

Genex Power

Stepping forward on Jemalong

SPECULATIVE BUY

(no change)

Current price:	A\$0.22
Target price:	A\$0.25
Previous target:	A\$0.25
Up/downside:	13.6%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$60.57m
	A\$88.41m
Average daily turnover:	US\$0.13m
	A\$0.19m
Current shares o/s	312.4m
Free float:	69.3%

Key changes in this note

K2-H excluded from forecasts in the Financial Summary



Price performance	1M	3M	12M
Absolute (%)	25.7	-13.7	-4.4
Relative (%)	24.5	-16.2	-26.9

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– Genex Power

- GNX has reached financial close on the 50MW Jemalong Solar Project (JSP) which is expected to be brought online during 2QFY21.
- JSP will take spot price exposure which is more volatile but at a premium to long term renewable offtake pricing.
- The project finance from the existing Kidston Solar Stage 1 (KS1) project is being refinanced into a new facility that will also fund JSP.
- We maintain our SPECULATIVE BUY rating and target price of A\$0.25ps.

Jemalong Solar Project

Genex has reached financial close on the Jemalong Solar Project (JSP). Construction will commence shortly and we expect the project will begin generating during 2QFY21. JSP will be a 50MW solar facility and is expected to generate ~129GWh pa. GNX has made the decision to sell the energy and carbon credits in the spot market, or possibly the short-term futures market, rather than entering a long-term offtake agreement.

Debt restructured

GNX has successfully refinanced its KS1 debt and raised new debt to fund JSP. The new debt portfolio is a mixture of senior debt provided by a consortium of banks and an additional facility provided by the Clean Energy Finance Corporation (CEFC). We understand that the new debt is at a fixed rate for ten years as the company has extended its interest rate hedges. The company has not disclosed what the specific rates are for the new debt portfolio but we have, and continue to, include savings on reduced interest costs. The new debt funding will also allow GNX to obtain better prices for JSP's electricity than typical projects.

The state of the energy market

Typically, renewables projects use a Power Purchase Agreement (PPA) to satisfy debt financiers that revenue will be sufficient to meet the cashflow requirements for loan repayments into the future. PPA prices have fallen over the last two years to be between \$50-\$55/MWh, inclusive of carbon credits (LGCs), which is a significant discount to electricity and LGC spot prices. By securing both KS1 and JSP in the same facility, GNX can leverage the long term KS1 offtake contract to satisfy its lenders that it can take spot price exposure on JSP. Commercial conditions for JSP look favourable with baseload futures prices for NSW electricity in CY20 averaging ~\$80/MWh and with likely minimal impact from Marginal Loss Factors (MLF) based on solar farms nearby. We estimate that EBITDA in CY21 will increase by \$9m because of JSP.

Investment view

While we still see GNX's pumped hydro project (K2-H) as being the main engine for growth, achieving financial close on JSP is still a significant step forward. Sales volumes will approximately double when the project is completed and revenue will also increase significantly but will also be more volatile. Excluding any activity on K2-H, we estimate that GBX can grow EBITDA to \$16m and earn net profit for the first time by FY21. We maintain our SPECULATIVE BUY rating and maintain our target price at 25cps. If there is further clarity on K2-H in the next quarter we see significant upside potential above our current price target.

Financial Summary	Jun-18A	Jun-19A	Jun-20F	Jun-21F	Jun-22F
Revenue (A\$m)	8.27	10.82	11.64	22.18	24.57
Operating EBITDA (A\$m)	-1.72	5.59	8.93	16.28	18.22
Net Profit (A\$m)	-7.46	-9.17	-1.82	2.13	2.49
Normalised EPS (A\$)	(0.025)	(0.030)	(0.007)	0.008	0.009
Normalised EPS Growth	(17.2%)	19.1%	(75.5%)		16.6%
FD Normalised P/E (x)	NA	NA	NA	28.15	24.14
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	30.07	21.71	14.84	12.64
P/FCFE (x)	NA	NA	1.42	NA	19.97
Net Gearing	596%	1187%	458%	568%	485%
P/BV (x)	4.38	8.14	3.21	2.96	2.72
ROE	(43.3%)	(77.3%)	(14.7%)	10.9%	11.7%
% Change In Normalised EPS Estimates			(124%)	41%	554%
Normalised EPS/consensus EPS (x)			-3.65	7.82	-1.52

SOURCE: MORGANS, COMPANY REPORTS

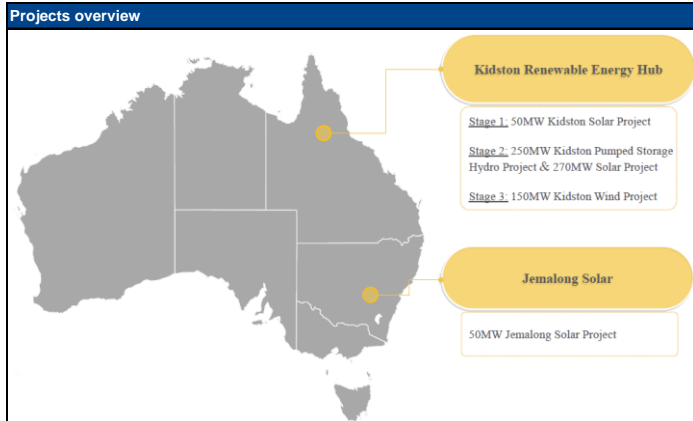
Genex Power

as at December 18, 2019

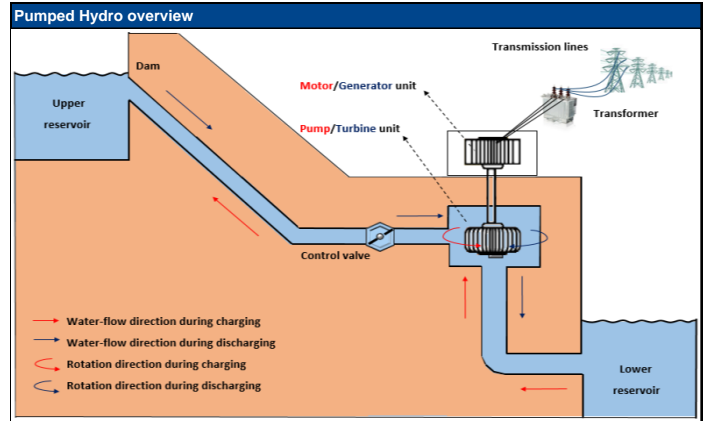
Market cap (A\$m):	88.41	Rating:	SPECULATIVE BUY
Shares outstanding (m):	312.4	Price (A\$):	0.22
Free float (%):	69.3	Target price (A\$):	0.25
Website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	13.6

Company description

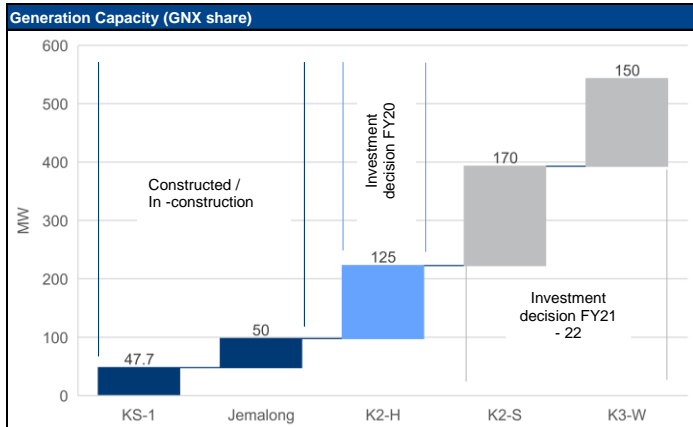
GNX is redeveloping an old gold mine in North Queensland into an energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has plans to expand its energy generation with a second stage solar farm up to 270MW and a potential 150MW wind farm, on or near the same site, and 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.



SOURCE: GNX



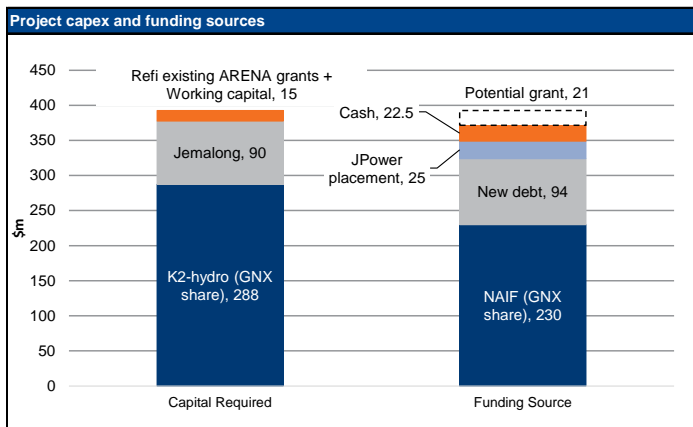
SOURCE: Journal of Power Technologies (2017)



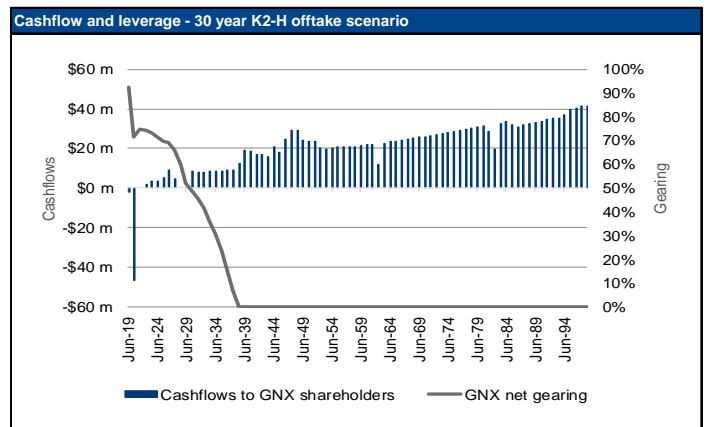
SOURCES: MORGANS, GNX

- 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.
 - Successful renegotiation of K2-H offtake agreement.
- Risks:**
- Pumped hydro offtake 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 during construction of the K2-H pumped hydro project.
 - 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.
 - Technological changes driving energy efficiency and alternative generation.
 - Interest rates.
 - Changes to tax regimes.

SOURCE: MORGANS



SOURCES: MORGANS, GNX



SOURCE: MORGANS

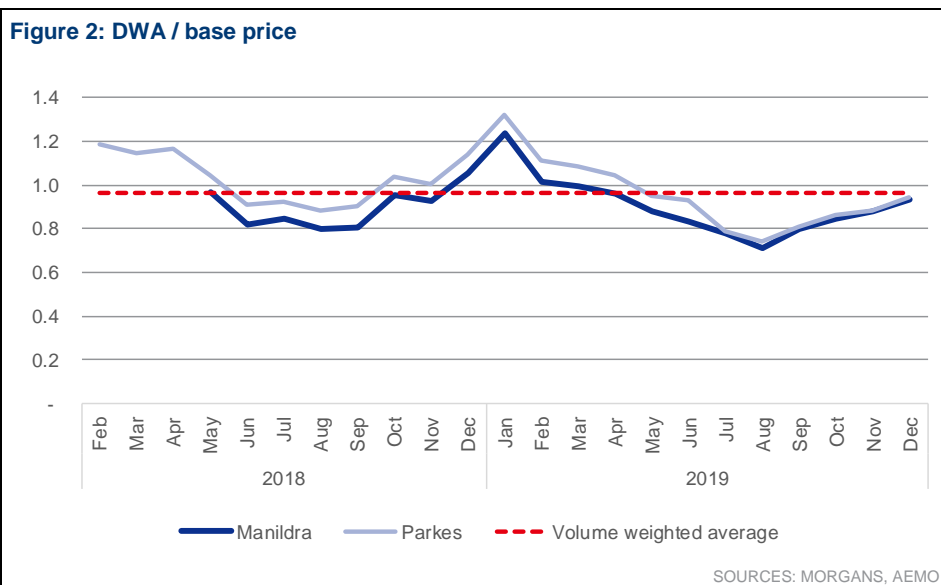
Figure 1: Financial summary (excludes K2-H)

Key multiples & gearing	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	29.1	21.7	14.4	12.2	12.3	12.4	11.4	11.2	10.3	10.1
Price-to-earnings (x)	N/A	N/A	N/A	N/A	8	9.8	13.5	9.4	9.9	7.4	7.6
Dividend yield (%)	-	-	-	-	-	-	-	-	4.3	4.5	4.5
Net Debt / ND+E (%)	85.6	92.2	82.1	85.0	82.9	80.8	78.9	76.3	75.7	74.7	73.5
Profit and loss (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	11.6	22.2	24.6	23.8	22.9	23.6	23.3	24.1	23.8
Other inc	1.7	4.8	2.1	-	-	-	-	-	-	-	-
Expenses	(11.7)	(10.0)	(4.9)	(5.9)	(6.4)	(6.5)	(6.6)	(6.7)	(6.9)	(7.0)	(7.2)
EBITDA	(1.7)	5.6	8.9	16.3	18.2	17.3	16.3	16.9	16.4	17.1	16.6
D&A	(3.0)	(6.4)	(5.7)	(7.2)	(8.7)	(8.7)	(8.7)	(8.7)	(8.7)	(8.7)	(8.7)
Operating EBIT	(4.7)	(0.8)	3.2	9.1	9.5	8.6	7.5	8.1	7.7	8.3	7.9
Net Interest Expense	(2.7)	(4.7)	(5.7)	(6.1)	(6.1)	(5.8)	(5.5)	(5.2)	(4.9)	(4.6)	(4.3)
K2H equity accounted profit	-	-	-	-	-	-	-	-	-	-	-
Profit Before Tax	(7.5)	(5.5)	(2.5)	2.9	3.4	2.8	2.0	2.9	2.8	3.7	3.6
Tax	-	-	0.7	(0.8)	(0.9)	(0.8)	(0.6)	(0.8)	(0.8)	(1.0)	(1.0)
Statutory Net Profit	(7.5)	(5.5)	(1.8)	2.1	2.5	2.0	1.5	2.1	2.0	2.7	2.6
Exceptional items (post tax)	-	-	-	-	-	-	-	-	-	-	-
Underlying Net Profit	(7.5)	(5.5)	(1.8)	2.1	2.5	2.0	1.5	2.1	2.0	2.7	2.6
Cashflows (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	8.9	16.3	18.2	17.3	16.3	16.9	16.4	17.1	16.6
K2H SPV distributions	-	-	-	-	-	-	-	-	-	-	-
WC & non-cash adjustments	(0.5)	(0.8)	4.6	(5.6)	0.1	0.0	(0.6)	(0.0)	0.0	(0.1)	0.0
Gross operating cashflow	(2.2)	4.8	13.5	10.6	18.3	17.3	15.7	16.8	16.4	17.0	16.7
Net interest paid	(3.9)	(4.3)	(5.7)	(6.1)	(6.1)	(5.8)	(5.5)	(5.2)	(4.9)	(4.6)	(4.3)
Cash paid for Tax	-	-	-	(0.1)	(0.9)	(0.8)	(0.6)	(0.8)	(0.8)	(1.0)	(1.0)
Operating cashflow	(6.1)	0.5	7.8	4.4	11.3	10.8	9.6	10.8	10.8	11.4	11.4
Capex	(83.0)	(12.2)	(45.0)	(45.0)	-	-	-	-	-	-	-
Investing cashflow	(83.0)	(12.2)	(45.0)	(45.0)	-	-	-	-	-	-	-
Equity issuance/(returns)	3.2	1.9	19.2	-	-	-	-	-	-	-	-
Debt drawdown/(repaid)	85.1	2.3	90.7	(5.9)	(7.1)	(7.4)	(7.8)	(8.0)	(8.3)	(8.6)	(8.9)
Dividends paid	-	-	-	-	-	-	-	-	(3.2)	(3.4)	(3.4)
Financing cashflow	88.3	4.3	109.9	(5.9)	(7.1)	(7.4)	(7.8)	(8.0)	(11.6)	(12.0)	(12.3)
Net cashflow	(0.7)	(7.4)	72.7	(46.4)	4.1	3.4	1.9	2.8	(0.8)	(0.7)	(1.0)
Balance sheet (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	76.1	29.7	33.8	37.2	39.1	41.9	41.1	40.4	39.5
Receivables	0.9	2.0	0.5	1.1	1.0	1.0	2.0	2.0	2.0	2.1	2.1
Fixed Assets	118.2	118.1	153.6	191.4	182.7	173.9	165.2	156.5	147.8	139.1	130.4
SPV equity	-	-	-	-	-	-	-	-	-	-	-
Tax assets	-	-	0.7	-	-	-	-	-	-	-	-
Other	5.6	11.0	16.8	16.8	16.8	16.8	16.8	16.8	16.7	16.7	16.7
Total Assets	135.6	134.5	247.7	238.9	234.3	229.0	223.1	217.2	207.6	198.3	188.6
Debt	102.1	103.7	194.3	188.5	181.3	174.0	166.2	158.1	149.8	141.2	132.3
Deferred Tax from SPV)	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	18.3	22.4	27.5	22.5	22.5	22.5	22.9	22.9	22.9	22.9	23.0
Total Liabilities	120.4	126.1	221.9	211.0	203.9	196.5	189.1	181.1	172.7	164.1	155.2
Net Assets	15.3	8.4	25.8	28.0	30.5	32.5	34.0	36.1	34.9	34.2	33.4
Ave shares on issue (m)	303.9	312.4	376.4	376.4	376.4	376.4	376.4	376.4	376.4	376.4	376.4

SOURCE: MORGANS RESEARCH, COMPANY

NSW solar market conditions

While the effects of increasing amounts of solar generation can be seen in the market, both from dips in daytime pricing during low demand seasons and from lower retail demand, grid-scale solar prices haven't yet been significantly impacted. Figure 2 shows the premium or discount of the Dispatch Weighted Average (DWA) price compared to the average price in NSW for two nearby projects: the Manildra Solar Farm and the Parkes Solar Farm and the average DWA over the period shown was 0.97. We also note that the draft MLFs for those two projects in FY21 are ~0.98 and we anticipate that JSP will be similar. We therefore expect JSP to realise, on average, prices close to CY20 futures prices (\$80/MWh) for electricity when it begins generating.



Valuation scenarios

Base case

We believe that it's most likely that GNX will be successful in renegotiating the K2-H project offtake agreement and that the project will proceed. However, because there are several significant issues to be negotiated we are continuing to use the Kanmantoo project as a reference for value for K2-H. Our key assumptions in our base case valuation are:

- Jemalong is constructed and commissioned within 12 months.
- \$65m additional net debt required for Jemalong.
- \$31m **Kanmantoo** development rights transaction between AGL and Hillgrove Resources is a **floor price reference for K2-H** value.
- **Base case value** is the average of the DCF SOTP (22cps) and asset multiple based methods (28cps), or **25cps**.

Figure 3: GNX DCF base case sum of the parts valuation			Figure 4: Base case asset multiple valuation					
Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Debt (\$m)	Equity (\$m)
KS1 & Jemalong	37.2	12	Jemalong + KS1	97.7	2.4	234.5	(164.3)	70.1
Corporate	-19.7	(6)	K2-H	250	0.1	31.0	-	31.0
GNX K2-H option va	31.0	10	K2-S + K3-W	320	0.1	19.8	-	19.8
K2-S & K3-W	20.5	7	Total	667.7	0.4	285.3	(164.3)	121.0
Total	69.0	22						
			Estimated future number of shares					401.8
			Discounted equity value (cps)					28

SOURCES: MORGANS, COMPANY REPORTS

Bull case

We are maintaining our key assumptions in our bull case valuation:

- **K2-H** valued on **6% cost of equity**.
- **GNX is acquired** by an infrastructure investor in **four years'** time after the completion of all projects.
- 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 (50cps) and the asset multiple valuation (52cps), or **51cps**.

Figure 5: GNX DCF bull case sum of the parts valuation

Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Debt (\$m)	Equity (\$m)
KS1 & Jemalong	37.2	12	Jemalong + KS1	97.7	3.1	302.9	(164.3)	138.5
Corporate	-19.7	(6)	K2-H	125	2.1	262.5	(230.0)	32.5
GNX K2-H option va	117.8	38	K2-S + K3-W	320	3.1	992.0	(440.0)	552.0
K2-S & K3-W	20.5	7						
Total	155.8	50	Total	542.7	2.9	1,557.4	(834.3)	723.0
								Estimated future number of shares (m)
								1015.4
								Discounted equity value (cps)
								52

SOURCES: MORGANS, COMPANY REPORTS

SOURCES: MORGANS, COMPANY REPORTS

Bear case

We are maintaining our key assumptions in our bear case valuation:

- **Corporate** costs of **6cps** have been **excluded**.
- The **DCF of the assets** excluding corporate overheads represent the **value to an acquirer**.
- **Bear case value** only includes the KS1 and JSP assets (**12cps**).

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