

Genex Power ^{GNX}

Recommendations

Rating	BUY
Risk	Speculative
Price Target	\$0.33
Share Price	\$0.19

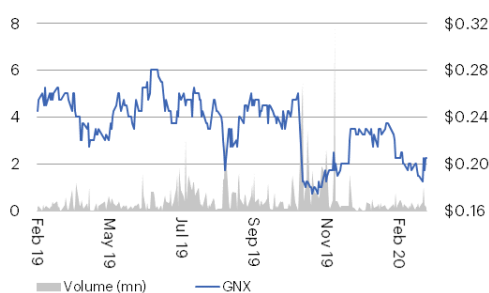
Snapshot

Monthly Turnover	\$1.4mn
Market Cap	\$89mn
Shares Issued	401.8mn
52-Week High	\$0.29
52-Week Low	\$0.17
Sector	Utilities

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



Research Analyst

Luke Macnab, CFA
+ 612 9250 8930
lmacnab@baillieu.com.au

Nicolas Burgess, CFA
+ 613 9602 9379
nburgess@baillieu.com.au

Disclosure

The author owns no shares in GNX.

E.L. & C. Baillieu Limited has acted in a corporate advisory role and raised capital in a placement for GNX, and earned fees in relation to that activity in the past 12 months.

Company Report

Waiting for go on hydro

Result impacted by outage: GNX reported 1H20 revenue of \$4.5m and EBITDA of -\$1.3m, lower than our forecasts of \$6.5m and \$1.0m respectively. The differences were (1) an unplanned outage at Kidston Stage 1 Solar (K1S), lowering generation by 21% vs the pcp (56.4MWh vs 71.3MWh); and (2) higher than expected development costs on other projects. The outage occurred in October and was due to a software issue, which was subsequently rectified, returning the plant to full capacity.

Kidston Stage 2 Hydro update: As previously announced, financial close on this project (K2H) was delayed in November. This was due to Energy Australia (EA) being unable to proceed with their investment based on the offtake agreement being structured as it was. Other key stakeholders have reaffirmed their commitments to the project (J-POWER signed a new agreement, NAIF extended their funding offer) and the offtake agreement is currently being modified to meet EA's requirements whilst still supporting the financing of the project. Our view is that an agreement will be reached in the next three months or so.

Jemalong project progressing: The 50MW Jemalong Solar Project (JSP) reached financial close in December 2019 and construction has commenced. The EPC contractor is Beon Energy, which has previously built four large-scale solar farms in Australia. First generation from the plant is expected in December 2020, with output being sold on a merchant basis.

Solid financial position: GNX raised \$21m of equity in 1H20 and had \$18m of cash as at 31 December. It also refinanced the existing \$100m debt facility on K1S and extended it (by \$92m) to cover the construction of JSP. With lower rates now in place, we estimate an interest saving of \$1m p.a. on existing debt.

Investment view: We are confident the K2H project will reach financial close in mid-CY20, which would crystallise significant value and provide potential upside to the share price. In addition, the completion of the Jemalong project late this year is expected to double GNX's revenue to around \$25m p.a. No material forecast changes; valuation and price target remain at \$0.33. We believe GNX represents good value at current levels. BUY maintained.

Investment Summary

Year End: 30 June		2018A	2019A	2020E	2021E	2022E
Revenue	\$mn	8.3	10.8	11.0	24.9	24.9
EBITDA	\$mn	-1.7	5.6	-1.3	13.7	13.7
EBIT	\$mn	-4.7	-0.8	-11.3	3.6	-6.4
Reported Profit	\$mn	-7.5	-5.5	-11.0	-3.8	-13.7
Adjusted Profit	\$mn	-7.5	-5.5	-11.0	-3.8	-13.7
EPS (Reported)	¢	-2.3	-1.6	-2.5	-0.7	-2.7
EPS (Adjusted)	¢	-2.3	-1.6	-2.5	-0.7	-2.7
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	-103.3	33.1	-206.2	25.5	31.7
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 February, 2020
Share Price:	\$0.185
Market Capitalisation:	\$89m
Financial Year End:	June

Rating:	BUY
Price Target:	\$0.33
Upside/downside:	78%
Valuation:	\$0.33
Valuation method:	DCF/Multiple
Risk:	Speculative

PROFIT & LOSS (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue	8.3	10.8	11.0	24.9	24.9
COGS	0.0	0.0	0.0	0.0	0.0
Gross profit	8.3	10.8	11.0	24.9	24.9
Expenses	-10.0	-5.2	-12.3	-11.3	-11.3
EBITDA	-1.7	5.6	-1.3	13.7	13.7
Depreciation	-3.0	-6.4	-10.0	-10.0	-20.1
EBITA	-4.7	-0.8	-11.3	3.6	-6.4
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-4.7	-0.8	-11.3	3.6	-6.4
Net Interest expense	-2.7	-4.7	-4.3	-9.1	-13.1
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	-7.5	-5.5	-15.6	-5.4	-19.5
Tax	0.0	0.0	4.7	1.6	5.9
Underlying NPAT	-7.5	-5.5	-11.0	-3.8	-13.7
Underlying NPATA	-7.5	-5.5	-11.0	-3.8	-13.7
Significant items (net of tax)	0.0	0.0	0.0	0.0	0.0
Reported profit	-7.5	-5.5	-11.0	-3.8	-13.7

EARNINGS	FY18A	FY19A	FY20E	FY21E	FY22E
EPS - Underlying (cps)	-2.3	-1.6	-2.5	-0.7	-2.7
EPS Growth - Underlying	-13%	-29%	57%	-71%	260%
EPS - Reported (cps)	-2.3	-1.6	-2.5	-0.7	-2.7
Diluted shares (m)	325.8	339.2	432.2	513.1	513.1
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	FY18A	FY19A	FY20E	FY21E	FY22E
P/E - Underlying (x)	-8.1	-11.5	-7.3	-25.0	-6.9
EV/EBIT (x)	-37.5	-237.0	-23.1	95.8	-67.8
EV/EBITA (x)	-37.5	-237.0	-23.1	95.8	-67.8
EV/EBITDA (x)	-103.3	33.1	-206.2	25.5	31.7
Price/Book (x)	3.9	7.4	1.9	2.5	3.9
Price/NTA (x)	5.6	16.4	2.2	2.9	4.9
Price/FCF	-0.7	-10.6	-116.0	38.9	16.1

BALANCE SHEET (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Assets					
Cash	11.0	3.5	5.6	3.6	5.1
Receivables	0.9	2.0	1.8	3.5	3.5
PPE	118.4	118.5	211.3	291.7	362.2
Goodwill & Intangibles	4.5	4.6	4.7	4.7	4.7
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	0.9	6.0	25.3	25.3	25.3
Total Assets	135.6	134.5	248.7	328.9	400.7
Liabilities					
Payables	1.5	2.3	2.5	2.3	2.3
Debt	100.2	99.8	178.2	263.8	349.3
Provisions	3.8	3.9	3.9	3.9	3.9
Tax payable	0.4	0.4	0.4	0.4	0.4
Deferred Revenue	3.8	3.9	3.9	3.9	3.9
Other liabilities	10.6	15.8	17.3	17.3	17.3
Total Liabilities	120.4	126.1	206.2	291.5	377.1
Equity					
Share capital	40.0	41.9	87.5	87.5	87.5
Retained earnings	-24.8	-30.3	-43.8	-47.6	-61.2
Other equity	0.1	-3.2	-2.1	-2.1	-2.1
Total shareholders equity	15.3	8.4	41.7	37.9	24.2
BV per share (cps)	4.7	2.5	9.6	7.4	4.7
NTA per share (cps)	3.3	1.1	8.6	6.5	3.8

GROWTH	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue growth	na	nm	2%	127%	0%
COGS growth	na	nm	0%	0%	0%
Expenses growth	40%	-48%	134%	-8%	0%
EBITDA growth	-76%	-424%	-123%	-1178%	0%
PBT growth	8%	-27%	186%	-65%	260%
Underlying NPAT growth	8%	-27%	100%	-65%	260%
Reported NPAT growth	8%	-27%	100%	-65%	260%

MARGINS & RETURNS	FY18A	FY19A	FY20E	FY21E	FY22E
EBITDA Margin	na	51.7%	-11.5%	54.8%	54.8%
EBITA Margin	na	-7.2%	-102.8%	14.6%	-25.6%
NPBT Margin	na	-50.6%	-142.4%	-21.8%	-78.3%
ROIC	-4.9%	-0.5%	-4.8%	1.0%	-1.3%
ROE	-43.3%	-46.2%	-43.7%	-9.5%	-44.0%
ROA	-4.7%	-0.6%	-5.9%	1.3%	-1.8%
Effective Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%

GEARING	FY18A	FY19A	FY20E	FY21E	FY22E
Net Debt	89.2	96.4	172.6	260.2	344.3
Enterprise value	178.0	185.2	261.4	348.9	433.1
Net Debt/EV (%)	50.1%	52.0%	66.0%	74.6%	79.5%
Net Debt/EBITDA (x)	-51.8	17.2	-136.1	19.0	25.2
EBITDA/Net Interest (x)	-0.6	1.2	-0.3	1.5	1.0

CASH FLOW (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash at Start	11.1	11.0	3.5	5.6	3.6
Cash from operations	-6.1	0.5	39.3	2.9	6.4
Capex	-83.0	-6.4	-40.0	-0.5	-0.5
Free cash flow	-89.1	-5.9	-0.7	2.4	5.9
Cash flow from investing	0.6	-5.9	-118.6	-90.0	-90.0
Cash flow from financing	88.3	4.3	121.5	85.5	85.5
Cash at end	11.0	3.5	5.6	3.6	5.1

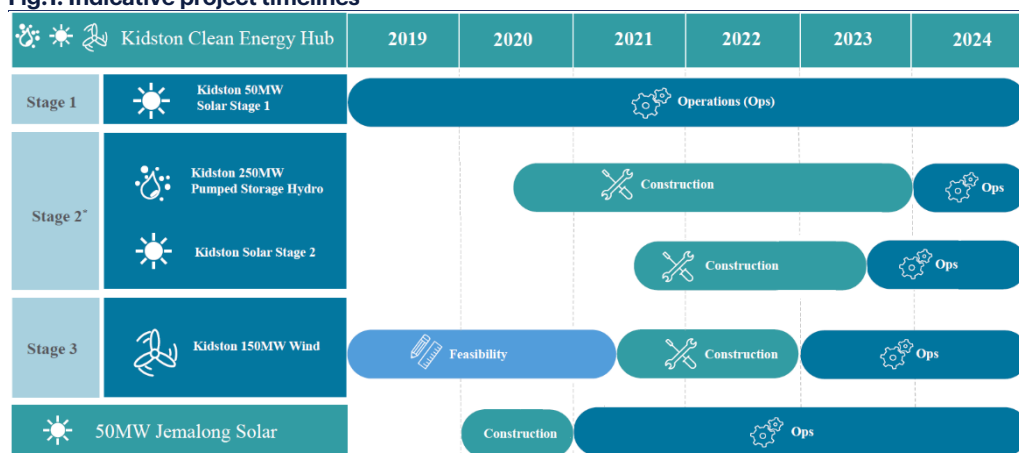
SEGMENT REVENUES (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Kidston Stage 1 Solar	8.3	10.8	11.0	13.1	13.1

Free cash flow per share (cps)	-27.3	-1.7	-0.2	0.5	1.1
GOFCF / EBITDA	129%	86%	71%	116%	116%
FCF / Underlying cash NPAT	1194%	108%	6%	-64%	-43%

Waiting for go on hydro

- **NAIF loan offer extended:** Energy Australia advised in November that it would not be able to proceed on the K2H project as then structured. Subsequent to that, GNX received notice from the Northern Australia Infrastructure Facility (NAIF) Board that it had extended the expiry date of its offer to provide a long-term, concessional loan facility of \$610m for the project. The original offer expiry date was 30 November 2019; this has been pushed back until 30 June 2020. Whilst the offer remains conditional upon Queensland Government approval, we do not believe this will be a problem.







Fig.1: Indicative project timelines



Source: Company reports, EL&C Baillieu

- **J-POWER also remains interested:** GNX also signed a new MOU with J-POWER, providing that the two parties work towards a binding agreement by which the latter secures an equity stake in the Kidston Stage 2 Hydro Project (K2H). This investment may be direct (via the SPV at project level) or indirect (by subscribing for GNX shares). This new MOU expires on 31 December 2020 if an agreement has not been reached.

Fig.2: Kidston Stage 2 – Hydro project stakeholders

 <small>*And other potential offtake parties</small>	<u>Long-term energy offtake</u> • Final investment decision anticipated CY2020.	Investment decision CY2020.
	<u>Funding partners arranged</u> • Long term \$610m concessional loan facility from the Northern Australian Infrastructure Facility. • \$9m funding by ARENA.	✓
	<u>Genex equity investor</u> • MOU signed. • Technical support.	✓
	<u>EPC Contractor/supplier of pump turbines</u> • Binding EPC Contract. Early Works Stage 1 completed.	✓
	<u>Transmission network service provider</u> • New 275kV transmission line from Kidston to Mt Fox. • Offer to Connect submitted. • GPS approved.	✓
	<u>Critical infrastructure/coordinated project</u> • Help achieve Qld Government's 50% renewable energy target by 2030.	✓

Source: Company reports

- **Agreement details:** If the J-POWER investment is in GNX shares, it is envisaged that the terms would be “equivalent or similar to” the previous agreement. Those details were: (1) investment capped at \$25m; (2) equity stake in GNX limited to 15-20%; and (3) subscription price was the higher of GNX’s VWAP over (a) the five days leading up to financial close of K2H, or (b) the five days after the financial close of K2H. J-POWER also (1) had the right to appoint a director to the GNX Board; (2) may be engaged as an advisor during construction of K2H; and/or (3) provide O&M services to the project.

Fig.3: Key project parameters

	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.
	K2-Solar Up to 270MW Solar Project	Status Feasibility	Counterparty To be confirmed	Revenue Model To be confirmed
	Kidston Stage 3 150MW Wind Project	Status Feasibility	Counterparty To be confirmed	Revenue Model To be confirmed

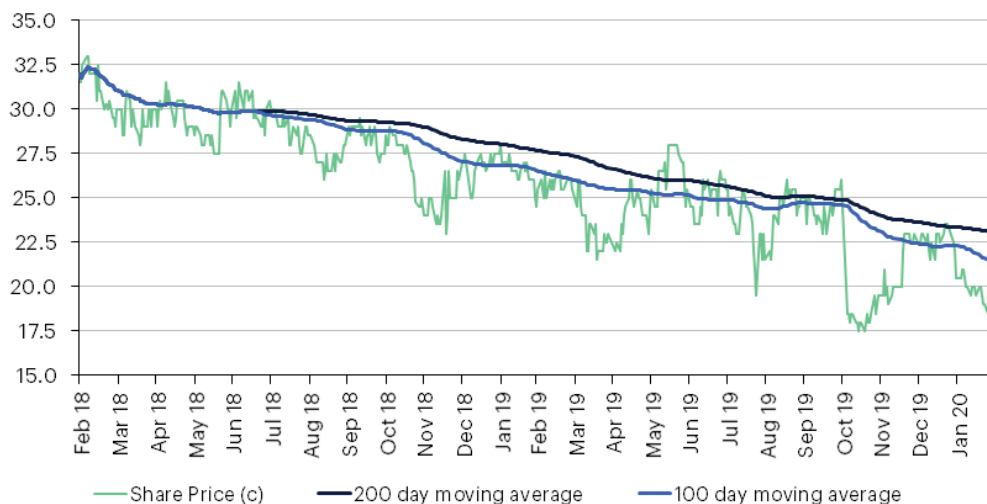
Source: Company reports, EL&C Baillieu

Jemalong and refinancing

- **Jemalong construction started:** GNX signed off on the financing, EPC and O&M contracts for the 50MW Jemalong Solar Project (JSP) in December. Construction has now commenced, with operations expected to begin in the December quarter of 2020. The contractor for both the construction and O&M phases is Beon Energy Solutions, a subsidiary of Victoria Power Networks.
- **Refinancing of K1S:** As part of the JSP financing process, the Kidston Stage 1 Solar project (K1S) debt of around \$100m has been refinanced. The new debt facilities total \$192m, including a cross-collateralised senior loan facility (with DZ Bank, NORDBANK and Westpac) and a subordinated HoldCo facility (with the Clean Energy Finance Corporation).
- **Interest cost savings:** We expect that the interest rate on the new facility will be significantly lower than the 4.8% on the existing K1S facility, given (1) K1S is currently operational with a very attractive PPA, and (2) BBSY has dropped roughly 1% since financial close on the K1S project. This would imply savings of c.\$1m per annum on the existing debt.

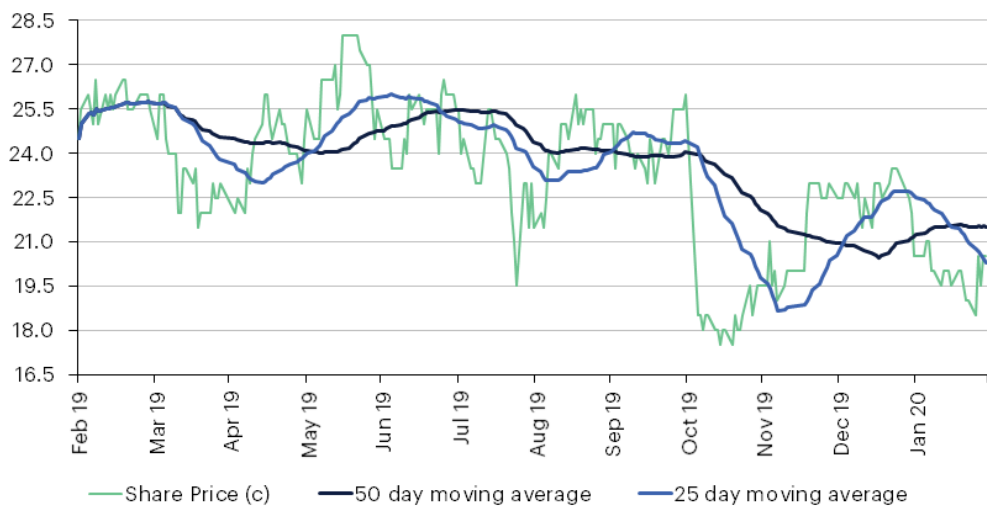
Appendix

Fig.4: Long term momentum indicators



Source: Iress

Fig.5: Short term momentum indicators



Source: Iress

This document has been prepared and issued by:

E.L. & C. Baillieu Limited

ABN 74 006 519 393
Australian Financial Service Licence No. 245421

Participant of ASX Group
Participant of NSX Ltd
Participant of Chi-X Australia Pty Ltd

Analysts' stock ratings are defined as follows:

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 \pm 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.

EL&C Baillieu Analysts' stock ratings distribution as of 06 February 2020:

Buy: 44%

Hold: 52%

Sell: 4%

Disclosure of potential interest and disclaimer:

E.L. & C. Baillieu Limited (EL&C Baillieu) and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time. Your adviser will earn a commission of up to 55% of any brokerage resulting from any transactions you may undertake as a result of this advice.

When we provide advice to you, it is based on the information you have provided to us about your personal circumstances, financial objectives and needs. If you wish to rely on our advice, it is important that you inform us of any changes to your personal investment needs, objectives and financial circumstances.

If you do not provide us with the relevant information (including updated information) regarding your investment needs, objectives and financial circumstances, our advice may be based on inaccurate information, and you will need to consider whether the advice is suitable to you given your personal investment needs, objectives and financial circumstances. Please do not hesitate to contact our offices if you need to update your information held with us. Please be assured that we keep your information strictly confidential.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by EL&C Baillieu.

Save for any statutory liability that cannot be excluded, EL&C Baillieu and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

EL&C Baillieu assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

E.L. & C. Baillieu Limited

ABN 74 006 519 393
Australian Financial Service Licence No. 245421

Participant of ASX Group
Participant of NSX Ltd
Participant of Chi-X Australia Pty Ltd

www.baillieu.com.au

Melbourne (Head Office)

Address Level 22, 35 Collins Street
Melbourne, VIC 3000 Australia
Postal PO Box 48, Collins Street West
Melbourne, VIC 8007 Australia
Phone +61 3 9602 9222
Facsimile +61 3 9602 2350
Email melbourne@baillieu.com.au

Adelaide Office

Address Ground Floor, 226 Greenhill Road,
Eastwood SA 5063
Postal PO Box 171
Fullarton SA 5063
Phone +61 8 7074 8400
Facsimile +61 8 8362 3942
Email adelaide@baillieu.com.au

Bendigo Office

Address Level 1, 103 Mitchell Street
Bendigo, VIC 3550
Postal PO Box 84
Bendigo, VIC 3552
Phone +61 3 4433 3400
Facsimile +61 3 4433 3430
Email bendigo@baillieu.com.au

Geelong Office

Address 16 Aberdeen Street
Geelong West Vic 3218
Postal PO Box 364
Geelong Vic 3220 Australia
Phone +61 3 5229 4637
Facsimile +61 3 4229 4142
Email geelong@baillieu.com.au

Gold Coast Office

Address Suite 202 Level 2, Eastside Building
6 Waterfront Place, Robina QLD 4226
Phone +61 7 5628 2670
Facsimile +61 7 5677 0258
Email goldcoast@baillieu.com.au

Newcastle Office

Address Level 1, 120 Darby Street
Cooks Hill, NSW 2300 Australia
Postal PO Box 111
The Junction, NSW 2291 Australia
Phone +61 2 4037 3500
Facsimile +61 2 4037 3511
Email newcastle@baillieu.com.au

Perth Office

Address Level 9, 216 St Georges Terrace
Perth WA 6000 Australia
Postal PO Box 7662, Cloisters Square
Perth, WA 6850 Australia
Phone +61 8 6141 9450
Facsimile +61 8 6141 9499
Email perth@baillieu.com.au

Sydney Office

Address Level 40, 259 George Street
Sydney, NSW 2000 Australia
Postal PO Box R1797
Royal Exchange, NSW 1225 Australia
Phone +61 2 9250 8900
Facsimile +61 2 9247 4092
Email sydney@baillieu.com.au