

Genex Power ^{GNX}

Recommendations

Rating	BUY
Risk	Speculative
Price Target	\$0.33
Share Price	\$0.22

Snapshot

Monthly Turnover	\$7.2mn
Market Cap	\$104mn
Shares Issued	498.6mn
52-Week High	\$0.28
52-Week Low	\$0.08
Sector	Renewable Electricity

Business Description

GNX is a renewable energy developer, with its flagship location in Kidston, North Queensland. This consists of a 50MW solar farm (operational), a 270MW solar farm (development phase), a 250MW pumped storage hydro project (near financial close) and a 150MW wind farm (feasibility study underway). They are also developing a 50MW solar project (under construction) in Jemalong, NSW.

12-Month Price & Volume



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Disclosure

The author owns no shares in GNX.

Company Report

Hydro deal imminent

No surprises in result: GNX reported FY20 revenue of \$10.3m from Kidston Stage 1 – Solar, in line with the pcg despite an additional month of operations in FY20. This was due to the previously-flagged software issue which caused an unexpected outage of around a month in October 2019. During FY20, GNX made significant progress on the development of the Kidston Stage 2 – Hydro project (K2H), which is expected to reach financial close in the next few weeks.

K2-Hydro a key catalyst: We believe financial close will be a significant positive catalyst for GNX as it will crystallise a large amount of value for shareholders. Steady progress has been made over the past few months on the final two major pieces of the financing puzzle – (1) the SPV equity investment agreement (for a partner up to 50%) and (2) the transmission line agreement (with the Queensland Government). Both are to be finalised imminently, with overall financial close for the project expected to occur by the end of September.

Key agreements extended: The June quarter saw GNX agree final terms and pricing with the contractors responsible for the construction of the K2H project, which is forecast to take 45 months and cost c.\$600m. GNX also received extensions of previous offers from NAIF (debt financing), Powerlink (grid connection and transmission line construction) and AEMO (GPS approval).

Jemalong construction on track: The 50MW Jemalong project remains on track to deliver first cashflows in the December quarter. Construction has been largely unaffected by the COVID-19 situation, either on-site or supply chain-wise. Installation of the steel posts (onto which the mechanised trackers are mounted) is now underway. GNX is also working on a PPA with an as yet unnamed counterparty to take 50% of the output from the project, with the other 50% to be sold into the spot market.

Investment view: With the K1S and Jemalong projects running smoothly, the primary focus for GNX is on the K2-Hydro project, which should provide a short-term catalyst within weeks. In addition, the Jemalong project is expected to start contributing cashflows in a couple of months. In the longer term, GNX has a full pipeline of solar (K2-Solar 270MW), wind (K3-Wind 150MW) and battery (Como 50MW) projects to deliver future growth. BUY maintained.

Investment Summary						
Year End: 30 June		2019A	2020A	2021E	2022E	2023E
Revenue	\$mn	10.8	10.3	18.8	24.5	24.5
EBITDA	\$mn	5.6	1.8	7.9	13.6	14.1
EBIT	\$mn	-0.8	-6.2	-0.1	-2.4	-1.9
Reported Profit	\$mn	-5.5	-10.5	-3.8	-7.7	-8.1
Adjusted Profit	\$mn	-5.5	-10.5	-3.8	-7.7	-8.1
EPS (Reported)	¢	-1.6	-2.6	-0.8	-1.5	-1.6
EPS (Adjusted)	¢	-1.6	-2.6	-0.8	-1.5	-1.6
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Adjusted)	x	N/A	N/A	N/A	N/A	N/A
EV/EBITDA	x	35.9	126.2	39.4	27.1	23.6
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial Summary

GENEX POWER					
Code:	GNX				
Analyst:	Luke Macnab				
Date:	28 August, 2020				
Share Price:	\$0.215				
Market Capitalisation:	\$104m				
Financial Year End:	June				

PROFIT & LOSS (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Operating revenue	10.8	10.3	18.8	24.5	24.5
COGS	0.0	0.0	0.0	0.0	0.0
Gross profit	10.8	10.3	18.8	24.5	24.5
Expenses	-5.2	-8.5	-10.9	-10.9	-10.4
EBITDA	5.6	1.8	7.9	13.6	14.1
Depreciation	-6.4	-8.0	-8.0	-16.0	-16.0
EBITA	-0.8	-6.2	-0.1	-2.4	-1.9
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-0.8	-6.2	-0.1	-2.4	-1.9
Net Interest expense	-4.7	-4.3	-5.4	-8.6	-9.7
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	-5.5	-10.5	-5.5	-11.0	-11.6
Tax	0.0	0.0	1.6	3.3	3.5
Underlying NPAT	-5.5	-10.5	-3.8	-7.7	-8.1
Underlying NPATA	-5.5	-10.5	-3.8	-7.7	-8.1
Significant items (net of tax)	0.0	0.0	0.0	0.0	0.0
Reported profit	-5.5	-10.5	-3.8	-7.7	-8.1

BALANCE SHEET (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Assets					
Cash	3.5	65.5	61.6	88.4	114.7
Receivables	2.0	3.5	3.4	3.4	3.4
PPE	118.5	179.8	287.2	361.7	346.1
Goodwill & Intangibles	4.6	4.7	4.7	4.7	4.7
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	6.0	0.4	0.4	0.4	0.4
Total Assets	134.5	253.9	357.4	458.6	469.4
Liabilities					
Payables	2.3	22.4	2.2	2.2	2.1
Debt	99.8	183.9	267.8	351.8	345.7
Provisions	3.9	3.9	3.9	3.9	3.9
Tax payable	0.4	0.4	0.4	0.4	0.4
Deferred Revenue	3.9	3.9	3.9	3.9	3.9
Other liabilities	15.8	28.0	28.0	28.0	28.0
Total Liabilities	126.1	242.5	306.3	390.2	384.0
Equity					
Share capital	41.9	62.5	62.5	62.5	62.5
Retained earnings	-30.3	-40.8	-44.6	-52.4	-60.5
Other equity	-3.2	-10.4	-10.4	-10.4	-10.4
Total shareholders equity	8.4	11.4	7.5	-0.2	-8.3
BV per share (cps)	2.5	2.8	1.5	0.0	-1.6
NTA per share (cps)	1.1	1.6	0.6	-0.9	-2.5

CASH FLOW (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash at Start	11.0	3.5	65.5	61.6	88.4
Cash from operations	0.5	-4.1	2.6	8.3	7.9
Capex	-6.4	-37.9	-0.4	-0.5	-0.5
Free cash flow	-5.9	-42.0	2.2	7.8	7.4
Cash flow from investing	-5.9	-0.1	-115.0	-90.0	0.0
Cash flow from financing	4.3	104.1	108.9	108.9	18.9
Cash at end	3.5	65.5	61.6	88.4	114.7
Free cash flow per share (cps)	-1.7	-10.2	0.4	1.5	1.4
GOCD / EBITDA	86%	-43%	121%	116%	116%
FCF / Underlying cash NPAT	108%	399%	-58%	-101%	-91%

Rating:	BUY
Price Target:	\$0.33
Upside/downside:	53%
Valuation:	\$0.33
Valuation method:	DCF/Multiple
Risk:	Speculative

EARNINGS	FY19A	FY20A	FY21E	FY22E	FY23E
EPS - Underlying (cps)	-1.6	-2.6	-0.8	-1.5	-1.6
EPS Growth - Underlying	-29%	58%	-70%	93%	5%
EPS - Reported (cps)	-1.6	-2.6	-0.8	-1.5	-1.6
Diluted shares (m)	339.2	412.6	497.5	518.3	518.3
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio	0%	0%	0%	0%	0%
Franking	0%	0%	0%	0%	0%
VALUATION	FY19A	FY20A	FY21E	FY22E	FY23E
P/E - Underlying (x)	-13.3	-8.4	-27.9	-14.4	-13.7
EV/EBIT (x)	-256.9	-35.7	-2562.7	-151.5	-173.9
EV/EBITA (x)	-256.9	-35.7	-2562.7	-151.5	-173.9
EV/EBITDA (x)	35.9	126.2	39.4	27.1	23.8
Price/Book (x)	8.6	7.8	14.2	-673.6	-13.4
Price/NTA (x)	19.0	13.3	37.8	-22.8	-8.6
Price/FCF	-12.3	-2.1	48.3	14.3	15.1

GROWTH	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue growth	nm	-5%	83%	30%	0%
COGS growth	nm	0%	0%	0%	0%
Expenses growth	-48%	62%	28%	0%	-5%
EBITDA growth	-424%	-68%	347%	72%	4%
PBT growth	-27%	92%	-48%	101%	5%
Underlying NPAT growth	-27%	92%	-64%	101%	5%
Reported NPAT growth	-27%	92%	-64%	101%	5%

MARGINS & RETURNS	FY19A	FY20A	FY21E	FY22E	FY23E
EBITDA Margin	51.7%	17.2%	42.1%	55.6%	57.6%
EBITA Margin	-7.2%	-60.9%	-0.6%	-9.9%	-7.9%
NPBT Margin	-50.6%	-102.7%	-29.2%	-45.1%	-47.5%
ROIC	-0.5%	-3.6%	0.0%	-0.7%	-0.5%
ROE	-46.2%	-106.3%	-40.5%	-209.0%	192.2%
ROA	-0.6%	-3.2%	0.0%	-0.6%	-0.4%
Effective Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%







GEARING	FY19A	FY20A	FY21E	FY22E	FY23E
Net Debt	96.4	118.4	206.2	263.4	231.0
Enterprise value	200.7	222.7	310.5	367.7	335.3
Net Debt/EV (%)	48.0%	53.2%	66.4%	71.6%	68.9%
Net Debt/EBITDA (x)	17.2	67.1	26.2	19.4	16.4
EBITDA/Net Interest (x)	1.2	0.4	1.5	1.6	1.5

SEGMENT REVENUES (A\$m)	FY19A	FY20A	FY21E	FY22E	FY23E
Kidston Stage 1 Solar	10.8	10.3	13.1	13.1	13.1

Hydro deal imminent

- **K2 Hydro close imminent:** GNX has signed agreements with a number of key stakeholders in the project over the past few months. In July, GNX agreed final terms and pricing with the contractors responsible for the construction of the 250MW K2-Hydro project. Construction is forecast to take 45 months and cost c.\$600m (including contingencies, excluding development costs and Powerlink transmission line). This agreement is valid until 30 September 2020.
- **J-Power signs new agreement:** J-Power has also recently signed a new share subscription agreement with GNX, with funds raised to be used primarily for GNX's equity stake in the K2-Hydro project. The terms of the agreement are essentially the same as the agreement signed in June 2019:
 - New shares to be issued to J-Power up to value of \$25m, with a minimum post-issue stake in GNX of 15% and a maximum of 20%.
 - These terms imply an issue price floor of 25c and a cap of 35c. The actual subscription price will be the higher of 5-Day VWAP either (a) at K2H financial close; or (2) 5 days post-K2H financial close.
 - J-Power will be able to appoint a director to the GNX board.
 - J-Power will provide advisory services to GNX relating to the development and operation of K2H.
- The agreement is subject to conditions, including (1) the approval of GNX shareholders, (2) formal agreement on NAIF funding, (3) financial close on the K2-Hydro project occurring prior to 31 December 2020, and (4) FIRB approval.

Fig.1: K2 – Hydro project external stakeholders

	Energy offtake <ul style="list-style-type: none"> • Energy Storage Services Agreement signed with EnergyAustralia.
	Genex equity investor <ul style="list-style-type: none"> • SSA signed for up to \$25m equity investment in Genex Power.
  	EPC Contractor/supplier of pump turbines <ul style="list-style-type: none"> • Binding EPC Contract ready to execute, Early Works Stage 1 completed, pricing and terms agreed.
	Federal Government <ul style="list-style-type: none"> • Sole lender providing up to \$610 million of long-term, concessional debt. • Board Investment Decision granted, to be updated for revised offtake arrangement.
	Federal Government Grant Body <ul style="list-style-type: none"> • Discussions being finalised.
	Queensland Government <ul style="list-style-type: none"> • Construct and operate 275kV transmission line from Kidston to Mt Fox. • Offer to Connect submitted, GPS approved, pricing revalidated.
	Treasury/DNRME – co-funding of Transmission line <ul style="list-style-type: none"> • Discussions well advanced, to be concluded as a priority.

Source: Company reports

- **Como battery project:** In early August GNX revealed it is undertaking development of a 50MW/75MWh lithium-ion battery project near Rockhampton in central Queensland. It will be located near an existing substation and GNX is currently working on a connection agreement with Powerlink. A tender is being run to select the preferred battery supplier and it is possible that the project could be operating by the end of CY21.
- **Cost estimated at \$50-60m:** Based on similar projects in Australia, we estimate the capital cost of battery storage is around \$650-800k per MWh, which would imply a total amount of around \$50-60m. Funding for the project was not outlined; we estimate gearing in the order of 40-60% would be likely, depending upon the revenue model. We speculate that a hybrid model may be sought (similar to Jemalong) where a minimum revenue level is locked in to support debt payments, with the structure allowing for the sharing of potential upside.















Fig.2: Overview of GNX projects

	Kidston Stage 1 50MW Solar Project	Status Production (since 2017)	Counterparty  Queensland Government	Revenue Model 20-year Government Revenue Guarantee. Selling into National Energy Market
	Jemalong Solar 50MW Solar Project	Status Under Construction	Counterparty  AEMO	Revenue Model Merchant/Spot
	K2-Hydro 250MW Pumped Hydro Project	Status Development	Counterparty  EnergyAustralia	Revenue Model Long term rental over the pumped hydro assets
	Como Battery 50MW/75MWh Large Scale Battery Energy Storage System	Status Development	Counterparty To be confirmed	Revenue Model Contract/Merchant
	K3-Wind 150MW Wind Project	Status Feasibility	Counterparty To be confirmed	Revenue Model To be confirmed
	K2-Solar Up to 270MW Solar Project	Status Feasibility	Counterparty To be confirmed	Revenue Model To be confirmed

Source: Company reports

- **Equity raising:** GNX raised \$21m of equity on 10 August, with an SPP raising up to \$7m also underway, both at \$0.22 per share. Funds are to be used for development costs on the K2H and Como projects and general working capital. Funding for GNX's stake in the K2H project will come under the agreement with J-POWER to subscribe for up to \$25m worth of GNX shares and take a 15-20% stake in the company. The agreement implies a floor purchase price of 25cps and a ceiling price of 35cps.

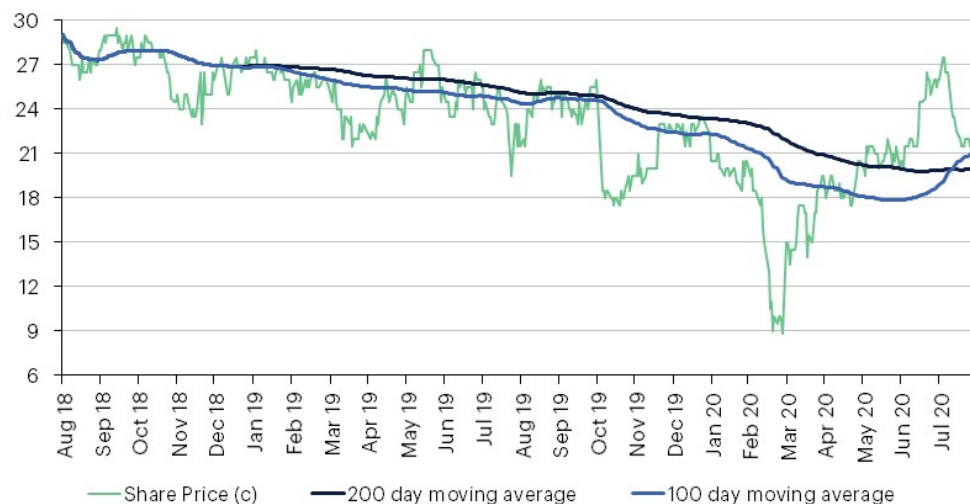
Fig.3: GNX estimated future renewable energy output

Clean Energy Production	Maximum Generation (Calendar Year)	Offsets CO ₂ Production (Calendar Year)	Houses Powered (Calendar Year)
2020	 KS1: 50MW – 145,000MWh	 120,000t of CO ₂	 22,070
	 KS1: 50MW – 145,000MWh		
2021	 JSP: 50MW – 128,700MWh	 249,166t of CO ₂	 45,826
	 Como: 50MW - 27,375MWh		
	 370MW – 1,056,700MWh		
2024	 250MW – 730,000MWh	 1,936,282t of CO ₂	 356,115
	 150MW – 525,600MWh		
	 50MW – 27,375MWh		

Source: Company reports

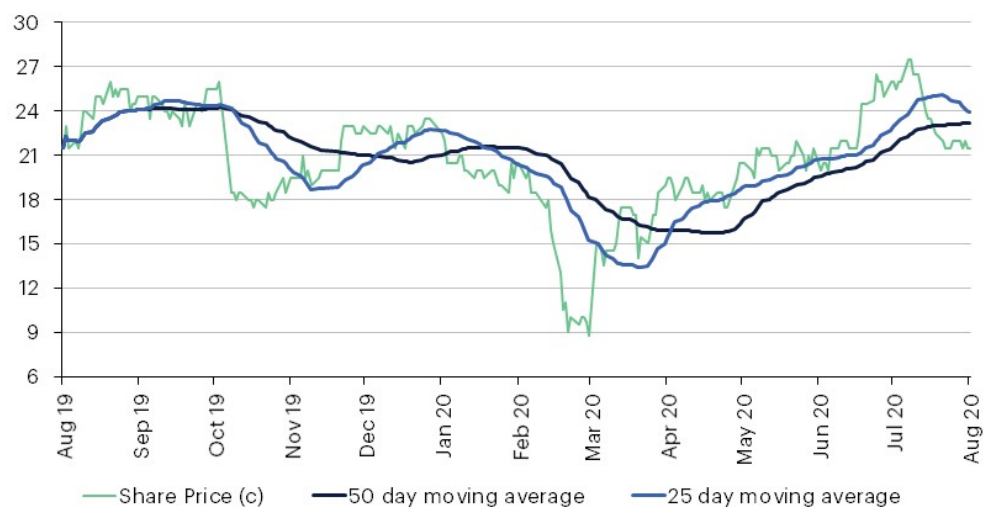
Appendix

Fig.4: Long-term momentum indicators



Source: Iress

Fig.5: Short-term momentum indicators



Source: Iress

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Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of ± 10 -15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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Hold: 25%

Sell: 9%

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