Genex Power Limited

Battery is the new solar

GNX's FY21 Underlying Revenue was up 12% on the pcp but EBITDA and NPAT were flat due to increased development and interest costs. The K2-Hydro project reached financial close late in the period and has begun construction, whilst the Jemalong project was commissioned and is generating at full capacity. The latter will double GNX's revenue in FY22, with future growth coming from the Bouldercombe Battery (expected online in CY23), K2-Hydro (CY24) and K3-Wind (CY25). We continue to believe that GNX is undervalued and maintain a Buy rating with a valuation and price target of $0.29 (unchanged).

Result flat due to increased costs

- Generation for FY21 was 132.8GWh (+14%), driving Underlying Revenue of $13.8m (+12%). The growth was due to an extra month of operations at K1-Solar (K1S), with FY20 being impacted by an unexpected outage in October 2019. Underlying EBITDA was $1.8m (+3%) as higher development and staff costs offset higher revenue. Underlying Net Loss was -$10.1m, consistent with FY20 ($-10.5m).

Steady pipeline of growth projects

- In the short term, FY22 will see a step change in revenue with the Jemalong solar project beginning to contribute. Other near term priorities include: reaching financial close and beginning construction of the 50MW Bouldercombe Battery Project (4QCY21); constructing the 250MW K2-Hydro project (target end date late CY24); progressing the feasibility and commercial assessment of the 150MW K3-Wind project (target operational date early CY25). GNX will also assess other potential opportunities, with a particular focus on battery storage as the need to firm up renewable generation grows.

Renewables is a growing sector

- GNX has an attractive portfolio with 100MW of capacity in operation, 250MW under construction, 200MW under development and a further 270MW which may be developed. The renewables sector has seen increased corporate activity and could be a potential target if it remains undervalued. The takeovers of Infigen Energy and Tilt Renewables occurred at premiums of 50-100% above the prevailing share price and at multiples of 6-28x EBITDA, highlighting the potential upside.

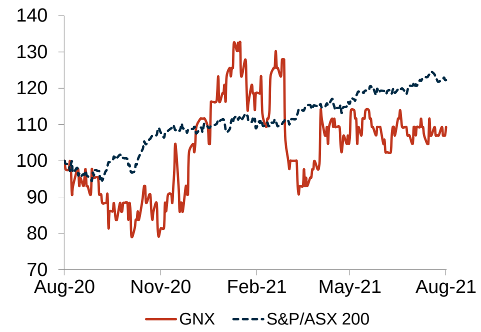
Year-end June ($)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue ($m)	10.3	10.6	21.7	21.7	21.1
EBITDA ($m)	1.8	9.7	7.0	10.0	9.4
EBIT ($m)	(6.2)	3.4	(5.5)	(2.5)	(3.1)
Reported NPAT ($m)	(10.5)	(18.7)	(10.6)	(17.2)	(24.5)
Reported EPS (c)	(2.6)	(2.9)	(1.0)	(1.6)	(2.2)
Normalised NPAT ($m)	(10.5)	(2.2)	(10.6)	(17.2)	(24.5)
Normalised EPS (c)	(2.6)	(0.3)	(1.0)	(1.6)	(2.2)
Dividend (c)	-	-	-	-	-
Net Yield (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
EV/EBITDA (X)	-	30.2	-	-	-
Normalised ROE (%)	-	-	-	-	-

Source: OML, Iress, Genex Power Limited

Last Price
A$0.24
Target Price
A$0.29
Recommendation
Buy
Risk
Higher

Energy	
ASX Code	GNX
52 Week Range ($)	0.17 - 0.29
Market Cap ($m)	251.4
Shares Outstanding (m)	1,069.9
Av Daily Turnover ($m)	0.1
3 Month Total Return (%)	2.2
12 Month Total Return (%)	9.3
Benchmark 12 Month Return (%)	22.2
NTA FY22E (¢ per share)	13.4
Net Debt FY22E ($m)	371.3

Relative Price Performance



Source: FactSet

Consensus Earnings

	FY22E	FY23E
NPAT (C) ($m)	(5.8)	(10.3)
NPAT (OM) ($m)	(10.6)	(17.2)
EPS (C) (c)	(0.6)	(1.0)
EPS (OM) (c)	(1.0)	(1.6)

Source: OML, Iress, Genex Power Limited

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Battery is the new solar

Result flat on pcp: Generation for FY21 was 132.8GWh (+14%), driving Underlying Revenue of $13.8m (+12%). The growth was down to an extra month of operations at K1-Solar (K1S), with FY20 being impacted by an unexpected outage in October 2019. Underlying EBITDA was $1.8m (+3%) as higher development and staff costs offset higher revenue. Underlying Net Loss was -$10.1m, consistent with FY20 ($-10.5m).

Figure 1: P&L overview

Profit and Loss	FY21 ($M)	FY20 ($M)
Revenue	21.7	12.3
Underlying Revenue[1]	13.8	12.3
EBITDA	(6.8)	1.8
Underlying EBITDA[2]	1.8	1.8
Net Loss	(18.7)	(10.5)
Underlying Net Loss[2]	(10.1)	(10.5)

Source: Company reports

Figure 2: Cashflow overview

Cashflow	FY21 ($M)	FY20 ($M)
Cashflow from Operating Activities	(4.8)	(4.1)
Capex	(153.4)	(38.0)
Net Cash from financing activities	138.2	104.1
Cash and Cash equivalents	45.4	65.5

Source: Company reports

Significant development opportunities: GNX currently has 100MW of solar capacity in operation, 250MW of hydro under construction and 200MW of wind and battery in the development phase. In the longer term, there is a further 270MW of solar which may be developed, but for now solar is less attractive than battery storage.

Battery is the new solar: This is due to the significant increase in rooftop and utility scale solar in the system over the past few years making new projects uneconomic. With the growing need to firm up renewable generation capacity in the market, GNX is actively investigating additional battery storage projects.

In the short term, FY22 will see a step change in revenue with the Jemalong solar project beginning to contribute. Other near-term priorities include:

- reaching financial close and beginning construction of the 50MW Bouldercombe Battery Project (4QCY21);
- overseeing construction of the 250MW K2-Hydro project (target end date late CY24);
- progressing the feasibility and commercial assessment of the 150MW K3-Wind project (target construction start date early-CY23); and
- assessing other potential opportunities, with a focus on battery storage.

Financial overview

Impairment charge: The major one-off was a $16.5m impairment charge to the Jemalong project. This was related to accounting rules, whereby auditors have to value assets on a standalone basis. Whilst Jemalong is run on a merchant basis, its debt structure is cross-collateralised with the low-risk K1S project, which permitted a higher level of gearing and a lower cost of debt (and equity) on the project.

However, when valuing the asset, the auditors benchmark their inputs against other standalone merchant power plants, which typically have minimal debt and higher costs of debt and equity. Applying these inputs to the Jemalong valuation process led to a lower outcome, which resulted in the impairment charge.

This impairment is a non-cash item that was not driven by the financial performance of the project. Construction was completed on time and on budget and early operations have been ahead of expectations. It also has no impact on debt covenants or pricing and there is also the possibility that the impairment may be reversed if and when a PPA is entered into for Jemalong (which is probable).

Convertible note changed to grant: The second material one-off item was $7.9m of revenue, recognised after ARENA forgave its convertible note. This essentially made the initial convertible loan into a grant as part of the financing for the K2H project, which does not have to be repaid or converted into equity.

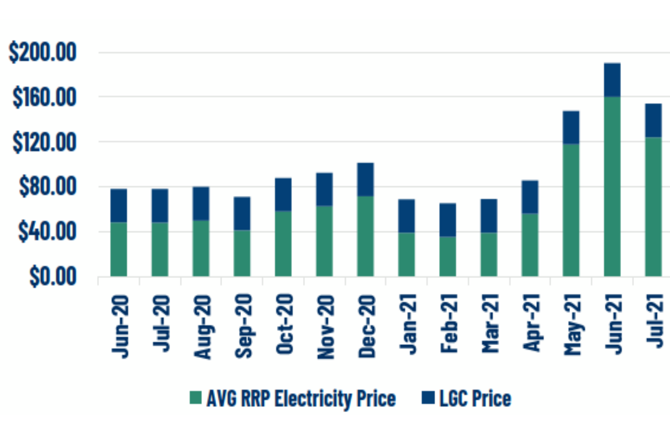
Net Assets rose due to the completion of construction at Jemalong and the start of construction at K2H. Operating cashflow was -$4.8m (from -$4.1m in pcp), with higher development, staff and interest costs more than offsetting the additional revenue. Capex was $153m, reflecting the significant progress made on construction during the period, which will be ongoing as K2H ramps up.

Portfolio update

K2H construction is well underway, with works completed on the construction camp and airstrip. The lower reservoir is being dewatered and the initial blast on the main access tunnel will occur in mid-October. The project is on time and on budget, with limited construction risk due to the large amount of geotechnical work undertaken on the site, historically during its mine life and recently by GNX.

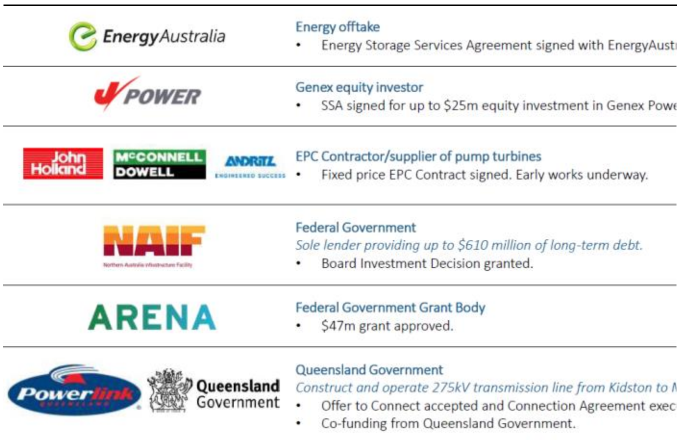
Jemalong has been generating at full capacity since June and GNX is currently working with contractors and lenders to certify practical completion at 30 June. Revenue from the project will be backdated to this time. The commissioning process has taken a few months longer than expected due to COVID causing supply chain delays and the hold point process taking longer than planned.

Figure 3: Bundled average NSW spot price



Source: Company reports

Figure 4: K2H key stakeholders



Source: Company reports

Revenue from the project in recent months has been >$100MWh, which is above internal forecasts of $70-80/MWh and above the current PPA market which is $50-60/MWh. Jemalong generated c.$670k revenue prior to 30 June, with a further $200k from LGCs. We are expecting a strong contribution in the remainder of FY22, especially as solar radiance picks up over the next few months.

Figure 5: GNX project portfolio timeline

Source: Company reports

Bouldercombe Battery Project: This project will be a 50MW/2hr storage facility located inside the fence of the existing Bouldercombe substation. Connection and GPS arrangements are significantly progressed with Powerlink and advanced discussions are underway with battery suppliers, battery integrators, lenders, offtake prospects and a strategic equity investor.

Financial close is forecast to occur towards the end of CY21, with a capital cost estimated at c.$1m/MW and operating costs at $1m/yr. Construction time should be just over a year, with the project coming on stream in early CY23.

The demand for battery storage is expected to grow strongly as coal-fired power stations are removed from the system and renewable energy generation needs to be firmed up. Along with revenue generation from price/demand arbitrage, there are also a number of ancillary services that battery projects can deliver (including frequency control and system restart) in order to increase profitability.

Figure 6: GNX valuation

Project	Equity Valuation ($m)	Value per share ($)
Kidston Stage 1 - Solar	85	0.08
Kidston Stage 2 - Hydro	169	0.16
Jemalong Solar	70	0.07
Corporate costs	-20	-0.02
Corporate debt/cash	9	0.01
Total	**313**	**0.29**
Shares on issue (m)	1,069	

Source: Ord Minnett Limited estimates

Genex Power Limited

Buy

PROFIT & LOSS (A$m)	2020A	2021A	2022E	2023E	2024E
Revenue	10.3	10.6	21.7	21.7	21.1
Operating costs	(10.5)	(12.0)	(14.7)	(11.7)	(11.7)
Operating EBITDA	**1.8**	**9.7**	**7.0**	**10.0**	**9.4**
D&A	(8.0)	(6.3)	(12.5)	(12.5)	(12.5)
EBIT	**(6.2)**	**3.4**	**(5.5)**	**(2.5)**	**(3.1)**
Net interest	(4.3)	(5.7)	(9.6)	(22.0)	(32.0)
Pre-tax profit	**(10.5)**	**(2.2)**	**(15.2)**	**(24.6)**	**(35.1)**
Net tax (expense) / benefit	-	-	4.5	7.4	10.5
Significant items/Adj.	-	(16.5)	-	-	-
Normalised NPAT	**(10.5)**	**(2.2)**	**(10.6)**	**(17.2)**	**(24.5)**
Reported NPAT	**(10.5)**	**(18.7)**	**(10.6)**	**(17.2)**	**(24.5)**
Normalised dil. EPS (cps)	(2.6)	(0.3)	(1.0)	(1.6)	(2.2)
Reported EPS (cps)	(2.6)	(2.9)	(1.0)	(1.6)	(2.2)
Effective tax rate (%)	-	-	30.0	30.0	30.0
DPS (cps)	-	-	-	-	-
DPS (cps)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-
Franking (%)	-	-	-	-	-
Diluted # of shares (m)	412.6	656.8	1,103.1	1,103.1	1,103.1

CASH FLOW (A$m)	2020A	2021A	2022E	2023E	2024E
Net Interest (paid)/received	(3.4)	(5.6)	(9.6)	(22.0)	(32.0)
Income tax paid	-	-	4.5	7.4	10.5
Other operating items	-	-	-	-	-
Operating Cash Flow	**(4.1)**	**(4.8)**	**2.1**	**(2.7)**	**(10.1)**
Capex	(37.9)	(153.1)	(227.4)	(200.4)	(200.4)
Acquisitions	-	-	-	-	-
Other investing items	(0.1)	(0.3)	-	-	-
Investing Cash Flow	**(38.0)**	**(153.4)**	**(227.4)**	**(200.4)**	**(200.4)**
Inc/(Dec) in equity	21.7	133.2	-	-	-
Inc/(Dec) in borrowings	82.4	5.0	70.6	190.6	190.6
Dividends paid	-	-	-	-	-
Other financing items	-	-	-	-	-
Financing Cash Flow	**104.1**	**138.2**	**70.6**	**190.6**	**190.6**
FX adjustment	-	-	-	-	-
Net Inc/(Dec) in Cash	62.0	(20.0)	(154.7)	(12.6)	(19.9)

BALANCE SHEET (A$m)	2020A	2021A	2022E	2023E	2024E
Cash	65.5	45.4	(109.3)	(121.8)	(141.7)
Receivables	3.5	1.2	2.9	2.9	2.8
Inventory	0.4	2.7	2.7	2.7	2.7
Other current assets	-	-	-	-	-
PP & E	179.8	296.2	511.2	699.1	887.0
Intangibles	-	-	-	-	-
Other non-current assets	4.7	14.1	14.1	14.1	14.1
Total Assets	**253.9**	**368.8**	**430.8**	**606.1**	**774.1**
Short term debt	6.1	9.4	9.4	9.4	9.4
Payables	22.4	11.8	2.9	2.3	2.3
Other current liabilities	0.4	0.4	0.4	0.4	0.4
Long term debt	177.8	182.0	252.6	443.2	633.8
Other non-current liabilities	29.7	17.2	17.2	17.2	17.2
Total Liabilities	**242.5**	**225.4**	**287.2**	**477.2**	**667.8**
Total Equity	**11.4**	**134.3**	**123.7**	**106.5**	**81.9**
Net debt (cash)	118.4	146.0	371.3	574.5	784.9

DIVISIONS	2020A	2021A	2022E	2023E	2024E

KEY METRICS (%)	2020A	2021A	2022E	2023E	2024E
Revenue growth	(5.2)	3.7	104.2	-	(2.6)
EBITDA growth	(68.4)	448.5	(28.0)	43.1	(5.8)
EBITDA margin	17.2	91.1	32.1	45.9	44.5
OCF /EBITDA	-	7.4	128.0	119.6	120.2
EBIT margin	-	32.3	-	-	-
Return on assets	-	1.1	-	-	-
Return on equity	-	-	-	-	-

VALUATION RATIOS (x)	2020A	2021A	2022E	2023E	2024E
Reported P/E	-	-	-	-	-
Price To Free Cash Flow	-	-	149.0	-	-
Price To NTA	7.8	1.0	1.8	2.0	2.4
EV / EBITDA	-	30.2	-	-	-
EV / EBIT	-	85.3	-	-	-

LEVERAGE	2020A	2021A	2022E	2023E	2024E
ND / (ND + Equity) (%)	91.2	52.1	75.0	84.4	90.5
Net Debt / EBITDA (%)	6,707.4	1,507.2	5,328.1	5,762.8	8,356.3
EBIT Interest Cover (x)	-	0.6	-	-	-
EBITDA Interest Cover (x)	0.4	1.7	0.7	0.5	0.3

SUBSTANTIAL HOLDERS	m	%
First Sentier Investments	95.6	8.9%
Zhefu Holding Group	35.7	3.3%
Michael Addison	24.5	2.3%

VALUATION	
Cost of Equity (%)	8.2
Cost of debt (after tax) (%)	3.5
D / EV (%)	75.0
WACC (%)	**4.7**
Forecast cash flow ($m)	(397.0)
Terminal value ($m)	1,081.1
Franking credit value ($m)	-
Enterprise Value ($m)	684.0
Less net debt / add net cash & investments ($m)	(371.3)
Equity NPV ($m)	**312.7**
Equity NPV Per Share ($)	**0.29**
Target Price Method	DCF
Target Price ($)	0.29
Valuation disc. / (prem.) to share price (%)	23.4

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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.