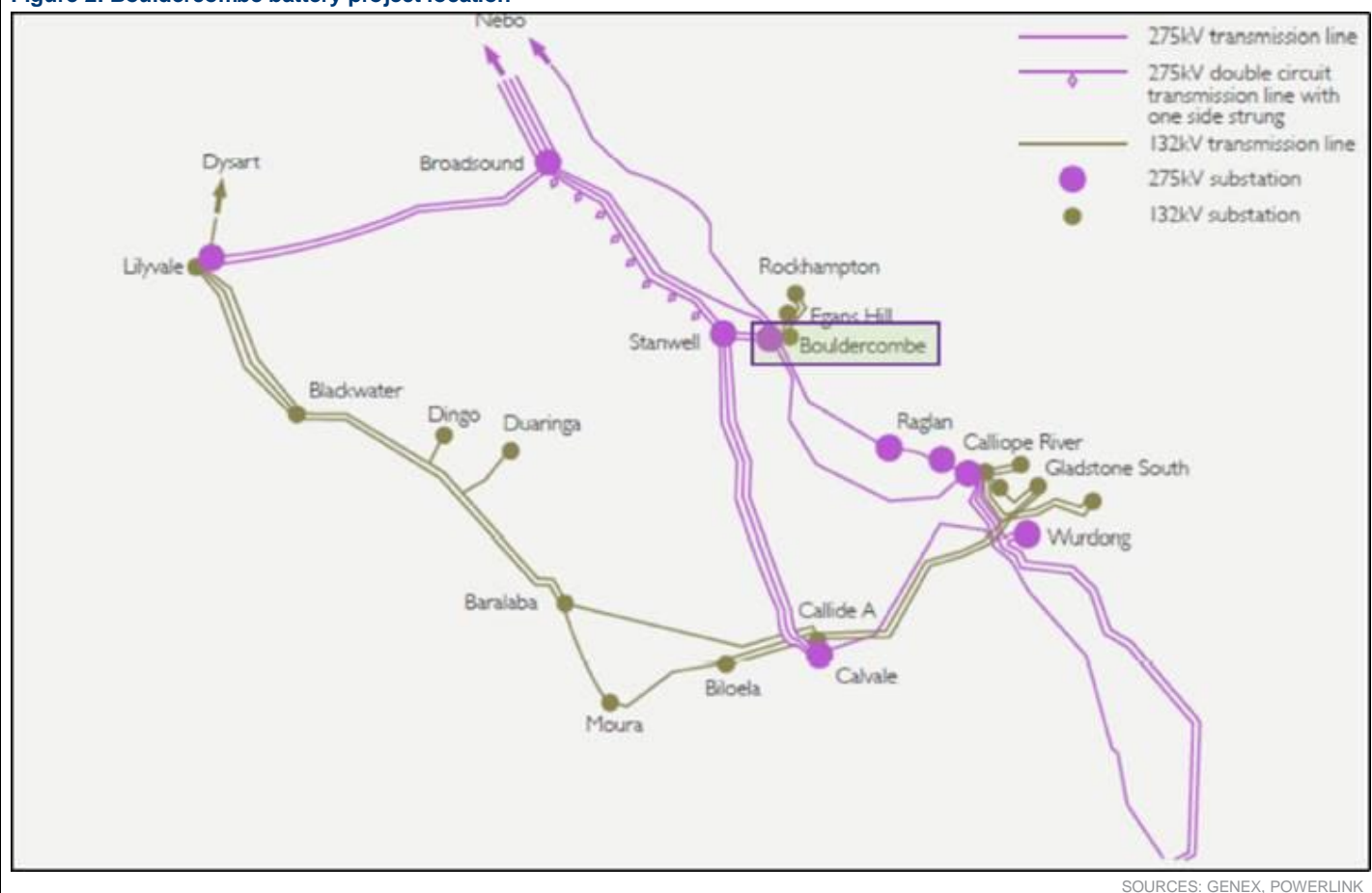
SOURCE: MORGANS

Figure 1: Financial summary (ex K2-H and Bouldercombe)

Key multiples & gearing	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	30.0	118.3	19.0	16.2	16.6	16.7	15.9	15.5	14.7	14.1
Price-to-earnings (x)	N/A	N/A	N/A	N/A	11	16.2	22.0	17.9	17.2	14.0	12.3
Dividend yield (%)	-	-	-	-	-	-	-	-	2.6	2.7	2.8
Net Debt / ND+E (%)	85.6	92.2	91.5	78.1	75.8	73.7	71.6	69.1	68.4	67.5	66.3
Profit and loss (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	10.3	19.3	21.4	20.6	20.0	20.3	20.3	20.6	20.9
Other inc	1.7	4.8	2.0	-	-	-	-	-	-	-	-
Expenses	(11.7)	(10.0)	(10.5)	(5.9)	(6.4)	(6.5)	(6.6)	(6.7)	(6.9)	(7.0)	(7.2)
EBITDA	(1.7)	5.6	1.8	13.4	15.1	14.1	13.4	13.5	13.4	13.6	13.7
D&A	(3.0)	(6.4)	(8.0)	(7.2)	(8.8)	(8.8)	(8.8)	(8.8)	(8.8)	(8.8)	(8.8)
Operating EBIT	(4.7)	(0.8)	(6.2)	6.2	6.3	5.3	4.7	4.8	4.6	4.9	5.0
Net Interest Expense	(2.7)	(4.7)	(4.3)	(3.7)	(3.7)	(3.5)	(3.3)	(3.1)	(2.9)	(2.7)	(2.5)
K2H equity accounted profit	-	-	-	-	-	-	-	-	-	-	-
Profit Before Tax	(7.5)	(5.5)	(10.5)	2.5	2.6	1.8	1.3	1.7	1.7	2.1	2.4
Tax	-	-	-	(0.7)	(0.7)	(0.5)	(0.4)	(0.5)	(0.5)	(0.6)	(0.7)
Statutory Net Profit	(7.5)	(5.5)	(10.5)	1.8	1.9	1.3	1.0	1.2	1.2	1.5	1.7
Cashflows (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	1.8	13.4	15.1	14.1	13.4	13.5	13.4	13.6	13.7
K2H SPV distributions	-	-	-	-	-	-	-	-	-	-	-
WC & non-cash adjustments	(0.5)	(0.8)	(2.5)	(20.5)	0.0	0.1	(0.5)	(0.0)	0.0	(0.0)	(0.0)
Gross operating cashflow	(2.2)	4.8	(0.8)	(7.1)	15.1	14.1	13.0	13.5	13.4	13.6	13.7
Net interest paid	(3.9)	(4.3)	(3.4)	(3.7)	(3.7)	(3.5)	(3.3)	(3.1)	(2.9)	(2.7)	(2.5)
Cash paid for Tax	-	-	-	(0.7)	(0.7)	(0.5)	(0.4)	(0.5)	(0.5)	(0.6)	(0.7)
Operating cashflow	(6.1)	0.5	(4.1)	(11.5)	10.7	10.1	9.3	9.9	10.0	10.3	10.5
Capex	(83.0)	(12.2)	(38.0)	(32.8)	-	-	-	-	-	-	-
Investing cashflow	(83.0)	(12.2)	(38.0)	(32.8)	-	-	-	-	-	-	-
Equity issuance/(returns)	3.2	1.9	20.6	26.3	-	-	-	-	-	-	-
Debt drawdown/(repaid)	85.1	2.3	83.5	(2.9)	(7.7)	(7.9)	(7.8)	(8.4)	(8.6)	(8.8)	(9.1)
Dividends paid	-	-	-	-	-	-	-	-	(3.0)	(3.1)	(3.1)
Financing cashflow	88.3	4.3	104.1	23.3	(7.7)	(7.9)	(7.8)	(8.4)	(11.6)	(11.9)	(12.2)
Net cashflow	(0.7)	(7.4)	62.0	(20.9)	3.0	2.3	1.4	1.6	(1.6)	(1.6)	(1.7)
Balance sheet (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	65.5	44.5	47.6	49.9	51.3	52.9	51.3	49.7	48.0
Receivables	0.9	2.0	3.5	1.0	0.9	0.9	1.7	1.8	1.8	1.8	1.8
Fixed Assets	118.2	118.1	170.7	193.1	184.3	175.6	166.8	158.1	149.4	140.6	131.9
SPV equity	-	-	-	-	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	-	-	-	-	-	-
Other	5.6	11.0	14.2	17.5	17.5	17.5	17.4	17.4	17.4	17.4	17.4
Total Assets	135.6	134.5	253.9	256.1	250.3	243.8	237.3	230.2	219.9	209.5	199.1
Debt	102.1	103.7	188.0	185.1	177.5	169.6	161.8	153.4	144.8	136.0	126.9
Deferred Tax from SPV)	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	18.3	22.4	54.5	31.5	31.5	31.5	31.9	31.9	31.9	31.9	31.9
Total Liabilities	120.4	126.1	242.5	216.6	208.9	201.1	193.6	185.3	176.7	167.9	158.9
Net Assets	15.3	8.4	11.4	39.5	41.4	42.7	43.7	44.9	43.1	41.6	40.2
Ave shares on issue (m)	303.9	312.4	401.8	530.4	530.4	530.4	530.4	530.4	530.4	530.4	530.4

SOURCE: MORGANS RESEARCH, COMPANY

Figure 2: Bouldercombe battery project location



SOURCES: GENEX, POWERLINK

Valuation and risks

Base case

We retain our base case DCF valuation of 37cps which we combine with our asset based valuation of 35cps (+4cps) to give our **base case valuation of 36cps**.

Key assumptions in our DCF:

- \$21.5m pa is GNX's share of EBITDA (indexed with inflation).
- 2.85% after tax WACC based on Rd of 2.25%, Re of 8% and gearing of 80%.
- Total project capital of \$700m for K2-H (EPC contract + owner's costs + transmission line contribution).
- \$310m GNX share of capex after \$40m in grants to the JV and a \$20m JV free carry for GNX.
- 80 year asset life.
- Refurbishment after 50 years costing 50% of the initial engineering contract (\$275m in FY21 terms) and increased in line with inflation.
- 25% risking factor after allowing for dilution given the requirement for additional \$25m equity from JPower (previously \$30m assumed).

Figure 3: Base case sum of the parts

Component	Value (\$m)	Value (cps)
KS1 & Jemalong	51.9	10
Corporate	-19.1	(4)
GNX K2H value	141.3	27
K2-S & K3-W	20.5	4
Total	194.5	37

SOURCE: MORGANS

Figure 4: Base case asset multiple

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)	Discounted Equity (\$m)
Jemalong + KS1	97.7	2.4	234.5	(140.6)	93.9	93.9
K2-H	125	3.3	412.5	(264.0)	148.5	109.2
K2-S + K3-W	320	0.1	19.7	-	19.7	19.7
Total	542.7	1.2	666.7	(404.6)	262.1	222.8
Number of shares						644.0
Discounted equity value (cps)						35

SOURCE: MORGANS

Key risks to our base case valuation:

- Successful K2-H financial close by 31 December 2020: GNX has had to postpone financial close on K2-H and consequently has had to extend a number of key agreements. Of particular importance is the offtake agreement with EnergyAustralia which hasn't yet needed to be extended but if financial close is delayed beyond this calendar year the agreement will need to be revisited.
- Successful negotiation of transmission line costs: One of the outstanding conditions for financial close on K2-H is completion of the agreement with Powerlink to complete the transmission line. The Queensland Government has said it will provide \$132m in capital funding but operations and maintenance cost sharing have not been finalised and this could affect the profitability of K2-H.
- Outcome of the Queensland election: Currently K2-H has been declared a prescribed project, meaning an economically significant project by the State Government. Should there be a change in government in November, GNX may have to revisit previous discussions to continue the project's prescribed status as well as ensuring other support commitments (e.g. transmission line funding) are resolved successfully.
- GNX's share of EBITDA: we've estimated EBITDA from our own analysis of the fair value for energy storage (based on historical electricity market data) and operation expenses in AEMO's modelling assumptions (\$19.50/kW/yr). K2-H's offtake customer, EnergyAustralia, may have struck a contract below our estimate of fair value and AEMO's assumptions for opex may not be accurate for K2-H.
- ARENA grant: As K2-H will be a highly geared asset, the rate of return will be highly sensitive to the amount of capex required from the JV. We're confident the project will receive funding but it is not certain.
- JV 'free carry': It's logical that GNX would be reimbursed for the value it has created so far in securing land, early engineering work, progressing commercial agreements, etc, however it is hard to gauge how this negotiation will play out. The amount of free carry will determine how much capital GNX needs to contribute to the JV and could be an even bigger influence on returns to GNX shareholders than the ARENA grant.
- Debt amortisation: we haven't attempted yet to model accelerated debt repayments which may be required under the NAIF agreement. GNX may be required to limit dividends in the first ten years of the offtake agreement to reduce NAIF's exposure should EA not exercise its option to continue the offtake contract. We anticipate more information will be available at K2-H financial close to better allow for this possibility.

Bull case

We also retain our bull case DCF of 45cps and asset based valuation of 72cps to give a combined **bull case value of 59cps**.

Our key assumptions are:

- No K2-H DCF risking factor other than the allowance for additional equity.
- GNX is acquired by an infrastructure investor in four years' time after the completion of all projects on an asset multiple.
- K2-H valued at the transaction multiple of Pacific Hydro (\$3.3m / MW).
- Other assets are acquired at the top quartile multiple of comparable transactions (see previous note on 29 May 2019 for list of transactions) and acquisition is discounted back to FY21 at 8% pa.

Figure 5: Bull case sum of the parts

Component	Value (\$m)	Value (cps)
KS1 & Jemalong	51.9	10
Corporate	-19.1	(4)
GNX K2H value	186.0	35
K2-S & K3-W	20.5	4
Total	239.2	45

SOURCE: MORGANS

Figure 6: Bull case asset multiple

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
Jemalong + KS1	97.7	3.1	302.9	(140.6)	162.3
K2-H	125	3.3	412.5	(264.0)	148.5
K2-S + K3-W	320	3.1	992.0	(440.0)	552.0
Total	542.7	3.1	1,707.4	(844.6)	862.8
Estimated future number of shares (m)					982.2
Discounted equity value (cps)					72

SOURCE: MORGANS

Bear case

We also retain our bear case DCF of 23cps and asset based multiple valuation of 22cps for a combined **bear case valuation of 23cps**.

Our key assumptions are:

- K2-H risking factor of 55%.
- Asset multiple is the lowest quartile multiple of comparable transactions (see previous note on 29 May 2019 for list of transactions).
- K2-H not completed and valued as an option similar to the prices discussed for the Hillgrove pumped hydro project in South Australia.

Figure 7: Bear case sum of the parts

Component	Value (\$m)	Value (cps)
KS1 & Jemalong	51.9	10
Corporate	-19.1	(4)
GNX K2H value	66.9	13
K2-S & K3-W	20.5	4
Total	120.1	23

SOURCE: MORGANS

Figure 8: Bear case asset multiple

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
Jemalong + KS1	97.7	2.1	205.2	(140.6)	64.6
K2-H	250	0.1	30.8	-	30.8
K2-S + K3-W	320	0.1	19.7	-	19.7
Total	667.7	0.4	255.6	(140.6)	115.0
Estimated future number of shares					530.4
Discounted equity value (cps)					22

SOURCE: MORGANS

Queensland

Brisbane	+61 7 3334 4888
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Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
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South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Western Australia

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

South Australia

Adelaide	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
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