

Genex Power^{GNX}

J-Power renews equity agreement - GNX reveals Como battery project

Rating*:	BUY	Price Target*:	\$0.33	Analyst:	Luke Macnab +61 2 9250 8930 lmacnab@baillieu.com.au
Risk:	Speculative	Share Price:	\$0.27		

*Note: Rating and Price Target recorded at pre-announcement levels as detailed in our research report dated 28 February 2020. This may be subject to review or change.

- J-Power signs new agreement: J-Power has 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 a 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.
- Como battery project: GNX has also 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; GNX is currently working on 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 is \$650-800k per MWh, which would imply a total amount of around \$50-60m. Funding for the project was not outlined; we would imagine 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.
- Investment view: The agreement with J-Power ticks another box on the way to financial close of the K2H project, with any shortfall on equity funding now covered. (We are expecting the vast majority of GNX's equity stake to be covered by a reimbursement of and return on development funds from the co-equity investor at the project level, when that is finalised in the next 4-6 weeks). The Como project provides another potential step up in revenue, which would most likely occur in FY22 and provide further upside to our target price. BUY maintained.

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