

Genex Power Limited Utilities

23 September 2020

Rating
SPECULATIVE BUY

Price Target
A\$0.30

GNX-ASX

Price
A\$0.21

Market Data

52-Week Range (A\$) :	0.08 - 0.28
Avg Daily Vol (000s) :	662.49
Shares Out. (M) :	511.5
Market Cap (A\$M) :	107.4
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0



Source: FactSet

Priced as of close of business 23 September 2020

Genex Power Ltd. is a power generation development company, which focuses on the production and storage of renewable energy. Its projects includes Kidston Solar and Kidston Hydro Pumped Storage projects.

James Bullen | Analyst | Canaccord Genuity (Australia) Ltd. | jbullen@cgf.com | +61.2.9263.2728

You can't always get what you want... but GNX has a pathway to get what it needs

GNX, the QLD government and Powerlink appear to have belatedly found a path forward for the connection of Kidston Pumped Hydro (K2H). Given this proposal is a little more complex than envisaged and requires final negotiation with Powerlink, the project will not be able to achieve financial close this quarter, but it clears the path for a decision in the DecQ.

We retain our SPEC BUY rating and \$0.30ps price target. While GNX hasn't got everything it wanted from the QLD Government we believe this is a good "silver medal" outcome.

A framework for connection that appears to be outside the political process

The QLD government has reconfirmed its commitment to contribute \$132mn to connect K2H to the grid and has provided a proposed operating and maintenance (O&M) cost sharing arrangement. We understand that under the proposal the O&M agreement will be broken in two: one covering K2H and a separate agreement for additional tie-ins beyond this.

With this framework in place we do not believe the negotiations between GNX and Powerlink will be impacted by the QLD Government entering "caretaker" mode ahead of the state election in October.

While it appears likely, in our view, that GNX (along with Powerlink) will have to accept some form of contingent liability for O&M costs beyond K2H should no other generation assets connect, we believe this is far from a deal breaker given the potential of K2H.

Sell-down process continuing

GNX has completed its competitive equity process and is in the final stages of concluding negotiations with a preferred equity partner to invest up to a 50% interest in the project. The company has indicated that the current negotiations with Powerlink should not impact this process.

NAIF reaffirms commitment

Importantly, the Northern Australia Infrastructure Facility (NAIF) continues to support the Project and has advised Genex that the NAIF Board will extend its ~\$610mn funding offer to 31 January 2021.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: September 23, 2020, 00:53 ET

Date and time of production: September 23, 2020, 00:53 ET

Target Price / Valuation Methodology:

Genex Power Limited - GNX

Our price target is based on a sum-of-the-parts analysis.

Risks to achieving Target Price / Valuation:

Genex Power Limited - GNX

Energy policy risk: Australian energy policy has been extremely politicized over the last decade. Policy changes (both at a federal and state level) have occurred on numerous occasions. While we are hopeful that the NEG can provide the certainty craved by industry this outcome is far from certain.

Regulatory approval risk: Kidston is subject to a number of regulatory approvals which could slow the pace of development or even result in the project being cancelled. The classification of the project as "critical infrastructure" lowers this risk in our view.

Pricing risk: Electricity and green credit pricing are historically volatile. While this risk can be mitigated by securing long-term offtake agreements for relevant parts of the project, this could result in lower ultimate returns.

Technology risk: Pumped hydro and solar PV are mature technologies. Future advances in other technologies used to generate, manage and store electricity (e.g., large-scale battery storage) may be more efficient and/or more cost-effective and could adversely impact GNX's finances.

Development risk: the construction of a large development in remote QLD carries both budget and schedule risks. We believe the company will seek to minimise these risks through appropriate contracting strategies.

Operational risk: GNX will be subject to operational risks which are beyond its control. Operations may be curtailed or cancelled as a result of adverse weather conditions, mechanical difficulties, shortages or cost increases of consumables, external services failure (including energy and water supply), IT system failures etc. This risk is partially mitigated by having an experienced management team and using experienced contractors to plan for and manage such events.

Key personnel risk: A number of staff in GNX's management team has significant energy and/or hydroelectric industry experience and expertise. If one or more of these key personnel were to depart, it may be difficult to replace them adequately, in which case there could be an adverse effect on GNX's ability to execute its strategic plans.

Financing risk: GNX will require future financing to pursue its development plans. There is no guarantee that funding will be available on satisfactory terms, which could result in the Kidston Project not proceeding.

Distribution of Ratings:

Global Stock Ratings (as of 09/22/20)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	526	61.02%	54.94%
Hold	174	20.19%	40.80%
Sell	13	1.51%	38.46%
Speculative Buy	125	14.50%	77.60%
	862*	100.0%	

*Total includes stocks that are Under Review

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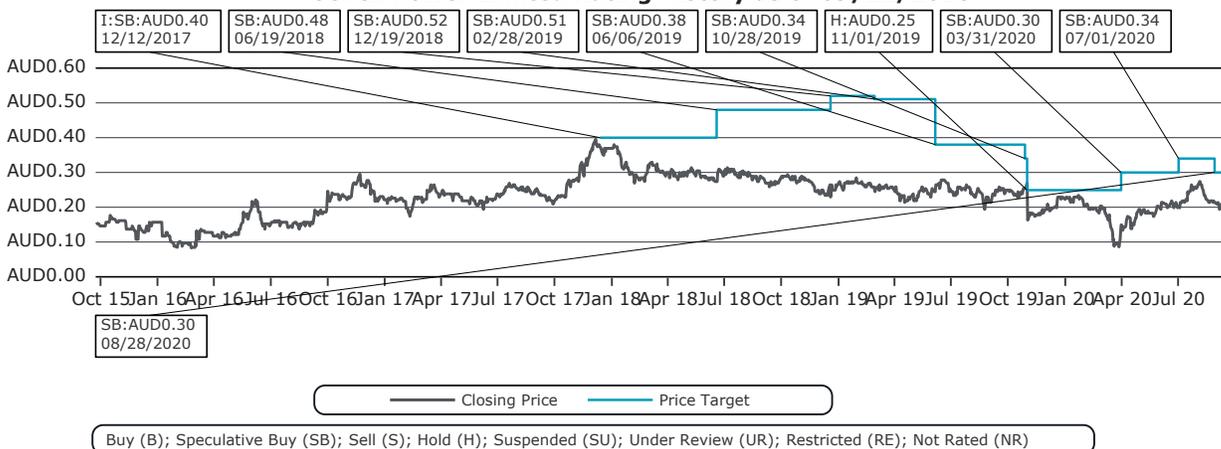
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Genex Power Limited Rating History as of 09/22/2020



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