

January 28, 2022

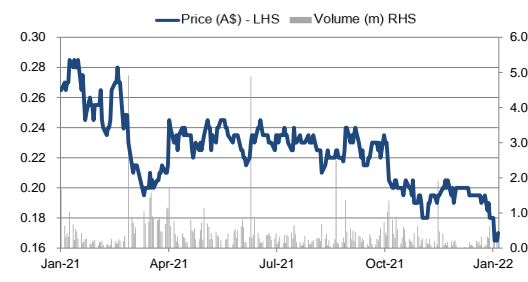
ADD (no change)

Stock code:	GNX AU
Price:	A\$0.17
12-month target price:	A\$0.34
Previous target price:	A\$0.33
Up/downside to target price:	100.0%
Dividend yield:	0.0%
12-month TSR*:	100.0%
Market cap:	A\$182m
Average daily turnover:	A\$0.31m
Index inclusion:	N/A

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	-15.0	-17.1	-32.0	-38.2
Rel ASX/S&P200	-8.8	-10.5	-34.0	-56.1



Source: Bloomberg

Financial summary

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (A\$m)	10.6	22.1	28.2	66.3
EBITDA Norm (A\$m)	-6.8	14.2	19.9	49.7
Net Profit (A\$m)	-10.4	-0.7	-3.2	10.2
EPS Norm (A\$)	-0.01	-0.00	-0.00	0.01
EPS Growth Norm (%)	-75.0%	-92.5%	253.5%	NA
P/E Norm (x)	NA	NA	NA	17.0
DPS (A\$)	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
EV/EBITDA (x)	-31.2	35.7	42.7	20.0
Gearing (Net Debt/EBITDA)	-21.19	30.90	39.27	18.65

Source: Company data, Morgans estimates

Related research

[GNX \(ADD - TP A\\$0.33\) - 11 Oct 2021](#)

[GNX \(ADD - TP A\\$0.33\) - 29 Aug 2021](#)

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

– Genex Power

Genex Power

Volumes cloudy but spot prices shine through

- Production at Kidston was down 2% on pcp due to weather conditions but revenue for the half was a slight beat on our expectations by 1%.
- Spot electricity prices were strong in 1Q22 and in 2Q22 carbon prices have risen strongly to offset lower volumes.
- We lift our target price and valuation to 34cps (+3%) and maintain our ADD rating.

2Q22 solar volumes softer but spot prices rallying

- Kidston Solar (KS1) produced 31.1GWh (-2% on pcp) and Jemalong 34.6GWh for total 1H production of 114GWh.
- Total 1H net revenue of \$10.9m beat our expectations though (+1%) with higher spot electricity and carbon (LGC) prices.

Analysis

- We estimate that the average net price received by KS1 in 1H22 was \$90.9/MWh. This is slightly less than the ~\$93/MWh we had been assuming.
- NSW CY23 electricity futures prices have rallied 19% over the last 2 months and the LGC curve has more than doubled in later years which will benefit Jemalong.

Forecast and valuation update

- The net impact is a 30% increase in the estimated equity value of the solar portfolio to \$21.6m and the earnings contribution from the solar assets in future years also increases. The solar assets only make up a small part of the portfolio however with more significant movements driven by the larger assets.
- We have delayed the start of operations of the Bouldercombe Battery Project (BBP) to 2H23 and the Kidston Wind Farm (K3W) to FY24 as per the company's update. This has driven the drop in FY23 revenue in our forecast and has a -1cps impact on our valuation.
- Our revenue escalation model for Kidston Hydro (K2H) has been updated to better reflect our understanding of the offtake contract. Management has said that the majority of the revenue escalation over the 30 year contract period is driven by a fixed factor with a small minority driven by inflation. We have assumed an 80% weighting on a 2.5% pa fixed escalation factor and 20% linked to assumed 2% pa inflation, which lifts our valuation by 2cps.

Investment view

- We continue to see GNX as one of the most promising and overlooked renewable energy pure play listed on the ASX. We think the recent weakness in the share price could reverse sharply as the company makes progress on its flagship project K2H.
- We maintain our ADD rating and increase our valuation and target price to 34cps (+1cps) with upside potential of 106%.

Price catalysts

- FID for Bouldercombe Battery Project (BBP) next quarter.
- Progress updates on K2H construction, particularly key milestones due in FY23.
- Further detail on the potential development of K3W.

Risks

- Successful completion of K2H project on time and on budget.
- Solar production at Kidston Solar and Jemalong.
- Marginal loss factors on all projects other than K2H and KS-1.
- Electricity and carbon prices.
- Successful financing of the Bouldercombe Battery Project (BBP).
- Interest rates, increases in inflation (K2H has mostly fixed escalators), energy market regulation and tax regimes.
- Refinancing of existing debt when it matures.

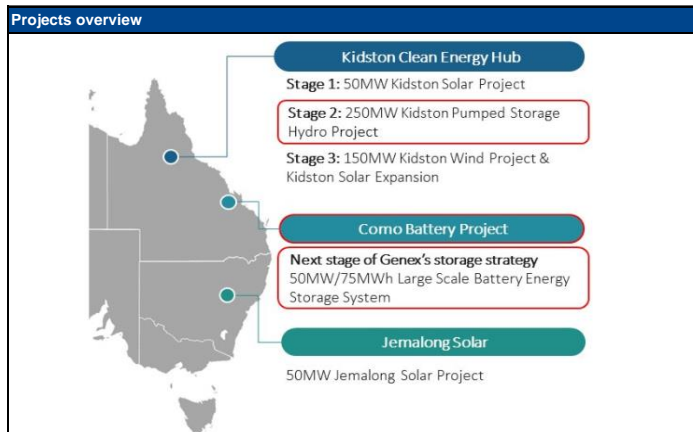
Genex Power

as at January 28, 2022

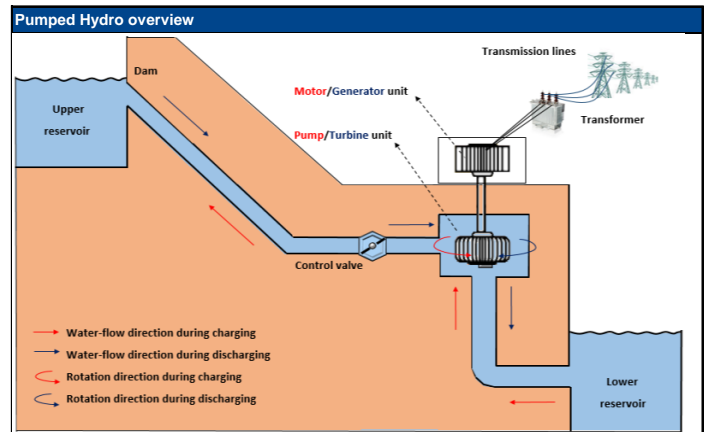
Rating	ADD	Price (A\$):	0.17
Market cap (A\$m):	182	12-month target price (A\$):	0.34
Shares outstanding (m):	401.8	Up/downside to target price (%):	100.0
Free float (%):	69.3	Dividend yield (%):	0.0

Company description

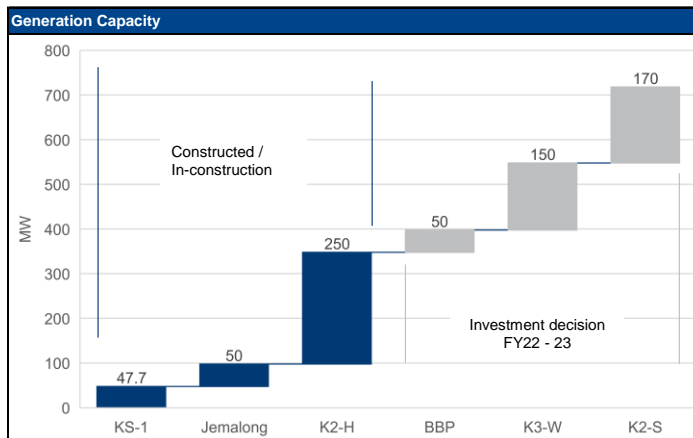
GNX is redeveloping an old gold mine in North Queensland into a 250MW energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has a second 50MW solar farm operating at Jemalong in Central NSW as well as plans to expand with a 50MW/75MWh battery in Central Queensland 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 has an offtake agreement with EnergyAustralia for 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



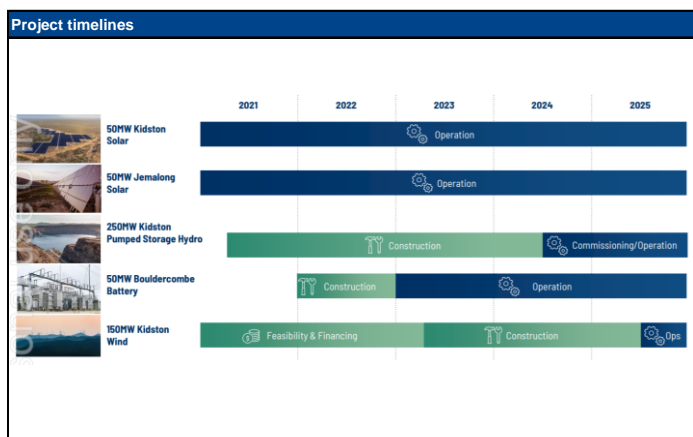
SOURCE: Journal of Power Technologies (2017)



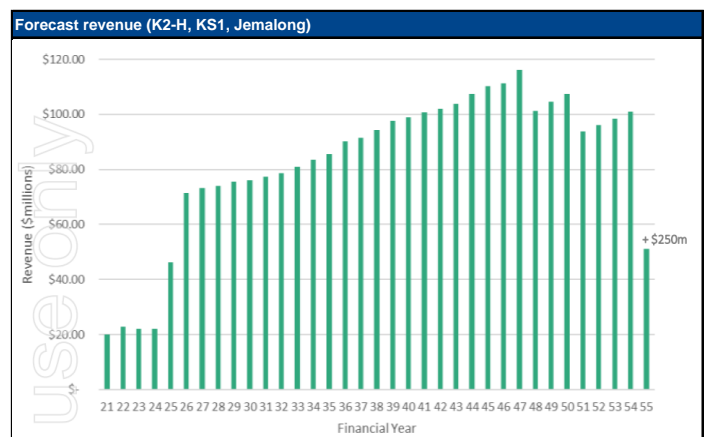
SOURCES: MORGANS, GNX

- ### Risks and Drivers
- Value drivers:**
- Solar output of Stage 1 as price is contracted and locked in.
 - NSW spot price of electricity as Jemalong is currently uncontracted.
 - Spot price of LGCs as Jemalong is currently uncontracted.
 - If carbon reduction targets increase, the value of future renewables projects will also increase.
 - Progress on construction of K2-H.
 - Energy arbitrage and grid services prices for Bouldercombe battery project.
- Risks:**
- Construction and commissioning risk of the K2-H pumped hydro, Bouldercombe battery and K3-W wind projects.
 - Price and volume risk at Jemalong and volume risk at KS-1.
 - Electricity network congestion for Jemalong and future wind / solar from an excess of renewable generation.
 - Non-renewal of K2-H offtake agreement following initial ten year period.
 - Increasing competition from increasing number of battery projects for Bouldercombe project for energy arbitrage and grid services.
 - Marginal Loss Factors (MLF) on all projects other than KS-1 and K2-H.
 - Technological changes driving energy efficiency and alternative generation.
 - Interest rates and inflation.
 - Changes to tax regimes.

SOURCE: MORGANS



SOURCE: GNX



SOURCE: GNX

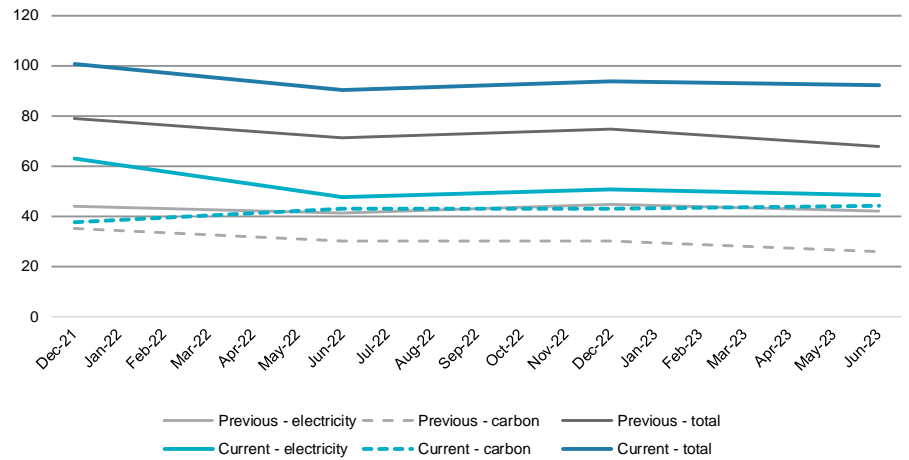
Figure 1: Financial summary

Key multiples & gearing	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	27.2	107.0	(47.5)	43.5	51.6	23.6	16.0	11.3	10.7	9.9
Price-to-earnings (x)	N/A	N/A	N/A	N/A	N/A	(76)	24	12	7	7	7
Dividend yield (%)	-	-	-	-	-	-	2.5	2.5	3.9	3.9	4.1
Free cashflow yield (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13.6	36.3	37.1	38.6
Net Debt / ND+E (%)	85.6	92.2	91.5	51.9	76.7	74.7	77.6	73.8	71.2	68.3	65.1
Profit and loss (\$m)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Net Revenue	8.3	10.8	10.3	10.6	22.1	28.2	66.3	91.2	118.2	118.6	121.3
Other inc	1.7	4.8	2.0	11.0	-	-	-	-	-	-	-
Expenses	(11.7)	(10.0)	(10.5)	(28.5)	(7.8)	(8.3)	(16.6)	(18.9)	(21.2)	(21.5)	(21.8)
EBITDA	(1.7)	5.6	1.8	(6.8)	14.2	19.9	49.7	72.3	96.9	97.1	99.5
D&A	-	(6.4)	(8.0)	(6.3)	(8.5)	(10.4)	(11.0)	(17.5)	(24.0)	(24.0)	(24.0)
Operating EBIT	(1.7)	(0.8)	(6.2)	(13.1)	5.7	9.5	36.9	51.1	69.2	69.4	71.8
Net Interest Expense	(2.7)	(4.7)	(4.3)	(5.7)	(6.9)	(14.3)	(22.4)	(23.0)	(22.1)	(21.2)	(20.2)
Profit Before Tax	(4.4)	(5.5)	(10.5)	(18.7)	(1.1)	(4.8)	14.4	28.1	47.1	48.2	51.6
Tax	-	-	-	-	0.4	1.5	(4.2)	(8.3)	(14.1)	(14.4)	(15.5)
Statutory Net Profit	(4.4)	(5.5)	(10.5)	(18.7)	(0.7)	(3.2)	10.2	19.7	33.0	33.8	36.2
Cashflow hedges (post tax)	0.0	(3.7)	(9.4)	8.3	-	-	-	-	-	-	-
Total comprehensive income	(4.4)	(9.2)	(20.0)	(10.4)	(0.7)	(3.2)	10.2	19.7	33.0	33.8	36.2
Cashflows (\$m)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	1.8	(6.8)	14.2	19.9	49.7	72.3	96.9	97.1	99.5
WC & non-cash adjustments	(0.5)	(0.8)	(2.5)	7.5	(11.2)	(0.0)	(0.6)	0.1	0.1	0.2	(0.0)
Gross operating cashflow	(2.2)	4.8	(0.8)	0.7	3.1	19.9	49.1	72.3	97.0	97.2	99.5
Net interest paid	(3.9)	(4.3)	(3.4)	(5.6)	(6.9)	(14.3)	(22.4)	(23.0)	(22.1)	(21.2)	(20.2)
Cash paid for Tax	-	-	-	-	(0.9)	(2.1)	(9.0)	(9.5)	(9.7)	(9.6)	(10.2)
Operating cashflow	(6.1)	0.5	(4.1)	(4.8)	(4.7)	3.6	17.7	39.9	65.1	66.4	69.2
Capex	(83.0)	(12.2)	(38.0)	(153.4)	(291.2)	(477.7)	(157.4)	(15.5)	-	-	-
Investing cashflow	(83.0)	(12.2)	(38.0)	(153.4)	(291.2)	(477.7)	(157.4)	(15.5)	-	-	-
Equity issuance/(returns)	3.2	1.9	20.6	133.2	-	133.5	-	-	-	-	-
Debt drawdown/(repaid)	85.1	2.3	83.5	5.0	305.6	311.4	141.4	(24.8)	(33.9)	(34.9)	(35.9)
Dividends paid	-	-	-	-	-	-	(6.1)	(6.0)	(9.6)	(9.6)	(10.1)
Financing cashflow	88.3	4.3	104.1	138.2	305.6	444.9	135.2	(30.8)	(43.5)	(44.5)	(46.0)
Net cashflow	(0.7)	(7.4)	62.0	(20.0)	9.8	(29.2)	(4.5)	(6.4)	21.7	22.0	23.2
Balance sheet (\$m)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	65.5	45.4	55.2	26.0	21.5	15.0	36.7	58.7	81.9
Receivables	0.9	2.0	3.5	1.2	1.0	1.0	2.0	1.9	1.9	1.7	1.7
Fixed Assets	118.2	118.1	175.5	291.9	574.6	1,041.9	1,077.4	1,075.4	1,051.3	1,027.3	1,003.3
Other	5.6	11.0	9.5	21.2	22.4	26.0	139.9	177.3	169.3	160.8	151.8
Total Assets	135.6	134.5	253.9	359.7	653.2	1,094.9	1,240.7	1,269.6	1,259.2	1,248.5	1,238.7
Debt	102.1	103.7	188.0	189.9	495.3	806.8	948.1	923.3	889.4	854.5	818.6
Other liabilities	18.3	22.4	54.5	35.7	24.3	24.3	24.7	24.7	24.7	24.7	24.7
Total Liabilities	120.4	126.1	242.5	225.6	519.6	831.0	972.8	948.0	914.1	879.2	843.4
Net Assets	15.3	8.4	11.4	134.1	133.6	263.8	267.9	321.6	345.1	369.2	395.4
Shares on issue (m)	303.9	312.4	401.8	1,086.5	1,086.5	1,491.1	1,491.1	1,491.1	1,491.1	1,491.1	1,491.1

Source: Morgans estimates, company data

Changes to assumptions and forecasts

Figure 2: Changes to Jemalong pricing assumptions



Source: Morgans estimates

Figure 3: Forecast changes

Absolute changes	FY22	FY23	FY24	Relative changes (%)	FY22	FY23	FY24
Production (GWh)	(11.9)	-	-	Production	0%	0%	0%
Revenue (\$m)	1.1	(18.9)	2.3	Revenue	5%	-40%	4%
EBITDA (\$m)	1.1	(16.7)	2.3	EBITDA	8%	-46%	5%
D&A (\$m)	-	5.1	8.9	D&A	0%	33%	45%
Net interest expense (\$m)	(0.8)	2.1	(0.2)	Net interest expense	-13%	13%	-1%
Net Profit After Tax (\$m)	0.2	(6.6)	7.8	Net Profit After Tax	22%	-195%	323%
Capital Expenditure (\$m)	(46.2)	36.9	15.5	Capital Expenditure	-19%	7%	9%
Debt (\$m)	71.2	9.3	(0.4)	Debt	17%	1%	0%
Cash balance (\$m)	24.9	(12.5)	(4.9)	Cash balance	102%	-51%	-20%

Source: Morgans estimates

Valuation and risks

Valuation summary

We value GNX using a blended sum-of-the-parts DCF with an asset based multiple and rounded to the nearest cps. Our key DCF assumptions are:

- Valuation date of 30 June 2022.
- Valuation is derived from free cashflow to equity.
- Cost of equity is 7.5% (based on 3% risk free rate, 6% equity risk premium and an equity beta of 0.75).

Figure 4: Sum of the parts DCF

Component	Value (\$m)	Value (cps)
KS1 + Jemalong	21.6	2
K2H	225.8	21
K3W	34.1	3
Bouldercombe	39.8	4
Total	321.3	30

Source: Morgans estimates

Figure 5: Asset multiple valuation

Asset	MW	Multiple (\$ / W)	EV (\$m)	Net Debt (\$m)	Equity (\$m)
Jemalong + KS1	97.7	2.4	234.5	(159.9)	74.6
K2-H	250	3.3	825.0	(569.5)	255.5
Bouldercombe	50	0.4	19.0	-	19.0
K3-W	150	0.4	57.0	-	57.0
Total	547.7	2.1	1,135.5	(729.4)	406.1
Number of shares					1,086.5
Discounted equity value (cps)					37

Source: Morgans estimates

Key risks to our valuation

- Construction risk.
- Economic viability of Bouldercombe battery and K3-W wind projects.
- Debt amortisation rate for NAIF debt.
- Electricity and carbon prices.
- Generation volumes.
- Interest rates and inflation.
- Tax regimes.

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For a full explanation of the recommendation structure, refer to our website at morgans.com.au/research_disclaimer

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