

Genex Power

SPECULATIVE BUY

(no change)

Current price:	A\$0.19
Target price:	A\$0.35
Previous target:	A\$0.36
Up/downside:	84.2%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$48.70m
	A\$76.35m
Average daily turnover:	US\$0.08m
	A\$0.12m
Current shares o/s	312.4m
Free float:	69.3%

Key changes in this note

FY21F revenue down by 4%.



Price performance	1M	3M	12M
Absolute (%)	115.9	-17.4	-17.4
Relative (%)	106	7.6	-0.7

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Solar portfolio outlook is mixed

- Solar generation from Kidston in the last quarter was solid and back in-line with expectations.
- Electricity spot price trends and futures prices point to lower earnings from Jemalong though.
- Kidston Hydro (K2H) not yet at financial close but we think the outstanding conditions will be met in the near future.
- We maintain our SPECULATIVE BUY recommendation but reduce our price target to 35cps (-3%).

Kidston Solar generation performance lifted in 3Q

Kidston Solar (KS1) produced 31.5GWh of electricity in the last quarter which is ~31% higher than 2Q and 7% higher compared to pcp. Generation volume is the key performance driver for KS1 as it sells all of its energy and carbon certificates (LGCs) to the Queensland Government at a fixed price and with no adjustment for transmission losses. Quarterly cash receipts from customers were also significantly higher than 2Q (+59%) however we understand this is partly due to a timing issue under the contract with some CY19 revenue carrying over into CY20.

Headwinds on the horizon for Jemalong

GNX reports that construction is progressing on the 50MW Jemalong project in NSW and is anticipating first energy in late 4Q CY20. Unlike KS1, Jemalong's electricity and LGCs will be sold on the spot market. Electricity futures have been softening from a combination of milder energy demand, increasing renewable energy volumes and cheaper gas prices. In the medium term we think NSW spot electricity prices will be supported by scheduled coal plant closures however Jemalong's potential earnings in its first year of operation are likely to be softer than we'd previously estimated.

K2H financial close still a significant catalyst to come

The announcement of the binding offtake agreement for K2H caused a strong rally but we think there is still further value to be unlocked. The project has not yet reached financial close and has a number of outstanding conditions. We believe most of these are likely to be met in the near future though. A number relate to final approval from State or Federal government controlled organisations (e.g. NAIF debt, ARENA grant, Powerlink transmission line) and the stimulatory effect of K2H's construction is compelling.

Investment view

Despite the challenges facing the Jemalong project we maintain our SPECULATIVE BUY rating with a 35cps price target. The major value driver is still K2H and we think that further positive news flow will push the share price higher as confidence increases that the project will be completed. Alongside the potential upside though are several risks. There are key commercial aspects of K2H that are unknown such as the offtake agreement price or the debt amortisation required given the structure of the offtake agreement (initial firm ten years with two optional ten year periods), among others. These are issues that can significantly affect shareholder returns but as more detail is released and conditions are met we anticipate that the stock will move towards our price target.

Financial Summary	Jun-19A	Jun-20F	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	10.82	9.49	19.34	21.42	20.57
Operating EBITDA (A\$m)	5.59	2.09	13.43	15.07	14.09
Net Profit (A\$m)	-9.17	-10.99	0.37	0.49	-0.02
Normalised EPS (A\$)	(0.030)	(0.032)	0.001	0.002	(0.000)
Normalised EPS Growth	19%	8%		34%	(105%)
FD Normalised P/E (x)	NA	NA	151.6	113.5	NA
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	28.41	99.71	17.58	15.05	15.48
P/FCFE (x)	NA	NA	NA	35.42	62.56
Net Gearing	1187%	685%	767%	706%	666%
P/BV (x)	7.03	3.73	3.67	3.58	3.59
ROE	(77.3%)	(79.4%)	2.4%	3.2%	(0.2%)
% Change In Normalised EPS Estimates		(2%)	(64%)	(63%)	(103%)
Normalised EPS/consensus EPS (x)		1.40	-0.42	0.21	-0.03

SOURCE: MORGANS, COMPANY REPORTS

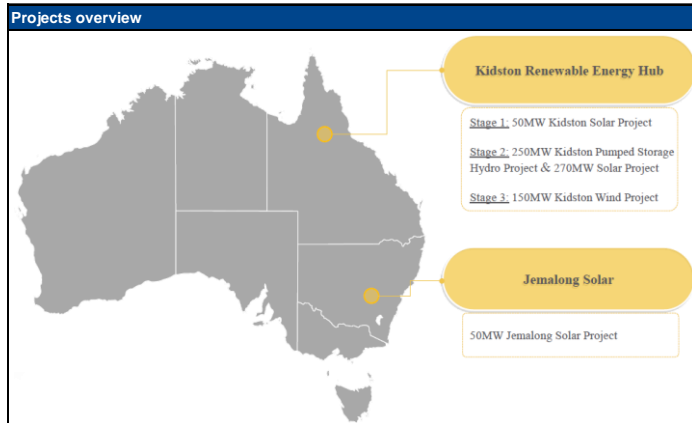
Genex Power

as at April 27, 2020

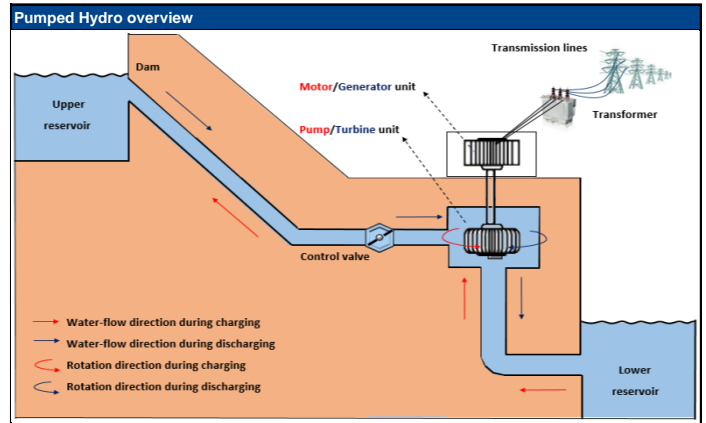
Market cap (A\$m):	76.35	Rating:	SPECULATIVE BUY
Shares outstanding (m):	312.4	Price (A\$):	0.19
Free float (%):	69.3	Target price (A\$):	0.35
Website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	84.2

Company description

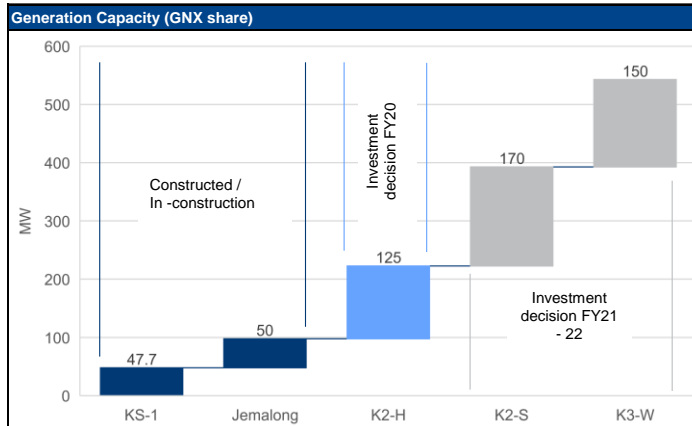
GNX is redeveloping an old gold mine in North Queensland into an energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has plans to expand its energy generation with a second stage solar farm up to 270MW and a potential 150MW wind farm, on or near the same site, and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



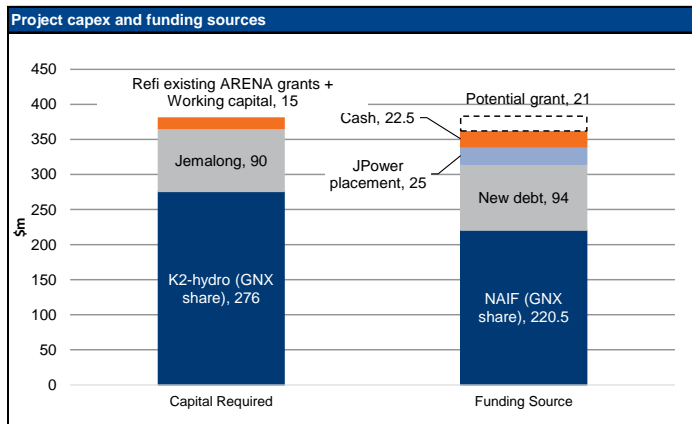
SOURCE: Journal of Power Technologies (2017)



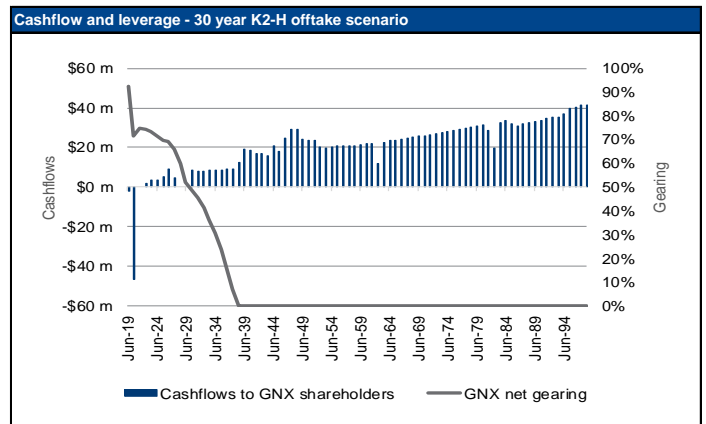
SOURCES: MORGANS, GNX

- 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.
 - 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



SOURCES: MORGANS, GNX



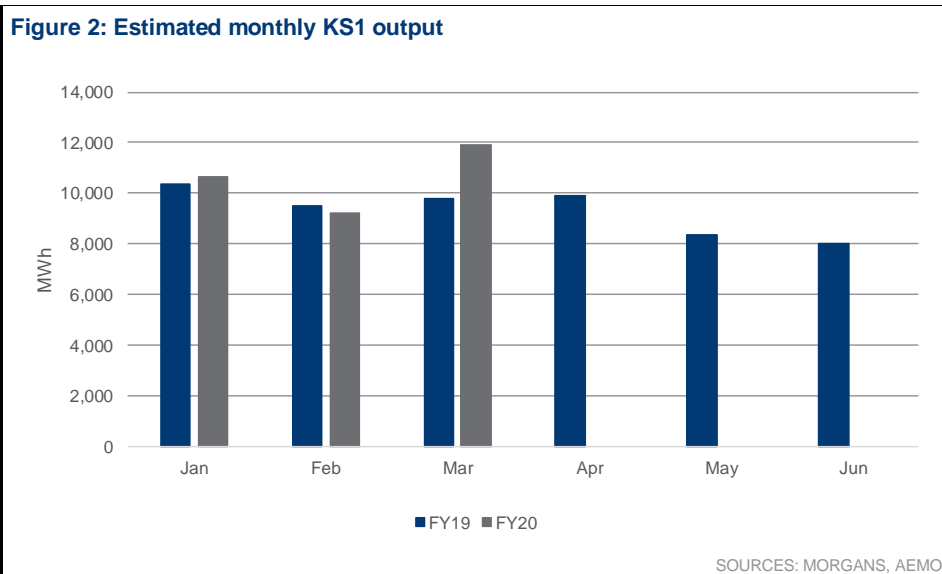
SOURCE: MORGANS

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	28.6	103.8	17.6	15.0	15.5	15.7	14.9	14.6	13.9	13.3
Price-to-earnings (x)	N/A	N/A	N/A	N/A	39	(794.6)	(55.9)	(265.7)	449.2	47.3	27.8
Dividend yield (%)	-	-	-	-	-	-	-	-	3.4	3.6	3.7
Net Debt / ND+E (%)	85.6	92.2	87.3	88.5	87.6	86.9	86.5	85.7	86.7	87.6	88.5
Profit and loss (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	9.5	19.3	21.4	20.6	20.0	20.3	20.3	20.6	20.9
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	2.1	13.4	15.1	14.1	13.4	13.5	13.4	13.6	13.7
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)	(5.7)	6.3	6.4	5.5	4.8	4.9	4.8	5.0	5.1
Net Interest Expense	(2.7)	(4.7)	(4.5)	(5.8)	(5.8)	(5.5)	(5.3)	(5.0)	(4.7)	(4.4)	(4.1)
K2H equity accounted profit	-	-	-	-	-	-	-	-	-	-	-
Profit Before Tax	(7.5)	(5.5)	(10.2)	0.5	0.7	(0.0)	(0.5)	(0.1)	0.1	0.6	0.9
Tax	-	-	0.5	(0.1)	(0.2)	0.0	0.1	0.0	(0.0)	(0.2)	(0.3)
Statutory Net Profit	(7.5)	(5.5)	(9.7)	0.4	0.5	(0.0)	(0.3)	(0.1)	0.0	0.4	0.7
Exceptional items (post tax)	-	-	-	-	-	-	-	-	-	-	-
Underlying Net Profit	(7.5)	(5.5)	(9.7)	0.4	0.5	(0.0)	(0.3)	(0.1)	0.0	0.4	0.7
Cashflows (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	2.1	13.4	15.1	14.1	13.4	13.5	13.4	13.6	13.7
K2H SPV distributions	-	-	-	-	-	-	-	-	-	-	-
WC & non-cash adjustments	(0.5)	(0.8)	5.4	(5.5)	0.0	0.1	(0.5)	(0.0)	0.0	(0.0)	(0.0)
Gross operating cashflow	(2.2)	4.8	7.5	7.9	15.1	14.1	13.0	13.5	13.4	13.6	13.7
Net interest paid	(3.9)	(4.3)	(4.5)	(5.8)	(5.8)	(5.5)	(5.3)	(5.0)	(4.7)	(4.4)	(4.1)
Cash paid for Tax	-	-	-	-	-	-	-	-	-	-	(0.1)
Operating cashflow	(6.1)	0.5	3.1	2.1	9.3	8.6	7.7	8.5	8.7	9.2	9.5
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	-	-	-	-	-	-	-	-	(2.6)	(2.7)	(2.8)
Financing cashflow	88.3	4.3	79.3	16.2	(7.2)	(7.4)	(5.8)	(8.0)	(10.9)	(11.4)	(11.7)
Net cashflow	(0.7)	(7.4)	19.3	(3.4)	2.2	1.2	1.9	0.5	(2.2)	(2.2)	(2.3)
Balance sheet (\$m)	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	22.3	19.0	21.1	22.3	24.2	24.7	22.5	20.3	18.0
Receivables	0.9	2.0	0.5	1.0	0.9	0.9	1.7	1.8	1.8	1.8	1.8
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	-	-	0.5	0.3	0.2	0.2	0.3	0.3	0.3	0.2	-
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	212.4	224.0	217.3	209.8	204.1	196.0	185.1	174.2	163.1
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	20.5	20.8	21.3	21.3	20.9	20.9	18.3	16.0	13.8
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

Solar performance and price outlook



3QFY20 generation was ~7% higher than pcp however the current quarter will likely be softer with lower seasonal solar irradiance during autumn and early winter.

Figure 3: Assumption changes

Difference between forecasts (%)	FY21	FY22	FY23
NSW spot electricity	-17%	-17%	-17%
Spot LGC	-1%	13%	21%

SOURCE: MORGANS

Our assumption for NSW spot prices has fallen in-line with the base NSW futures price for FY21. There has been a rally in futures for LGCs recently as a number of electricity retailers have opted to defer some of their obligations to surrender carbon credits.

Valuation scenarios

Base case

We retain our key assumptions as per our previous note with the only change being a lower DCF valuation of Jemalong (-2cps). We take the average value of the DCF and asset base multiple which is **35cps** (-1cps).

Figure 4: Base case sum of the parts			Figure 5: Base case asset multiple					
Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
KS1 & Jemalong	42.0	10	Jemalong + KS1	97.7	2.4	234.5	(155.7)	78.8
Corporate	-19.8	(5)	K2-H	250	0.1	30.8	-	30.8
GNX K2H value	116.0	29	K2-S + K3-W	320	0.1	19.7	-	19.7
K2-S & K3-W	20.5	5	Total	667.7	0.4	284.9	(155.7)	129.2
Total	158.7	39						
			Number of shares					401.8
			Discounted equity value (cps)					31

SOURCE: MORGANS

Bull and bear case

Similarly to the base case the only change is to the DCF value of Jemalong. Our **bull case** and **bear case** valuations are therefore **54cps** (-1cps) and **27cps** (-1cps) respectively.

Figure 6: Bull case sum of the parts			Figure 7: Bull case asset multiple						
Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)	
KS1 & Jemalong	42.0	10	Jemalong + KS1	97.7	3.1	302.9	(155.7)	147.2	
Corporate	-19.8	(5)	K2-H	125	2.1	262.5	(230.0)	32.5	
GNX K2H value	154.6	38	K2-S + K3-W	320	3.1	992.0	(440.0)	552.0	
K2-S & K3-W	20.5	5	Total	542.7	2.9	1,557.4	(825.7)	731.7	
Total	197.4	49							
Estimated future number of shares (m)								1015.4	
Discounted equity value (cps)								59	

SOURCE: MORGANS

Figure 8: Bear case sum of the parts			Figure 9: Bear case asset multiple						
Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)	
KS1 & Jemalong	42.0	10	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	120.1	30							
Estimated future number of shares								401.8	
Discounted equity value (cps)								24	

SOURCE: MORGANS

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