

Genex Power

SPECULATIVE BUY

(no change)

Current price:	A\$0.15
Target price:	A\$0.36 ▲
Previous target:	A\$0.26
Up/downside:	140.0%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$36.34m
	A\$60.28m
Average daily turnover:	US\$0.05m
	A\$0.08m
Current shares o/s	312.4m
Free float:	69.3%

Key changes in this note

K2H risked base case DCF increased.

K2H risked DCF included in bear case.

Target price up by 38%



Price performance	1M	3M	12M
Absolute (%)	-26.8	-33.3	-41.2
Relative (%)	-2	-4.5	-19.5

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

Patience is paying off

- GNX announced a 30 year binding offtake agreement with EnergyAustralia (EA) for the Kidston Hydro (K2H) project.
- K2H now needs to finalise its indicative approval with the Northern Australia Infrastructure Facility (NAIF) and the Queensland Government.
- GNX still intends to sell a 50% stake in the project to a joint venture partner which will limit the amount of equity that GNX needs to contribute.
- We update our price target to 36cps with an improved risked DCF and maintain our SPECULATIVE BUY rating.

Binding offtake agreement is a significant milestone

Pumped hydro assets are very long lived infrastructure investments which makes it difficult to secure a contract of a necessary duration to satisfy project financiers given the high capital requirements. GNX has managed to complete negotiations with EA to restructure the agreement as an initial firm ten years with two subsequent ten year option periods. GNX will assume no commodity or loss factor risk and will simply receive an escalating fee for use of the K2H facility.

Indicative agreements need to be finalised for financial close

GNX had received indicative approval from NAIF for debt funding up to 80% of the K2H project. Additionally, GNX also has an agreement with the Queensland Government to develop a transmission line capable of exporting K2H's power to the grid. Finally, GNX also had an agreement in place with J-Power to raise equity capital in GNX for its stake in the K2H project. All of these agreements need to move forward from being approved in-principle to being binding commitments for K2H to be locked in.

Joint venture structure is still the mechanism for K2H

GNX's announcement also mentioned its intention to secure a JV partner to develop K2H. In the previous version of the offtake agreement EA was going to play that role in addition to being the customer. We understand that GNX will be in discussions with interested parties such that a 50/50 JV structure will own the project, similar to the initial proposition with EA. This should limit the amount of equity required by GNX to achieve financial close. The J-Power equity agreement could raise another \$25m which should be the majority of equity capital required from GNX. This will be subject to an agreement from the co-venturer to recognise GNX's contributions to-date towards K2H in the initial JV funding.

GNX's value proposition is significantly de-risked

The announcement of the offtake agreement was the last major milestone that we saw standing in the way of financial close. Government support of K2H will enable job creation and go a long way to providing grid security for an important future renewable energy hub in North Queensland. We now lift our base case valuation and target price to 36cps with K2H being the key driver of value. We also lift our bear case to 28cps on the inclusion of some K2H in the bear scenario. We maintain our SPECULATIVE BUY rating as there is still a significant amount of construction risk with both the K2H and Jemalong projects potentially underway in the next 12 months. While COVID-19 isn't likely to affect revenue from the existing Kidston Solar project, the virus could cause logistical difficulties for any projects under construction.

Financial Summary	Jun-19A	Jun-20F	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	10.82	9.66	20.22	22.53	21.73
Operating EBITDA (A\$m)	5.59	2.26	14.32	16.18	15.25
Net Profit (A\$m)	-9.17	-10.87	1.01	1.30	0.83
Normalised EPS (A\$)	(0.030)	(0.032)	0.003	0.004	0.003
Normalised EPS Growth	19.1%	6.4%		28.6%	(36.2%)
FD Normalised P/E (x)	NA	NA	43.18	33.58	52.65
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	26.21	85.67	15.29	12.91	13.07
P/FCFE (x)	NA	NA	NA	21.12	29.25
Net Gearing	1187%	680%	735%	649%	587%
P/BV (x)	5.55	2.93	2.79	2.63	2.54
ROE	(77.3%)	(77.9%)	6.6%	8.1%	4.9%
% Change In Normalised EPS Estimates		0.00%	(3.71%)	(4.29%)	(6.69%)
Normalised EPS/consensus EPS (x)		1.38	-0.87	-2.23	0.09

SOURCE: MORGANS, COMPANY REPORTS

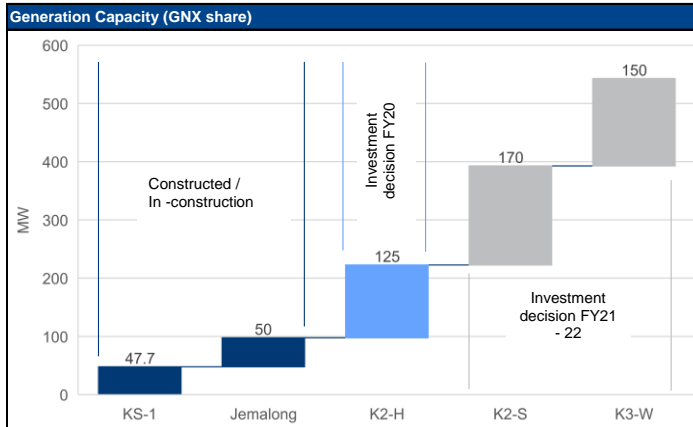
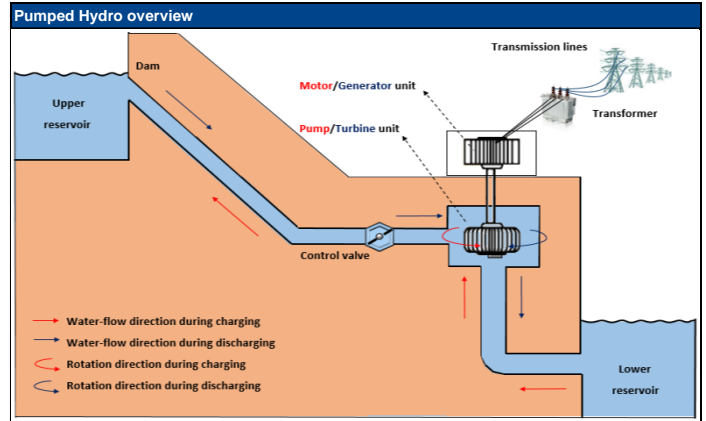
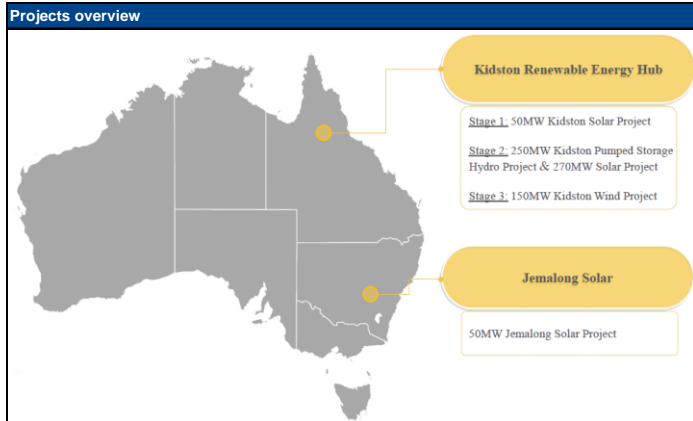
Genex Power

as at March 30, 2020

Market cap (A\$m):	60.28	Rating:	SPECULATIVE BUY
Shares outstanding (m):	312.4	Price (A\$):	0.15
Free float (%):	69.3	Target price (A\$):	0.36
Website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	140.0

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 plans to expand its energy generation with a second stage solar farm up to 270MW and a potential 150MW wind farm, on or near the same site, and a 50MW solar farm in central NSW. The output of the 50MW 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 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.



- 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.
- Risks:**
- Pumped hydro joint venture agreement not yet finalised.
 - Price of engineering contract to build K2-H pumped hydro project.
 - 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

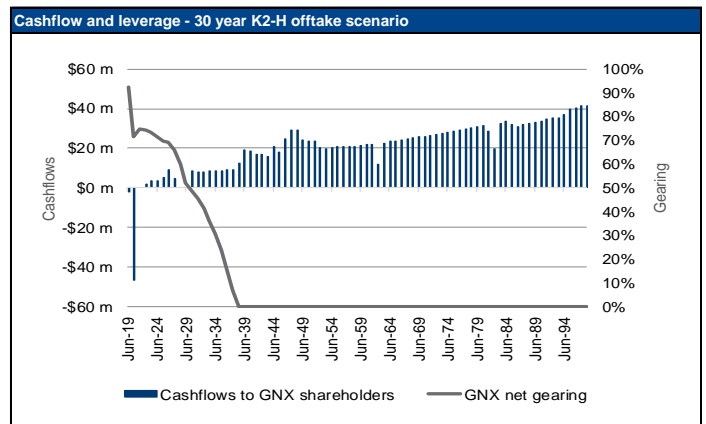
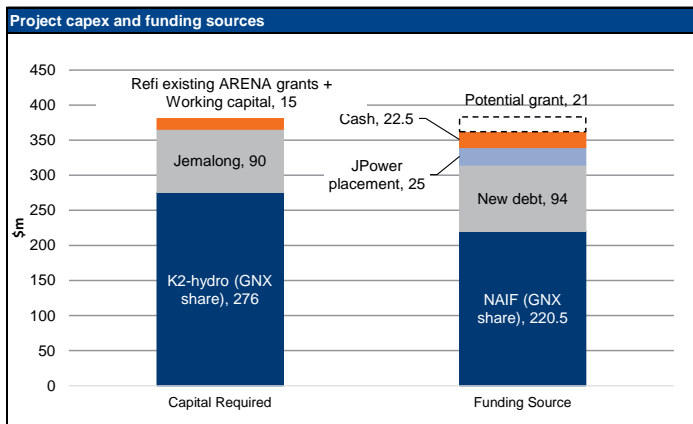


Figure 1: Financial summary (excludes K2H)

Key multiples & gearing	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	26.3	88.6	15.3	12.9	13.1	13.2	12.4	11.9	11.3	10.7
Price-to-earnings (x)	N/A	N/A	N/A	N/A	12	18.1	31.9	19.4	14.5	11.2	9.0
Dividend yield (%)	-	-	-	-	-	-	-	-	4.8	5.0	5.1
Net Debt / ND+E (%)	85.6	92.2	87.2	88.0	86.7	85.4	84.4	82.9	83.2	83.4	83.3
Profit and loss (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	9.7	20.2	22.5	21.7	21.1	21.4	21.6	21.9	22.2
Other inc	1.7	4.8	1.2	-	-	-	-	-	-	-	-
Expenses	(11.7)	(10.0)	(8.6)	(5.9)	(6.4)	(6.5)	(6.6)	(6.7)	(6.9)	(7.0)	(7.2)
EBITDA	(1.7)	5.6	2.3	14.3	16.2	15.3	14.5	14.7	14.7	14.9	15.0
D&A	(3.0)	(6.4)	(7.8)	(7.1)	(8.6)	(8.6)	(8.6)	(8.6)	(8.6)	(8.6)	(8.6)
Operating EBIT	(4.7)	(0.8)	(5.6)	7.2	7.6	6.6	5.9	6.0	6.1	6.2	6.4
Net Interest Expense	(2.7)	(4.7)	(4.5)	(5.8)	(5.8)	(5.5)	(5.2)	(5.0)	(4.7)	(4.4)	(4.1)
K2H equity accounted profit	-	-	-	-	-	-	-	-	-	-	-
Profit Before Tax	(7.5)	(5.5)	(10.0)	1.4	1.8	1.1	0.6	1.1	1.4	1.8	2.3
Tax	-	-	0.4	(0.4)	(0.5)	(0.3)	(0.2)	(0.3)	(0.4)	(0.5)	(0.6)
Statutory Net Profit	(7.5)	(5.5)	(9.6)	1.0	1.3	0.8	0.5	0.8	1.0	1.3	1.7
Exceptional items (post tax)	-	-	-	-	-	-	-	-	-	-	-
Underlying Net Profit	(7.5)	(5.5)	(9.6)	1.0	1.3	0.8	0.5	0.8	1.0	1.3	1.7
Cashflows (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	2.3	14.3	16.2	15.3	14.5	14.7	14.7	14.9	15.0
K2H SPV distributions	-	-	-	-	-	-	-	-	-	-	-
WC & non-cash adjustments	(0.5)	(0.8)	5.4	(5.5)	0.1	0.0	(0.5)	(0.0)	(0.0)	(0.0)	(0.0)
Gross operating cashflow	(2.2)	4.8	7.7	8.8	16.2	15.3	14.0	14.7	14.7	14.9	15.0
Net interest paid	(3.9)	(4.3)	(4.5)	(5.8)	(5.8)	(5.5)	(5.2)	(5.0)	(4.7)	(4.4)	(4.1)
Cash paid for Tax	-	-	-	-	(0.4)	(0.3)	(0.2)	(0.3)	(0.4)	(0.5)	(0.6)
Operating cashflow	(6.1)	0.5	3.2	3.0	10.0	9.5	8.6	9.4	9.7	10.0	10.3
Capex	(83.0)	(12.2)	(63.2)	(21.7)	-	-	-	-	-	-	-
Investing cashflow	(83.0)	(12.2)	(63.2)	(21.7)	-	-	-	-	-	-	-
Equity issuance/(returns)	3.2	1.9	20.5	-	-	-	-	-	-	-	-
Debt drawdown/(repaid)	85.1	2.3	58.9	16.2	(7.2)	(7.4)	(5.8)	(8.0)	(8.3)	(8.6)	(8.9)
Dividends paid	-	-	-	-	-	-	-	-	(2.9)	(3.0)	(3.1)
Financing cashflow	88.3	4.3	79.3	16.2	(7.2)	(7.4)	(5.8)	(8.0)	(11.2)	(11.6)	(12.0)
Net cashflow	(0.7)	(7.4)	19.4	(2.5)	2.9	2.1	2.7	1.4	(1.6)	(1.6)	(1.7)
Balance sheet (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	22.5	20.0	22.9	24.9	27.7	29.0	27.5	25.8	24.1
Receivables	0.9	2.0	0.5	1.0	1.0	0.9	1.8	1.9	1.9	1.9	1.9
Fixed Assets	118.2	118.1	172.9	187.5	178.9	170.3	161.7	153.0	144.4	135.8	127.2
SPV equity	-	-	-	-	-	-	-	-	-	-	-
Tax assets	-	-	0.4	0.1	-	-	-	-	-	-	-
Other	5.6	11.0	16.2	16.2	16.2	16.2	16.2	16.1	16.1	16.1	16.1
Total Assets	135.6	134.5	212.6	224.7	218.9	212.3	207.3	200.1	189.9	179.7	169.4
Debt	102.1	103.7	162.5	178.7	171.5	164.1	158.3	150.2	141.9	133.3	124.4
Deferred Tax from SPV)	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	18.3	22.4	29.5	24.4	24.5	24.5	24.8	24.9	24.9	24.9	24.9
Total Liabilities	120.4	126.1	192.0	203.1	196.0	188.6	183.1	175.1	166.8	158.2	149.3
Net Assets	15.3	8.4	20.6	21.6	22.9	23.7	24.2	25.0	23.1	21.5	20.0
Ave shares on issue (m)	303.9	312.4	401.8	401.8	401.8	401.8	401.8	401.8	401.8	401.8	401.8

SOURCE: MORGANS RESEARCH, COMPANY

Valuation scenarios

Base case

We continue to use a simplified DCF to value K2H as we don't have enough detailed information yet on the contractual arrangements. Once we have more information we will produce a more detailed DCF that would take into consideration any constraints on paying cash to shareholders.

We have used the following assumptions in our simplified DCF:

- \$21.5m p.a. is GNX's share of EBITDA (indexed with inflation).
- 3% after tax WACC based on Rd of 2.5%, Re of 8% and gearing of 80%.
- \$300m GNX share of capex.
- 25% risking factor.

Our other key assumptions in our base case valuation are:

- Jemalong is commissioned during 2Q FY21.
- **Net debt of \$154m** on completion of **Jemalong**.
- Asset multiple value discounted half a year to FY20.
- **Base case value** is the average of the DCF SOTP (41cps) and the asset multiple based method (31cps), **or 36cps**.

Figure 2: Base case sum of the parts

Component	Value (\$m)	Value (cps)
KS1 & Jemalong	48.3	12
Corporate	-19.8	(5)
GNX K2H value	116.0	29
K2-S & K3-W	20.5	5
Total	165.0	41

SOURCE: MORGANS

Figure 3: Base case asset multiple

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
Jemalong + KS1	97.7	2.4	234.5	(155.7)	78.8
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	284.9	(155.7)	129.2
Number of shares					401.8
Discounted equity value (cps)					31

SOURCE: MORGANS

Bull case

Our key assumptions in our bull case valuation are:

- **K2H** valued using no risking factors for the DCF SOTP.
- **GNX is acquired** by an infrastructure investor **in four years'** time after the completion of all projects on an asset multiple.
- Assets 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 FY20 at 8% pa.
- **Bull case value** is the average of the DCF SOTP (51cps) and the asset multiple valuation (59cps), **or 55cps**.

Figure 4: Bull case sum of the parts

Component	Value (\$m)	Value (cps)
KS1 & Jemalong	48.3	12
Corporate	-19.8	(5)
GNX K2H value	154.6	38
K2-S & K3-W	20.5	5
Total	203.6	51

SOURCE: MORGANS

Figure 5: Bull case asset multiple

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
Jemalong + KS1	97.7	3.1	302.9	(155.7)	147.2
K2-H	125	2.1	262.5	(230.0)	32.5
K2-S + K3-W	320	3.1	992.0	(440.0)	552.0
Total	542.7	2.9	1,557.4	(825.7)	731.7
Estimated future number of shares (m)					1015.4
Discounted equity value (cps)					59

SOURCE: MORGANS

Bear case

We now include a risked DCF for K2H in the bear case given that there is now a binding offtake agreement. Our key assumptions are:

- **K2H** risked at 50% in the DCF SOTP.
- Asset multiple is the **lowest quartile** multiple of **comparable transactions** (see previous note on 29 May 2019 for list of transactions).
- **Bear case value** is the average of the DCF SOTP (31cps) and the asset multiple based method (24cps), or **28cps**.

Figure 6: Bear case sum of the parts			Figure 7: Bear case asset multiple						
Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)	
KS1 & Jemalong	48.3	12	Jemalong + KS1	97.7	2.1	205.2	(155.7)	49.5	
Corporate	-19.8	(5)	K2-H	250	0.1	30.8	-	30.8	
GNX K2H value	77.3	19	K2-S + K3-W	320	0.1	19.7	-	19.7	
K2-S & K3-W	20.5	5	Total	667.7	0.4	255.6	(155.7)	99.9	
Total	126.3	31							
								Estimated future number of shares	
								401.8	
								Discounted equity value (cps)	
								24	

SOURCE: MORGANS

SOURCE: MORGANS

Queensland

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan	+61 7 3152 0600
Partners	
Brisbane: North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Holland Park	+61 7 3151 8300
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Newstead	+61 7 3151 4151
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

New South Wales

Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
Sydney: Grosvenor	+61 2 8215 5000
Place	
Sydney: Reynolds	+61 2 9373 4452
Securities	
Sydney: Currency	+61 2 8216 5111
House	
Armistale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

Victoria

Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrambool	+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
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

Australian Capital Territory

Canberra	+61 2 6232 4999
----------	-----------------

Northern Territory

Darwin	+61 8 8981 9555
--------	-----------------

Tasmania

Hobart	+61 3 6236 9000
--------	-----------------

Disclaimer

The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Disclosure of interest

Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

Regulatory disclosures

Analyst owns shares in the following mentioned company(ies): Genex Power
Morgans Corporate Limited is a Participating Broker to the placement of shares in Genex Power Limited and may receive fees in this regard.

Recommendation structure

For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

Research team

For analyst qualifications and experience, refer to our website at morgans.com.au/research-and-markets/our-research-team

Research coverage policy

For an overview on the stock selection process, refer to our website at morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy

Research independence statement

morgans.com.au/Research-Independence-Statement

Stocks under coverage

For a full list of stocks under coverage, refer to our website at morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage and morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage

morgans.com.au

If you no longer wish to receive Morgans publications please contact your local Morgans branch or write to GPO Box 202 Brisbane QLD 4001 and include your account details.