

Genex Power

SPECULATIVE BUY

(no change)

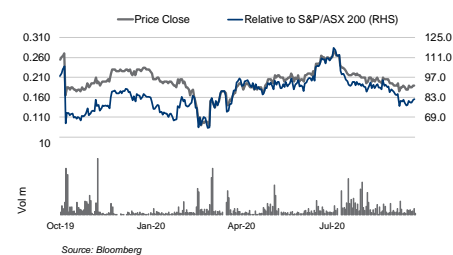
Current price:	A\$0.19
Target price:	A\$0.36
Previous target:	A\$0.36
Up/downside:	89.5%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$69.42m
	A\$97.19m
Average daily turnover:	US\$0.16m
	A\$0.22m
Current shares o/s	401.8m
Free float:	69.3%

Key changes in this note

FY21F solar output down by 24%.

FY21F total income down by 10%.

FY21F ave shares on issue down by 3%



Price performance	1M	3M	12M
Absolute (%)	-7.3	-26.9	-20.8
Relative (%)	-11.4	-28.1	-13.2

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

Risk for reward looking richer

- Construction of Jemalong is nearing completion with ~\$61.4m cash held at end of 1Q with \$31.4m committed to completing Jemalong.
- Solar forecast output reduced (-24%) but revenue supported by UGL payments.
- Storage assets are critical enablers of future renewable energy projects.
- We retain our base case target price of 36cps and our SPECULATIVE BUY recommendation with 12-m potential upside of ~90%.

First quarter cashflow and activity

GNX reported that it had reached completion on 85% of scheduled activities for construction of the Jemalong solar plant. The company has also finalised its arrangements with UGL which was operating the Kidston Solar Plant (KS1) for GNX. Due to performance issues UGL has agreed to pay \$2.5m to GNX and the operating contract is out for tender. GNX held \$61.4m in cash at the end of the quarter which includes \$31.4m that is committed to the completion of Jemalong.

Kidston solar best of the bunch but northern summer could be wet

Kidston has been one of Queensland's best performing solar farms as measured by the amount of energy it generates compared to its maximum output capacity, or capacity factor. Current La Niña weather conditions are likely to increase rainfall, frequency of cyclones and cloud cover over North Queensland this summer. Additionally we also assume that Jemalong isn't energised until mid-December (previously assumed October) and that the plant doesn't reach full nameplate capacity until February 2021. We therefore reduce our FY21 solar generation forecast to 170.7GWh (-24%). A large portion of the reduction in our forecast sales revenue is offset by the \$2.5m income from UGL.

Storage is a key enabler of solar and wind

An increasing risk for renewables developers is unanticipated restrictions on generation due to the need to maintain system strength across the transmission network. The grid can be impacted by too much renewables if there is not enough synchronous generation, and transmission losses can mount if there is not enough nearby demand. GNX's two proposed storage projects: the 250MW / 2000MWh Kidston Pumped Storage Hydro Project (K2-H) and the 50MW / 75MWh Bouldercombe Battery Project (BBP) will improve the performance of GNX's renewables projects and other projects in the region.

Risk vs reward is looking more attractive

The delays to achieving financial close on K2-H have undoubtedly hurt GNX's share price in the last quarter. The strategic importance of storage to support more renewable energy entering the grid has not diminished though. We expect that following the election of the next Queensland State Government the path to financial close will be clearer, providing a significant catalyst for realising the upside to our valuation. Additionally as further detail about BBP is made available later in FY21 we expect further value creation opportunities. Because a large amount of the upside potential we see is attributable to K2-H it is important for investors to realise that there are significant risks in GNX as financial close is not guaranteed. We maintain our SPECULATIVE BUY rating and our base case target price of 36cps. Our bull and bear case valuations also remain at 72cps and 22cps.

Financial Summary	Jun-19A	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	10.82	10.25	14.84	21.08	20.25
Operating EBITDA (A\$m)	5.59	1.77	11.93	14.79	13.84
Net Profit (A\$m)	-9.17	-19.98	0.72	1.66	1.11
Normalised EPS (A\$)	(0.030)	(0.050)	0.002	0.004	0.003
Normalised EPS Growth	20%	67%		126%	(33%)
FD Normalised P/E (x)	NA	NA	86.92	42.39	63.38
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	28.4	112.5	20.2	15.7	16.1
P/FCFE (x)	NA	1.64	NA	36.40	46.99
Net Gearing	1187%	1077%	426%	377%	339%
P/BV (x)	7.03	6.71	2.84	2.71	2.63
ROE	(77%)	(202%)	4%	7%	4%
% Change In Normalised EPS Estimates			(59.0%)	(9.0%)	(13.3%)
Normalised EPS/consensus EPS (x)			-0.99	0.50	0.16

SOURCE: MORGANS, COMPANY REPORTS

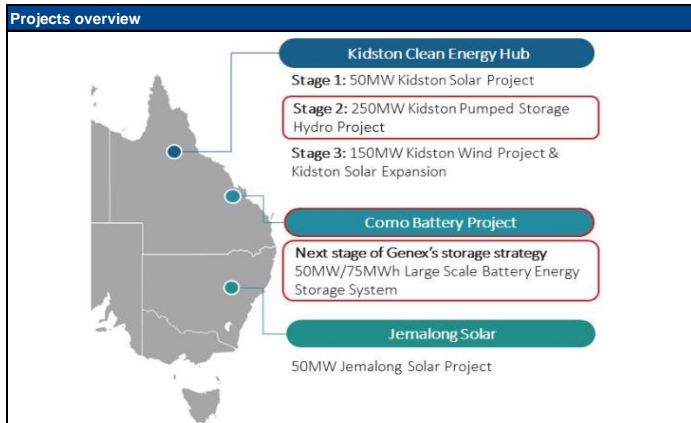
Genex Power

as at October 25, 2020

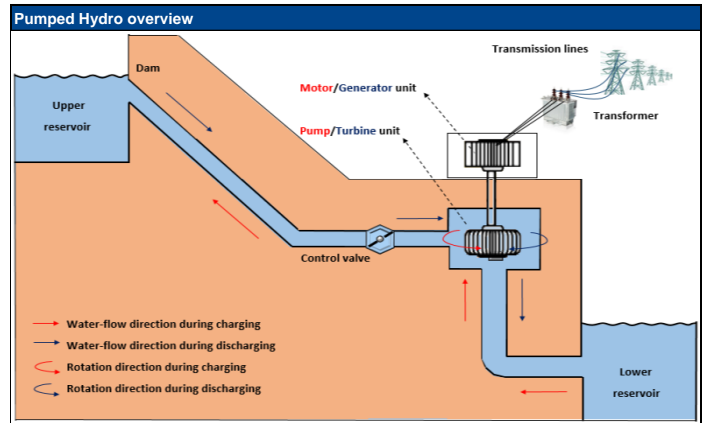
Market cap (A\$m):	97.19	Rating:	SPECULATIVE BUY
Shares outstanding (m):	401.8	Price (A\$):	0.19
Free float (%):	69.3	Target price (A\$):	0.36
Website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	89.5

Company description

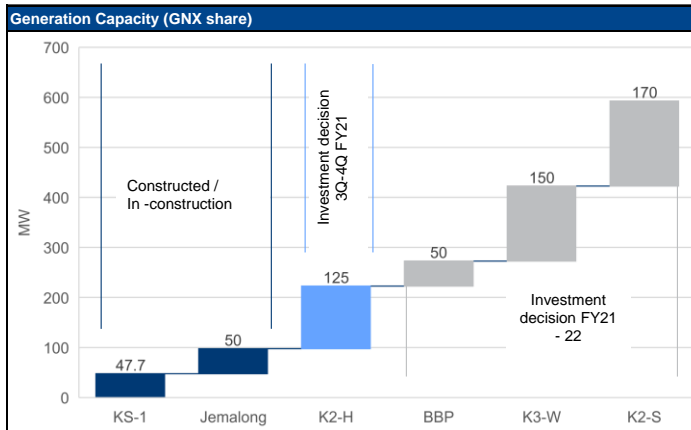
GNX is redeveloping an old gold mine in North Queensland into an energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has a second 50MW solar farm under construction at Jemalong in Central NSW as well as plans to expand with a possible second stage solar farm up to 270MW and a potential 150MW wind farm near the Kidston site. The output of the existing Kidston 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, the Kidston site acquired in 2014 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



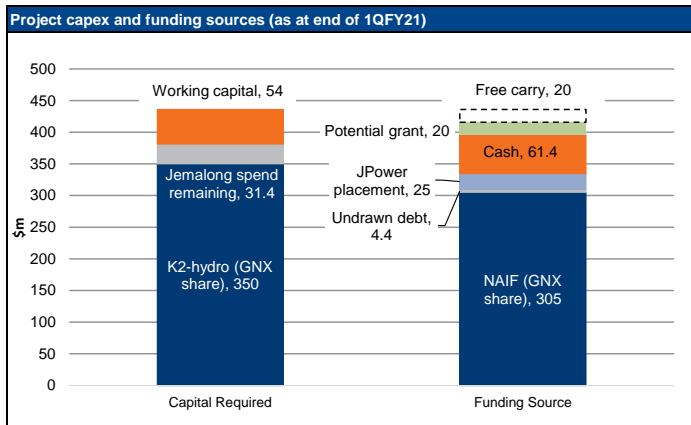
SOURCE: Journal of Power Technologies (2017)



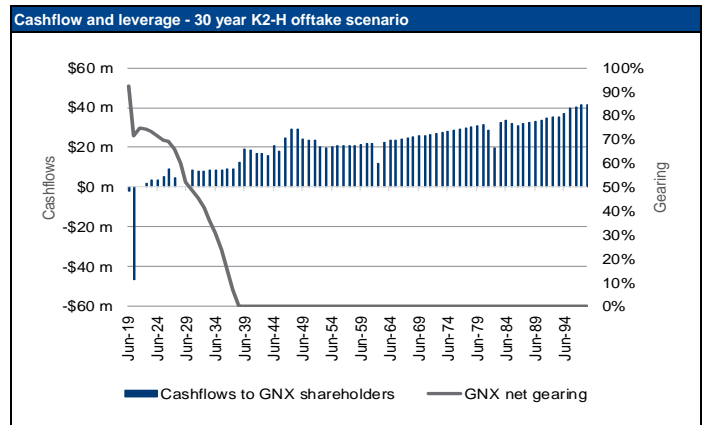
SOURCES: MORGANS, GNX

- 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.
 - The Como project offers upside potential to our valuation.
- Risks:**
- Pumped hydro joint venture agreement not yet finalised.
 - 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 from an excess of renewable generation.
 - 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 (ex K2-H and BPP)

Key multiples & gearing	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	28.6	112.7	20.4	15.7	16.1	16.2	15.4	15.0	14.3	13.6
Price-to-earnings (x)	N/A	N/A	N/A	134	58	87	126	102	95	75	65
Dividend yield (%)	-	-	-	-	-	-	-	-	3.0	3.1	3.2
Net Debt / ND+E (%)	85.6	92.2	91.5	81.0	79.0	77.2	75.5	73.3	73.0	72.5	71.8
Profit and loss (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	10.3	14.8	21.1	20.3	19.7	19.9	19.9	20.3	20.5
Other inc	1.7	4.8	2.0	2.5	-	-	-	-	-	-	-
Expenses	(11.7)	(10.0)	(10.5)	(5.4)	(6.3)	(6.4)	(6.6)	(6.7)	(6.8)	(6.9)	(7.1)
EBITDA	(1.7)	5.6	1.8	11.9	14.8	13.8	13.2	13.2	13.1	13.3	13.4
D&A	(3.0)	(6.4)	(8.0)	(7.2)	(8.8)	(8.8)	(8.8)	(8.8)	(8.8)	(8.8)	(8.8)
Operating EBIT	(4.7)	(0.8)	(6.2)	4.7	6.0	5.1	4.4	4.5	4.4	4.6	4.7
Net Interest Expense	(2.7)	(4.7)	(4.3)	(3.7)	(3.7)	(3.5)	(3.4)	(3.2)	(3.0)	(2.8)	(2.6)
K2H equity accounted profit	-	-	-	-	-	-	-	-	-	-	-
Profit Before Tax	(7.5)	(5.5)	(10.5)	1.0	2.3	1.5	1.1	1.3	1.4	1.8	2.1
Tax	-	-	-	(0.3)	(0.6)	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)
Statutory Net Profit	(7.5)	(5.5)	(10.5)	0.7	1.7	1.1	0.8	0.9	1.0	1.3	1.5
Cashflows (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	1.8	11.9	14.8	13.8	13.2	13.2	13.1	13.3	13.4
K2H SPV distributions	-	-	-	-	-	-	-	-	-	-	-
WC & non-cash adjustments	(0.5)	(0.8)	(2.5)	(20.4)	(0.1)	0.1	(0.5)	(0.0)	0.0	(0.0)	(0.0)
Gross operating cashflow	(2.2)	4.8	(0.8)	(8.4)	14.7	13.9	12.7	13.2	13.1	13.3	13.4
Net interest paid	(3.9)	(4.3)	(3.4)	(3.7)	(3.7)	(3.5)	(3.4)	(3.2)	(3.0)	(2.8)	(2.6)
Cash paid for Tax	-	-	-	(0.3)	(0.6)	(0.4)	(0.3)	(0.4)	(0.4)	(0.5)	(0.6)
Operating cashflow	(6.1)	0.5	(4.1)	(12.5)	10.3	9.9	9.1	9.7	9.8	10.0	10.3
Capex	(83.0)	(12.2)	(38.0)	(32.8)	-	-	-	-	-	-	-
Investing cashflow	(83.0)	(12.2)	(38.0)	(32.8)	-	-	-	-	-	-	-
Equity issuance/(returns)	3.2	1.9	20.6	22.1	-	-	-	-	-	-	-
Debt drawdown/(repaid)	85.1	2.3	83.5	(2.9)	(7.7)	(7.9)	(7.8)	(8.4)	(8.6)	(8.8)	(9.1)
Dividends paid	-	-	-	-	-	-	-	-	(2.9)	(3.0)	(3.1)
Financing cashflow	88.3	4.3	104.1	19.2	(7.7)	(7.9)	(7.8)	(8.4)	(11.5)	(11.8)	(12.1)
Net cashflow	(0.7)	(7.4)	62.0	(26.0)	2.7	2.1	1.2	1.3	(1.7)	(1.8)	(1.9)
Balance sheet (\$m)	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	65.5	39.4	42.1	44.2	45.4	46.8	45.0	43.2	41.4
Receivables	0.9	2.0	3.5	0.8	0.9	0.9	1.7	1.7	1.7	1.8	1.8
Fixed Assets	118.2	118.1	170.7	193.1	184.3	175.6	166.8	158.1	149.4	140.6	131.9
SPV equity	-	-	-	-	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	-	-	-	-	-	-
Other	5.6	11.0	14.2	17.5	17.5	17.5	17.4	17.4	17.4	17.4	17.4
Total Assets	135.6	134.5	253.9	250.8	244.8	238.1	231.4	224.0	213.5	203.0	192.4
Debt	102.1	103.7	188.0	185.1	177.5	169.6	161.8	153.4	144.8	136.0	126.9
Deferred Tax from SPV)	-	-	-	-	-	-	-	-	-	-	-
Other liabilities	18.3	22.4	54.5	31.5	31.5	31.5	31.9	31.9	31.9	31.9	31.9
Total Liabilities	120.4	126.1	242.5	216.6	208.9	201.1	193.6	185.3	176.7	167.9	158.9
Net Assets	15.3	8.4	11.4	34.3	35.9	37.0	37.8	38.7	36.8	35.1	33.5
Ave shares on issue (m)	303.9	312.4	401.8	511.5	511.5	511.5	511.5	511.5	511.5	511.5	511.5

SOURCE: MORGANS RESEARCH, COMPANY

Figure 2: Changes to FY21 total income forecast

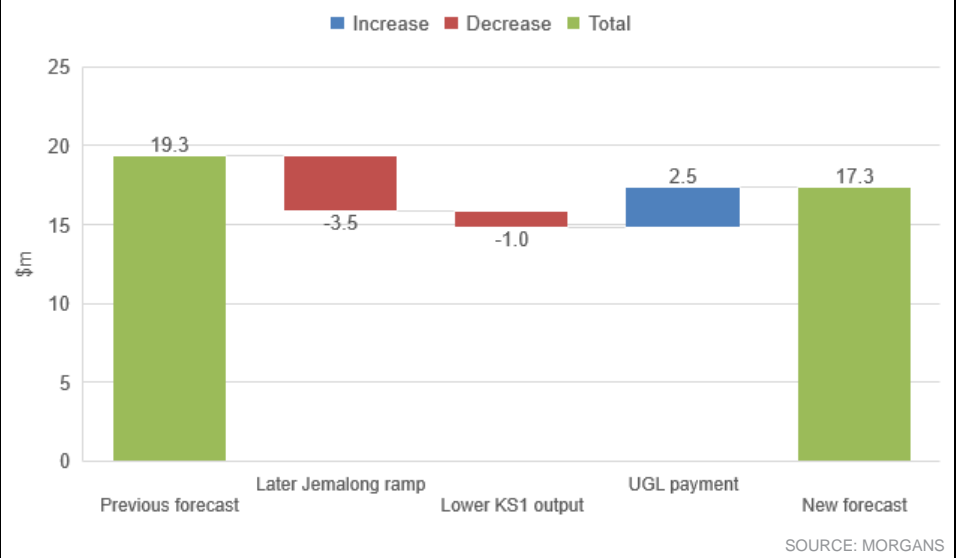


Figure 3: Historical KS1 generation output

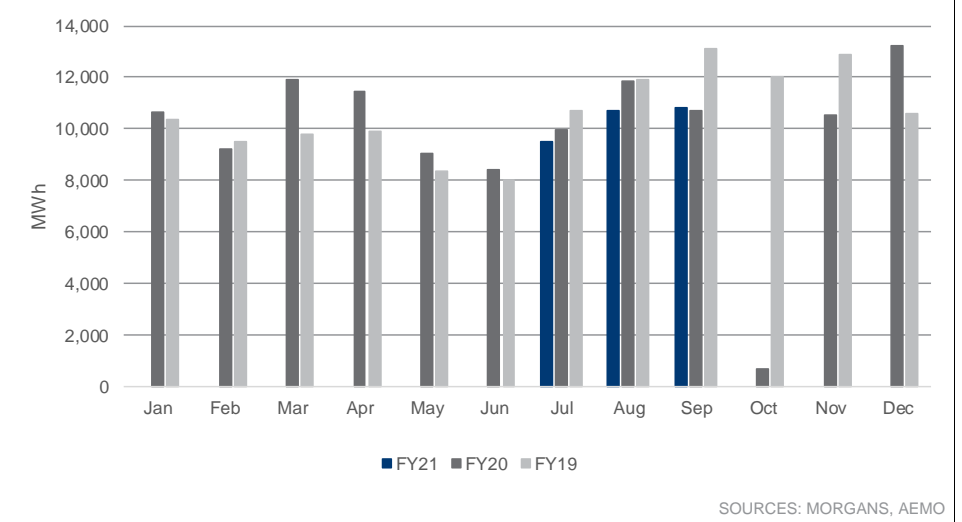
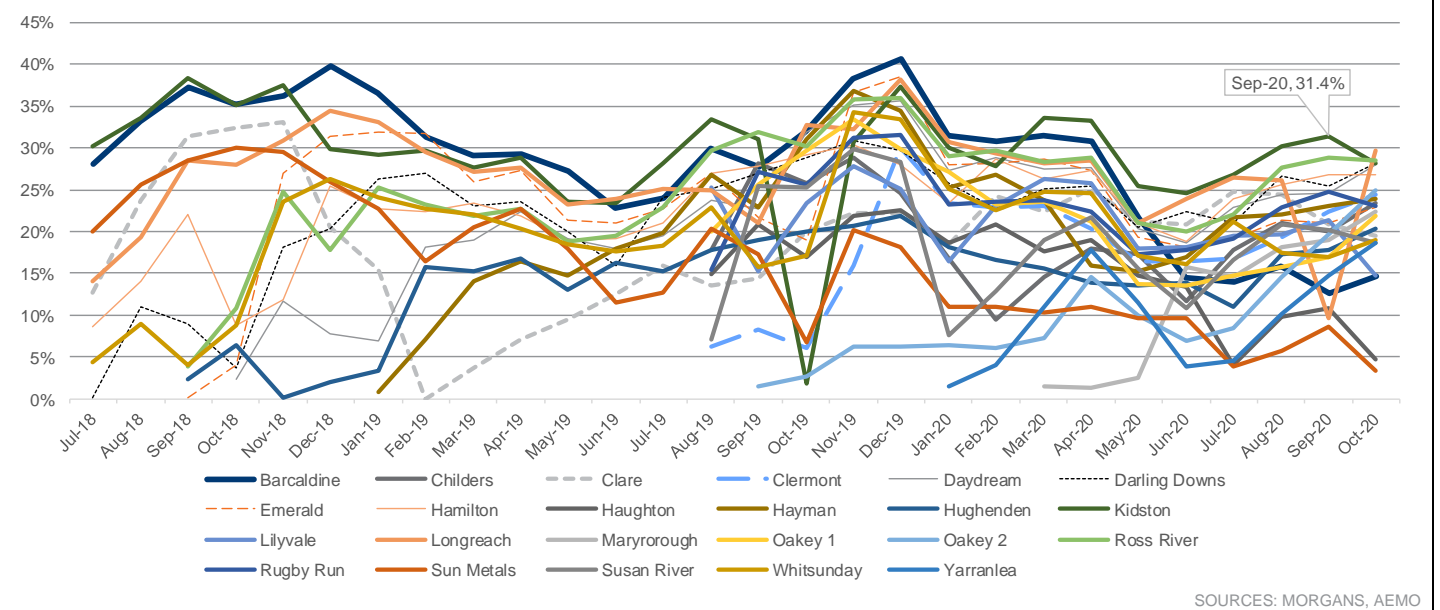


Figure 4: Historical AC capacity factors of Queensland solar farms



Valuation and risks

Base case

We increase our base case DCF valuation to 39cps (+2cps) which we combine with our asset based valuation of 32cps (-2cps) to keep our **base case valuation of 36cps** stable.

Our DCF has increased because we understand that NAIF will lend up to \$610m and gearing will not necessarily be restricted to 80%. This in turn lowers the WACC to 2.41% (down from 2.85%). This is offset by higher net debt in the asset based valuation which reduces the estimated value by 2cps. We also increase the risking factor in the DCF given the uncertainty in EBITDA. There is the potential for transmission line operations and maintenance costs to be higher than our forecast given the protracted negotiations with Powerlink.

Key assumptions in our DCF:

- \$21.5m pa is GNX's share of EBITDA (indexed with inflation).
- 2.41% after tax WACC based on Rd of 2.25%, Re of 8% and gearing of 87%.
- Total project capital of \$700m for K2-H (EPC contract + owner's costs + transmission line contribution).
- \$310m GNX share of capex after \$40m in grants to the JV and a \$20m JV free carry for GNX.
- 80 year asset life.
- Refurbishment after 50 years costing 50% of the initial engineering contract (\$275m in FY21 terms) and increased inline with inflation.
- 35% risking factor after allowing for dilution given the requirement for additional \$25m equity from JPower.

Figure 5: Base case sum of the parts

Component	Value (\$m)	Value (cps)
KS1 & Jemalong	49.1	10
Corporate	-19.1	(4)
GNX K2H value	150.3	29
K2-S & K3-W	20.5	4
Total	200.7	39

SOURCE: MORGANS

Figure 6: Base case asset multiple

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)	Discounted Equity (\$m)
Jemalong + KS1	97.7	2.4	234.5	(145.7)	88.8	88.8
K2-H	125	3.3	412.5	(287.1)	125.4	92.2
K2-S + K3-W	320	0.1	19.7	-	19.7	19.7
Total	542.7	1.2	666.7	(432.8)	233.9	200.7
Number of shares						625.1
Discounted equity value (cps)						32

SOURCE: MORGANS

Key risks to our base case valuation:

- Successful K2-H financial close by 31 December 2020: GNX has had to postpone financial close on K2-H and consequently has had to extend a number of key agreements. Of particular importance is the offtake agreement with EnergyAustralia which hasn't yet needed to be extended but if financial close is delayed beyond this calendar year the agreement will need to be revisited.
- Successful negotiation of transmission line costs: One of the outstanding conditions for financial close on K2-H is completion of the agreement with Powerlink to complete the transmission line. The Queensland Government has said it will provide \$132m in capital funding but operations and maintenance cost sharing has not been finalised and this could affect the profitability of K2-H.

- Outcome of the Queensland election: Currently K2-H has been declared a prescribed project, meaning an economically significant project by the State Government. Should there be a change in government in November, GNX may have to revisit previous discussions to continue the project's prescribed status as well as ensuring other support commitments (e.g. transmission line funding) are resolved successfully.
- GNX's share of EBITDA: we've estimated EBITDA from our own analysis of the fair value for energy storage (based on historical electricity market data) and operation expenses in AEMO's modelling assumptions (\$19.50/kW/yr). K2-H's offtake customer, EnergyAustralia, may have struck a contract below our estimate of fair value and AEMO's assumptions for opex may not be accurate for K2-H.
- ARENA grant: As K2-H will be a highly geared asset, the rate of return will be highly sensitive to the amount of capex required from the JV. We're confident that the project will receive funding but it is not certain.
- JV 'free carry': It's logical that GNX would be reimbursed for the value it has created so far in securing land, early engineering work, progressing commercial agreements, etc however it is hard to gauge how this negotiation will play out. The amount of free carry will determine how much capital GNX needs to contribute to the JV and could be an even bigger influence on returns to GNX shareholders than the ARENA grant.
- Debt amortisation: we haven't attempted yet to model accelerated debt repayments which may be required under the NAIF agreement. GNX may be required to limit dividends in the first ten years of the offtake agreement to reduce NAIF's exposure should EA not exercise its option to continue the offtake contract. We anticipate more information will be available at K2-H financial close to better allow for this possibility.

Bull case

We also retain our bull case DCF of 45cps and asset based valuation of 72cps to give a combined **bull case value of 59cps**.

Our key assumptions are:

- No K2-H DCF risking factor other than the allowance for additional equity.
- GNX is acquired by an infrastructure investor in four years' time after the completion of all projects on an asset multiple.
- K2-H valued at the transaction multiple of Pacific Hydro (\$3.3m / MW).
- Other assets are 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 FY21 at 8% pa.

Figure 7: Bull case sum of the parts

Component	Value (\$m)	Value (cps)
KS1 & Jemalong	51.9	10
Corporate	-19.1	(4)
GNX K2H value	186.0	35
K2-S & K3-W	20.5	4
Total	239.2	45

SOURCE: MORGANS

Figure 8: Bull case asset multiple

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
Jemalong + KS1	97.7	3.1	302.9	(140.6)	162.3
K2-H	125	3.3	412.5	(264.0)	148.5
K2-S + K3-W	320	3.1	992.0	(440.0)	552.0
Total	542.7	3.1	1,707.4	(844.6)	862.8
Estimated future number of shares (m)					982.2
Discounted equity value (cps)					72

SOURCE: MORGANS

Bear case

We also retain our bear case DCF of 23cps and asset based multiple valuation of 22cps for a combined **bear case valuation of 23cps**.

Our key assumptions are:

- K2-H risking factor of 55%.
- Asset multiple is the lowest quartile multiple of comparable transactions (see previous note on 29 May 2019 for list of transactions).
- K2-H not completed and valued as an option similar to the prices discussed for the Hillgrove pumped hydro project in South Australia.

Figure 9: Bear case sum of the parts

Component	Value (\$m)	Value (cps)
KS1 & Jemalong	51.9	10
Corporate	-19.1	(4)
GNX K2H value	66.9	13
K2-S & K3-W	20.5	4
Total	120.1	23

SOURCE: MORGANS

Figure 10: Bear case asset multiple

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
Jemalong + KS1	97.7	2.1	205.2	(140.6)	64.6
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	255.6	(140.6)	115.0
Estimated future number of shares					530.4
Discounted equity value (cps)					22

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
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New South Wales

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Place	
Sydney: Reynolds	+61 2 9373 4452
Securities	
Sydney: Currency	+61 2 8216 5111
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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
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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
Warrnambool	+61 3 5559 1500

Western Australia

West Perth	+61 8 6160 8700
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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
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