ORD MINNETT RESEARCH

Genex Power

Financial close finally in sight

GNX has executed all financial documents and raised equity to complete the funding of the 250MW Kidston Stage 2 Pumped Storage Hydro (K2H) project. Satisfaction of remaining conditions precedent is expected at the EGM on 29 April, with construction to commence this month. The capital raise was larger than we expected due to the absence of a JV partner, which was a surprise. However, despite significant dilution in the short term, we believe this will provide additional value to GNX shareholders in the longer term. We also note a transfer of coverage from EL&C Baillieu to Ord Minnett Limited, with a Buy rating and a price target of $0.29.

No JV partner drives larger raise

- GNX had previously flagged its intention to introduce a 50% equity partner at the project level as part of its funding plans. It is our belief that GNX chose to go it alone in order to avoid further delays to financial close and with one eye on increasing long bond rates (which would put upward pressure on debt costs). Consequently, GNX raised $90m via a fully underwritten placement of $34m and an 11-for-20 entitlement offer of $56m. This will see 451m new shares issued at $0.20 per share (27% discount to $0.274 pre-deal 5-day VWAP, 15% discount to $0.235 TERP). This is in addition to the $25m contribution from J-Power.

Construction to commence soon

- Construction of K2H is expected to commence within weeks, with project completion expected in early CY25. The EPC contractor is a John Holland/McConnell Dowell JV, with a fixed price, fixed time contract in place, including provisions for liquidated damages. Operations are expected to commence in FY25, with full capacity reached in FY26. Revenue will be generated under a 30-year rental contract with Energy Australia (EA), who will have full dispatch rights and take all merchant risk.

Corporate activity a possibility

- Our updated valuation of GNX is $0.29, with much of the value contingent upon the K2H project. We also note that the infrastructure and renewables sectors have seen increased corporate activity recently and believe that GNX could be a potential target. The takeovers of Pacific Energy, Infigen Energy and Tilt Renewables came in at premiums of 50-100% above the prevailing share price at the time and multiples of 8-28x EV/EBITDA. This could provide significant potential upside to our target price.

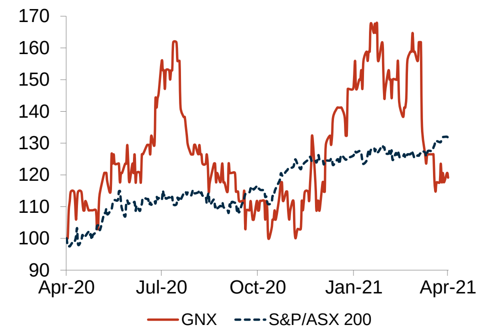
Year-end June ($)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue ($m)	10.8	10.3	14.3	22.8	22.8
EBITDA ($m)	5.6	1.8	3.4	11.5	14.5
EBIT ($m)	(0.8)	(6.2)	(4.6)	(4.5)	(1.5)
Reported NPAT ($m)	(5.5)	(10.5)	(7.6)	(6.8)	(13.0)
Reported EPS (c)	(1.6)	(2.6)	(1.2)	(0.6)	(1.2)
Normalised NPAT ($m)	(5.5)	(10.5)	(7.6)	(6.8)	(13.0)
Normalised EPS (c)	(1.6)	(2.6)	(1.2)	(0.6)	(1.2)
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
EV/EBITDA (X)	28.3	-	-	47.7	-
Normalised ROE (%)	-	-	-	-	-

Source: OML, Iress, Genex Power Limited

Last Price
A$0.20
Target Price
A$0.29
Recommendation
Buy
Risk
Higher

Energy	
ASX Code	GNX
52 Week Range ($)	0.17 - 0.29
Market Cap ($m)	219.1
Shares Outstanding (m)	1,081.9
Av Daily Turnover ($m)	0.0
3 Month Total Return (%)	-20.6
12 Month Total Return (%)	19.1
Benchmark 12 Month Return (%)	31.6
NTA FY21E (¢ per share)	22.7
Net Debt FY21E ($m)	111.4

Relative Price Performance



Source: FactSet

Consensus Earnings	FY21E	FY22E
NPAT (C) ($m)	(3.2)	3.5
NPAT (OM) ($m)	(7.6)	(6.8)
EPS (C) (c)	(0.0)	0.0
EPS (OM) (c)	(1.2)	(0.6)

Source: OML, Iress, Genex Power

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Financial close finally in sight

- **GNX going it alone:** GNX had consistently indicated that it would be bringing in an equity investor at the K2H project level to take a 50% stake. This would have allowed them to earn a return on costs already incurred and reduced their new equity commitment, thereby improving their return on equity.
- Ultimately, GNX took the decision to take a 100% stake in the project, which necessitated a larger-than-expected raising of $90m (on top of the $25m equity previously committed by J-Power to invest in K2H).
- **Delays, bond rates driving decision:** We believe that this decision was taken to avoid further delays to the timetable for achieving financial close, given that GNX had already experienced setbacks previously. In addition, long bond rates have increased over the past few months, potentially putting upward pressure on interest rates on the $610m NAIF facility.
- **Short term pain, long term gain:** Whilst the larger raising will increase dilution in the short term, we believe that taking 100% of the project will add value to GNX shareholders in the longer term. The possibility of a selldown at a later date remains strong, in our view, and we note the recent corporate activity in the renewables space as well.
- **Corporate activity in the sector:** Infrastructure in general and the renewables sector in particular has seen increased activity over the past 18 months and GNX could be a medium-term beneficiary of this trend if its underlying value is not reflected in the share price.
- We note the takeovers of Pacific Energy (remote power, July 2019), Infigen Energy (renewables, June 2020) and Tilt Renewables (March 2021) coming in at premiums of 50-100% above the prevailing share price at the time and occurring at EV/EBITDA multiples ranging from 8x to 28x.

Stage 2 Hydro details

- **Financing now in place:** K2H will be funded from $115m of equity, a $47m grant from ARENA, $30m of existing cash and $610 from a 15-year debt facility from NAIF at concessional interest rates. GNX has also secured the forgiveness (ie cancellation) of $9m of existing convertible notes from ARENA. The final hurdle will be shareholder approval of the amended share subscription agreement with J-Power, which is expected at the EGM on 29 April. This $25m will form part of the $115m equity component.

Figure 1: GNX sources and uses of capital

Sources	$M	% total
Existing cash (1 Mar)	$30m	5%
Equity Raising	$115m[1]	19%
ARENA grant	$47m	8%
NAIF debt	$610m	100%
Total	$802m	100%

Uses	$M	% total
Development of Kidston Hydro	$777m	97%
General Working Capital	$25m	3%
Total	$802m	100%

Note: 1. $90m Placement and Entitlement Offer plus $25m cornerstone investment by J-Power in tranche 2 (subject to EGM)

Source: Company reports

Figure 2: K2H key stakeholders

EnergyAustralia	Energy offtake • Energy Storage Services Agreement signed with EnergyAustralia.
J-POWER	Genex equity investor • SSA signed for up to $25m equity investment in Genex Power.
John Holland / McCONNELL DOWELL / ANDRITZ	EPC Contractor/supplier of pump turbines • Fixed price EPC Contract signed. Early works underway.
NAIF	Federal Government *Sole lender providing up to $610 million of long-term debt.* • Board Investment Decision granted.
ARENA	Federal Government Grant Body • $47m grant approved.
Powerlink / Queensland Government	Queensland Government *Construct and operate 275kV transmission line from Kidston to Mt Fox.* • Offer to Connect accepted and Connection Agreement executed. • Co-funding from Queensland Government.

Source: Company reports

- **Construction** is expected to commence within weeks, with project completion expected in early CY25. The EPC contractor is a John Holland/McConnell Dowell JV, with a fixed price, fixed time contract in place with provisions for liquidated damages.
- **Operations** are expected to commence in FY25, with full capacity reached in FY26. Revenue will be generated under a fixed rental contract with Energy Australia (EA), who will have full dispatch rights and take all merchant risk. The contract is structured with an initial 10-year term and a further 2x10-year options at EA's discretion. The arrangement allows for annual escalation of the rent at CPI. We estimate K2H generating c.$50m pa in revenue once fully operational.

Other projects

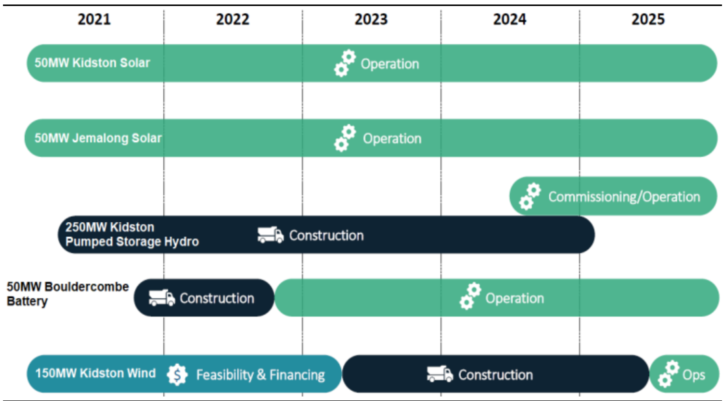
- **Jemalong Solar:** The 50MW project generated first electricity in December 2020 and is currently undergoing testing and ramping up to full capacity. Electricity generated by Jemalong will be initially be sold into the NEM on a merchant basis at spot rates, where daytime electricity prices in NSW averaged $39/MWh in January, $35/MWh in February and $39/MWh in March.
- **Bouldercombe Battery:** In September 2020, GNX reached an agreement to access land adjacent to Powerlink's Bouldercombe substation for its first battery project. The 275kV/132kV substation is located near Rockhampton in Central Queensland, around 520km north of Brisbane.
- We also understand that GNX has selected its preferred battery supplier, which is a Tier 1 provider with previous experience in Australia. This project will be the first utility-scale battery project in Queensland.
- **Project details:** The battery will initially be 50MW/75MWh capacity, with potential for expansion in the future. It will connect into the 132kV bays of the adjacent substation and we estimate a total construction cost of around $50m based on similar existing projects.
- Estimated gearing is 40-60%, depending on the revenue model, which we speculate may be a hybrid. This would involve a guaranteed minimum of revenue to support debt payments and a sharing of potential upside. We estimate that financial close will occur in late CY21, with operations commencing in late CY22.

Figure 3: GNX renewable portfolio

Kidston Stage 1 50MW Solar Project	Status Production (since 2017)	Revenue Model 20-year Queensland Government Contract (PPA)
Jemalong Solar 50MW Solar Project	Status Production (since 2021)	Revenue Model Merchant/Spot
K2-Hydro 250MW Pumped Hydro Project	Status Construction (commencing April 2021)	Revenue Model Long term rental agreement with EnergyAustralia
Bouldercombe Battery 50MW Large Scale Battery Energy Storage System	Status Development	Revenue Model Contract/Merchant
K3-Wind 150MW Wind Project	Status Feasibility	Revenue Model To be confirmed
K2-Solar Up to 270MW Solar Project	Status Feasibility	Revenue Model To be confirmed

Source: Company reports

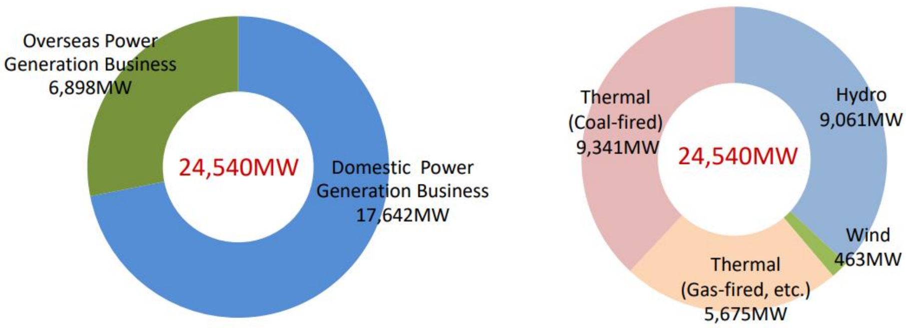
Figure 4: GNX portfolio timeline



Source: Company reports

- **K3-Wind development:** In November, GNX reached an agreement to allow J-Power to take up to a 50% stake in the 150MW K3-Wind project at Kidston. In return, J-Power will contribute to the development process with an initial payment of $1.5m. This funding will assist with progressing the technical aspects of the project, including monitoring, planning and other feasibility workstreams. Construction is anticipated to commence in CY23.
- **J-Power experienced in wind:** J-Power has a global wind portfolio totalling over 1GW of generation capacity, with projects located in Japan, the United Kingdom and Poland. In its home market of Japan, it operates 24 wind farms with a combined capacity of 535MW. A number of its projects are still in the development phase, with J-POWER providing significant technical expertise.

Figure 5: J-Power generation portfolio



Source: Company reports

- **Contingent on K2-Hydro:** The K3-Wind project will be relying on the new 275kV transmission line, which is being financed and constructed as part of the K2-Hydro project. It is anticipated that both the K2-Hydro and K3-Wind projects will both reach construction completion in CY25.
- The K3-Wind agreement will sit alongside the existing Share Subscription Agreement, which allows J-POWER to take a 10-20% stake in GNX at the headstock level for an investment of up to $25m, which will be used by GNX to assist with funding its equity commitment to the K2-Hydro project.
- **Valuation and earnings:** We have incorporated the K2-Hydro project into our model, assuming full operation during FY26. Our updated valuation includes slightly lower revenue forecasts for K1-Solar and Jemalong due to weaker than expected wholesale prices in recent months, as well as the additional shares from the raising. Our new valuation and target price is $0.29 and we retain a Buy rating.

Figure 6: GNX valuation

Project	Equity Valuation ($m)	Value per share ($)
Kidston Stage 1 - Solar	90	0.08
Kidston Stage 2 - Hydro	166	0.15
Jemalong Solar	73	0.07
Corporate costs	-20	-0.02
Corporate debt/cash	7	0.01
Total	**316**	**0.29**
Shares on issue (m)	1,082	

Source: Ord Minnett Limited estimates

Genex Power

Buy

PROFIT & LOSS (A$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue	10.8	10.3	14.3	22.8	22.8
Operating costs	(10.0)	(10.5)	(10.9)	(11.4)	(8.4)
Operating EBITDA	**5.6**	**1.8**	**3.4**	**11.5**	**14.5**
D&A	(6.4)	(8.0)	(8.0)	(16.0)	(16.0)
EBIT	**(0.8)**	**(6.2)**	**(4.6)**	**(4.5)**	**(1.5)**
Net interest	(4.7)	(4.3)	(6.3)	(5.2)	(17.1)
Pre-tax profit	**(5.5)**	**(10.5)**	**(10.9)**	**(9.8)**	**(18.6)**
Net tax (expense) / benefit	-	-	3.3	2.9	5.6
Significant items/Adj.	-	-	-	-	-
Normalised NPAT	**(5.5)**	**(10.5)**	**(7.6)**	**(6.8)**	**(13.0)**
Reported NPAT	**(5.5)**	**(10.5)**	**(7.6)**	**(6.8)**	**(13.0)**
Normalised dil. EPS (cps)	(1.6)	(2.6)	(1.2)	(0.6)	(1.2)
Reported EPS (cps)	(1.6)	(2.6)	(1.2)	(0.6)	(1.2)
Effective tax rate (%)	-	-	30.0	30.0	30.0
DPS (cps)	-	-	-	-	-
DPS (cps)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	339.2	412.6	659.8	1,115.0	1,115.0

CASH FLOW (A$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Net Interest (paid)/received	(4.3)	(3.4)	(5.3)	(5.2)	(17.1)
Income tax paid	-	-	-	2.9	5.6
Other operating items	-	-	-	-	-
Operating Cash Flow	**0.5**	**(4.1)**	**2.6**	**10.4**	**5.1**
Capex	(6.4)	(37.9)	(107.8)	(227.5)	(200.5)
Acquisitions	-	-	-	-	-
Other investing items	(5.9)	(0.1)	(5.0)	-	-
Investing Cash Flow	**(12.3)**	**(38.0)**	**(112.8)**	**(227.5)**	**(200.5)**
Inc/(Dec) in equity	5.1	21.7	138.1	-	-
Inc/(Dec) in borrowings	(0.8)	82.4	84.4	73.0	193.0
Dividends paid	-	-	-	-	-
Other financing items	-	-	-	-	-
Financing Cash Flow	**4.3**	**104.1**	**222.5**	**73.0**	**193.0**
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	(7.5)	62.0	112.3	(144.0)	(2.4)

BALANCE SHEET (A$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Cash	3.5	65.5	177.8	33.8	31.4
Receivables	2.0	3.5	2.4	3.2	3.2
Inventory	0.2	0.4	0.6	0.6	0.6
Other current assets	-	-	-	-	-
PP & E	118.5	179.8	259.0	470.5	654.9
Intangibles	-	-	-	-	-
Other non-current assets	10.4	4.7	9.7	9.7	9.7
Total Assets	**134.5**	**253.9**	**449.5**	**517.8**	**699.8**
Short term debt	4.8	6.1	7.0	7.0	7.0
Payables	2.3	22.4	2.2	2.3	1.7
Other current liabilities	0.4	0.4	0.4	0.4	0.4
Long term debt	95.0	177.8	282.2	355.2	548.3
Other non-current liabilities	19.5	29.7	11.4	11.4	11.4
Total Liabilities	**126.1**	**242.5**	**307.5**	**380.6**	**573.0**
Total Equity	**8.4**	**11.4**	**142.4**	**135.6**	**122.6**
Net debt (cash)	96.4	118.4	111.4	328.4	523.8

DIVISIONS	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**

KEY METRICS (%)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue growth	30.8	(5.2)	39.1	60.2	-
EBITDA growth	-	(68.4)	92.3	237.9	26.1
EBITDA margin	51.7	17.2	23.8	50.2	63.4
OCF /EBITDA	85.6	-	244.3	117.9	114.2
EBIT margin	-	-	-	-	-
Return on assets	-	-	-	-	-
Return on equity	-	-	-	-	-

VALUATION RATIOS (x)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Reported P/E	-	-	-	-	-
Price To Free Cash Flow	-	-	-	22.0	47.7
Price To NTA	7.3	6.8	0.9	1.6	1.7
EV / EBITDA	28.3	-	-	47.7	-
EV / EBIT	-	-	-	-	-

LEVERAGE	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
ND / (ND + Equity) (%)	91.9	91.2	43.9	70.8	81.0
Net Debt / EBITDA (%)	1,724.4	6,707.4	3,279.8	2,861.8	3,618.6
EBIT Interest Cover (x)	-	-	-	-	-
EBITDA Interest Cover (x)	1.2	0.4	0.5	2.2	0.8

SUBSTANTIAL HOLDERS	**m**	**%**
First Sentier Investments	95.6	8.8%
Zhefu Holding Group	35.7	3.3%
Michael Addison	24.5	2.3%

VALUATION	
Cost of Equity (%)	8.2
Cost of debt (after tax) (%)	4.2
D / EV (%)	70.0
WACC (%)	**5.4**
Forecast cash flow ($m)	(357.5)
Terminal value ($m)	1,001.7
Franking credit value ($m)	-
Enterprise Value ($m)	644.2
Less net debt / add net cash & investments ($m)	(328.4)
Equity NPV ($m)	**315.8**
Equity NPV Per Share ($)	**0.29**
Target Price Method	DCF
Target Price ($)	0.29
Valuation disc. / (prem.) to share price (%)	43.2

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Guide to Ord Minnett Recommendations

Our recommendations are based on the total return of a stock – nominal dividend yield plus capital appreciation – and have a 12-month time horizon.	
SPECULATIVE BUY	We expect the stock's total return (nominal yield plus capital appreciation) to exceed 20% over 12 months. The investment may have a strong capital appreciation but also has high degree of risk and there is a significant risk of capital loss.
BUY	The stock's total return (nominal dividend yield plus capital appreciation) is expected to exceed 15% over the next 12 months.
ACCUMULATE	We expect a total return of between 5% and 15%. Investors should consider adding to holdings or taking a position in the stock on share price weakness.
HOLD	We expect the stock to return between 0% and 5%, and believe the stock is fairly priced.
LIGHTEN	We expect the stock's return to be between 0% and negative 15%. Investors should consider decreasing their holdings.
SELL	We expect the total return to lose 15% or more.
RISK ASSESSMENT	Classified as Lower, Medium or Higher, the risk assessment denotes the relative assessment of an individual stock's risk based on an appraisal of its disclosed financial information, historic volatility of its share price, nature of its operations and other relevant quantitative and qualitative criteria. Risk is assessed by comparison with other Australian stocks, not across other asset classes such as Cash or Fixed Interest.