

April 27, 2022

ADD (no change)

Stock code:	GNX AU
Price:	A\$0.145
12-month target price:	A\$0.31
Previous target price:	A\$0.31
Up/downside to target price:	113.8%
Dividend yield:	0.0%
12-month TSR*:	113.8%
Market cap:	A\$200.9m
Average daily turnover:	A\$0.33m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-3.3	-12.1	-31	-30.2
Rel ASX/S&P200	-1.3	-18.3	-34.2	-43.9



Source: Bloomberg

Financial summary

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (A\$m)	10.63	21.97	32.42	33.48
EBITDA Norm (A\$m)	-6.82	10.25	17.15	19.11
Net Profit (A\$m)	-10.40	-1.91	-5.39	-9.30
EPS Norm (A\$)	-0.014	-0.002	-0.005	-0.009
EPS Growth Norm (%)	-75%	-83%	129%	71%
P/E Norm (x)	NA	NA	NA	NA
DPS (A\$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDA (x)	NA	53.62	46.74	50.25
Gearing (Net Debt/EBITDA)	-21.16	35.89	34.73	39.48

Source: Company data, Morgans estimates

Related research
[GNX \(ADD - TP A\\$0.31\) - 08 Mar 2022](#)
[GNX \(ADD - TP A\\$0.34\) - 28 Jan 2022](#)
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– Genex Power

Genex Power

NSW spot prices lift our FY22 outlook

- GNX's 3Q22 report points to solid solar generation in 2H22 as merchant prices have jumped in NSW.
- Cash spent on plant and equipment has surged higher as we anticipate increasing activity at the Kidston Hydro (K2H) project.
- We maintain our ADD rating and target price of 31cps.

Third quarter solar looks solid and progress on growth portfolio

- GNX produced 65.6GWh of solar energy across its two plants in the March quarter. We expect that output will decline with seasonal variation in the current quarter but, if typical patterns hold, we think the company will comfortably meet or exceed our 2H forecast of 111GWh. We have kept our production forecast steady for now given the amount of wet weather that could have a bigger impact in 4Q.
- Average wholesale prices achieved at Jemalong exceeded our expectations with an average bundled price of \$105/MWh against our 2H forecast of \$95/MWh.
- Progress continues at K2H with the main access tunnel 15% drilled and construction of the upper reservoir expected to commence this quarter. The \$100m cash spent on PPE last quarter nearly doubled the YTD spend and appears broadly in line with our 2H22 forecast of \$187m. GNX continues to forecast that the project will be delivered on time and on budget.

High merchant prices likely to impact further in 4Q

- GNX reported average electricity prices of ~\$66/MWh in 3Q22 at Jemalong. Our estimates for month-to-date prices at Jemalong are significantly higher at \$117/MWh and we anticipate the tight market in NSW to continue.
- We have also factored in much higher spot prices out to FY23 as indicated by the NSW baseload futures market but we have maintained our long-term wholesale price forecasts.
- This lifts our FY22 EBITDA forecast by 27% to \$10m and FY23F to \$17m (+33%). This has a negligible impact on overall per share value though, as the forecast cashflows from K2H and other projects are significantly larger.

Investment view

- We continue to see storage as a key issue for the electricity market and GNX offers a unique ASX listed opportunity to get exposure. We think the company has been deeply discounted due to the uncertainty of construction risks and long-term inflation. We continue to see significant upside to our valuation though (+121%) and we anticipate the share price gap will close as the company meets construction milestones. We maintain our ADD rating.

Price catalysts

- Completion of the underground activities at K2H.
- Completion of the above ground civil works at K2H.
- Completion of the BBP project.
- Progression of the Kidston wind farm towards FID.

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.
- Interest rates, increases in inflation (K2H has mostly fixed escalators), energy market regulation and tax regimes.
- Refinancing of existing debt when it matures.

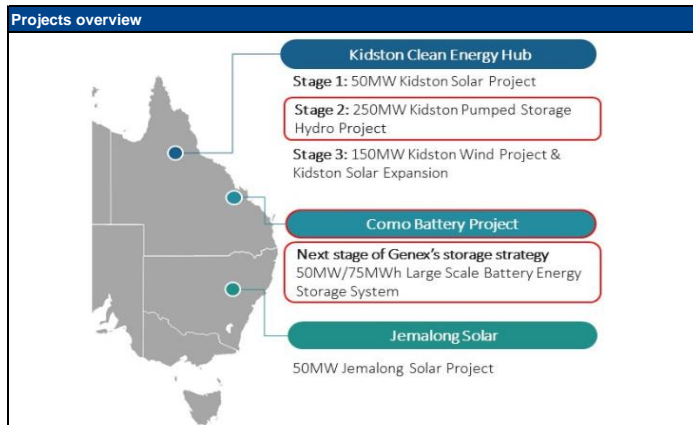
Genex Power

as at April 27, 2022

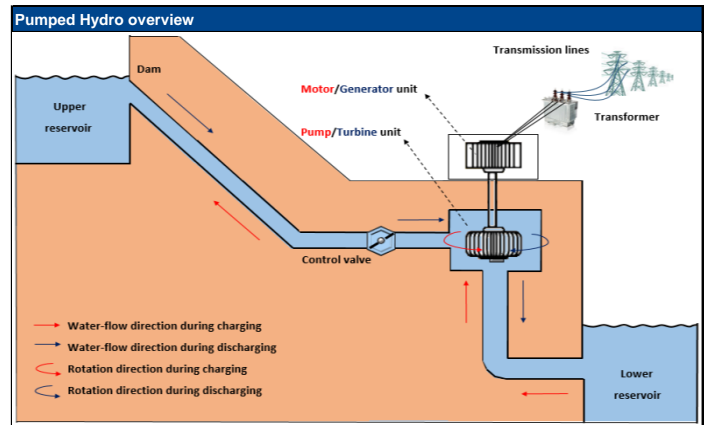
Rating	ADD	Price (A\$):	0.145
Market cap (A\$m):	200.9	12-month target price (A\$):	0.31
Shares outstanding (m):	401.8	Up/downside to target price (%):	113.8
Free float (%):	69.3	Dividend yield (%):	0.0

Company description

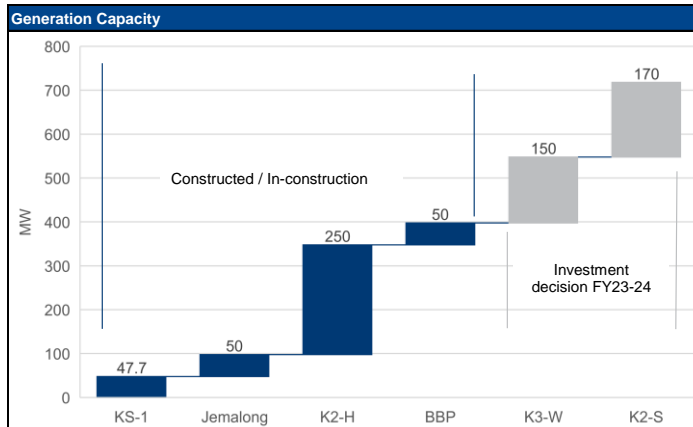
GNX is redeveloping an old gold mine in North Queensland into a 250MW energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has a second 50MW solar farm operating at Jemalong in Central NSW as well as plans to expand with a 50MW/100MWh battery in Central Queensland 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



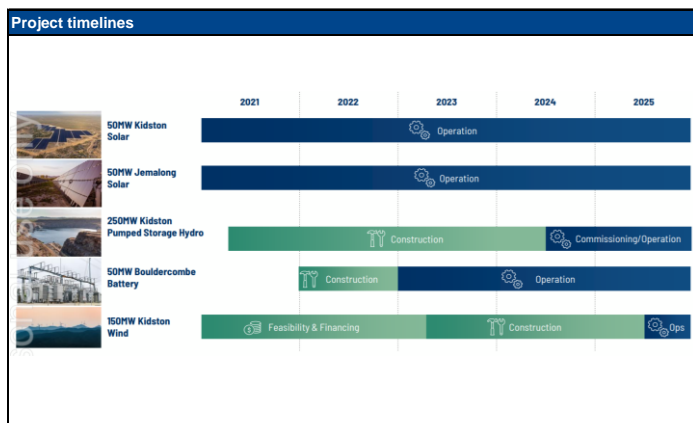
SOURCE: Journal of Power Technologies (2017)



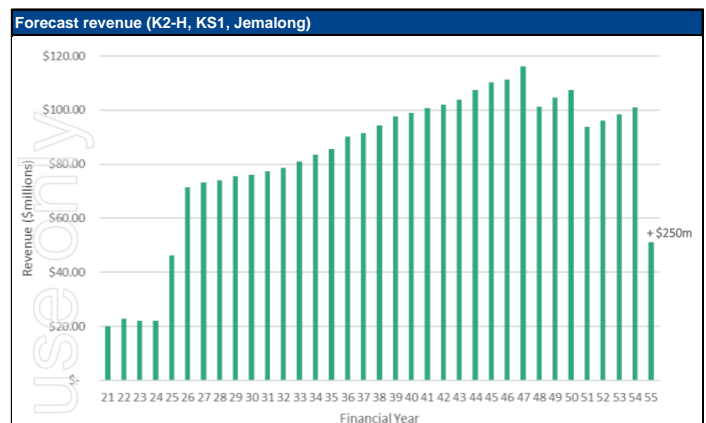
SOURCES: MORGANS, GNX

- 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



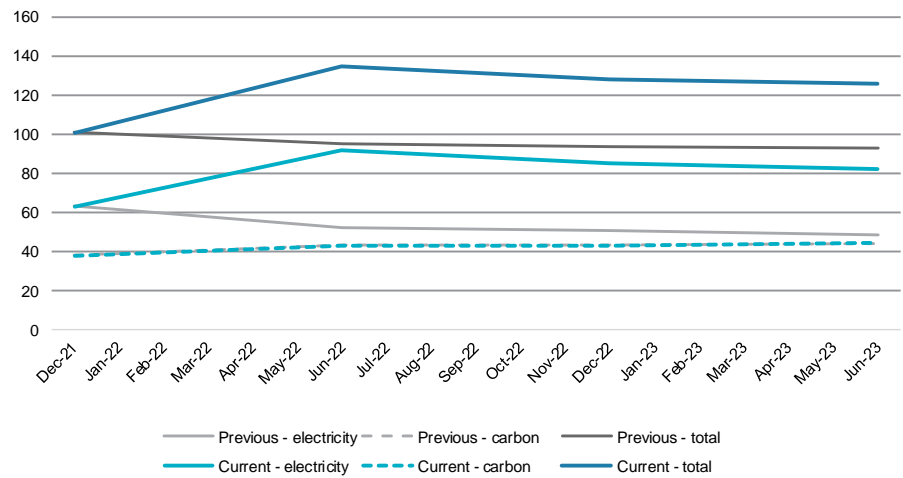
SOURCE: GNX

Figure 1: Financial summary

Key multiples & gearing	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	26.0	102.4	(44.3)	56.0	46.7	50.2	18.5	10.3	9.7	8.9
Price-to-earnings (x)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	23	7	7	7
Dividend yield (%)	-	-	-	-	-	-	-	-	5.0	4.7	5.0
Free cashflow yield (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	44.3	45.0	47.0
Net Debt / ND+E (%)	85.6	92.2	91.5	51.8	66.9	77.1	81.8	70.8	68.1	65.0	61.6
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	22.0	32.4	33.5	57.8	125.1	125.7	128.7
Other inc	1.7	4.8	2.0	11.0	2.5	0.4	0.4	20.4	0.4	0.4	0.4
Expenses	(11.7)	(10.0)	(10.5)	(28.5)	(14.2)	(15.6)	(14.7)	(17.2)	(21.7)	(22.0)	(22.3)
EBITDA	(1.7)	5.6	1.8	(6.8)	10.2	17.2	19.1	61.0	103.8	104.1	106.8
D&A	-	(6.4)	(8.0)	(6.3)	(10.0)	(11.1)	(12.2)	(18.5)	(24.9)	(24.9)	(24.9)
Operating EBIT	(1.7)	(0.8)	(6.2)	(13.1)	0.2	6.1	5.1	38.8	75.2	75.5	78.2
Net Interest Expense	(2.7)	(4.7)	(4.3)	(5.7)	(8.2)	(13.8)	(18.3)	(21.9)	(23.7)	(22.5)	(21.4)
Profit Before Tax	(4.4)	(5.5)	(10.5)	(18.7)	(8.0)	(7.7)	(13.2)	16.9	51.5	53.0	56.9
Tax	-	-	-	-	1.1	2.3	3.9	(5.1)	(15.4)	(15.9)	(17.0)
Statutory Net Profit	(4.4)	(5.5)	(10.5)	(18.7)	(6.9)	(5.4)	(9.3)	11.7	36.1	37.1	39.8
Cashflow hedges (post tax)	0.0	(3.7)	(9.4)	8.3	5.0	-	-	-	-	-	-
Total comprehensive income	(4.4)	(9.2)	(20.0)	(10.4)	(1.9)	(5.4)	(9.3)	11.7	36.1	37.1	39.8
Cashflows (\$m)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	5.6	1.8	(6.8)	10.2	17.2	19.1	61.0	103.8	104.1	106.8
WC & non-cash adjustments	(0.5)	(0.8)	(2.5)	7.5	(1.0)	(0.1)	(0.2)	0.1	(0.6)	0.2	(0.0)
Gross operating cashflow	(2.2)	4.8	(0.8)	0.7	9.2	17.1	18.9	61.1	103.2	104.3	106.8
Net interest paid	(3.9)	(4.3)	(3.4)	(5.6)	(8.2)	(13.8)	(18.3)	(21.9)	(23.7)	(22.5)	(21.4)
Cash paid for Tax	-	-	-	-	-	(0.5)	(1.8)	(1.9)	(9.6)	(10.9)	(11.4)
Operating cashflow	(6.1)	0.5	(4.1)	(4.8)	1.0	2.8	(1.2)	37.3	69.9	70.8	74.0
Capex	(83.0)	(12.2)	(38.0)	(153.4)	(281.2)	(230.7)	(157.4)	(282.5)	-	-	-
Investing cashflow	(83.0)	(12.2)	(38.0)	(153.4)	(281.2)	(230.7)	(157.4)	(282.5)	-	-	-
Equity issuance/(buy-backs)	3.2	1.9	20.6	133.2	50.0	-	-	136.2	-	-	-
Debt drawdown/(repaid)	85.1	2.3	83.5	5.0	263.8	200.3	157.0	113.6	(39.0)	(40.1)	(41.1)
Dividends paid	-	-	-	-	-	-	-	-	(13.2)	(12.6)	(13.2)
Financing cashflow	88.3	4.3	104.1	138.2	313.8	200.3	157.0	249.7	(52.2)	(52.7)	(54.3)
Net cashflow	(0.7)	(7.4)	62.0	(20.0)	33.6	(27.6)	(1.6)	4.5	17.6	18.2	19.6
Balance sheet (\$m)	FY18A	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11.0	3.5	65.5	45.4	79.1	51.5	49.9	54.4	72.1	90.2	109.9
Receivables	0.9	2.0	3.5	1.2	1.1	1.2	2.0	1.9	1.9	1.7	1.7
Fixed Assets	118.2	118.1	175.5	291.9	555.7	775.3	809.5	1,073.5	1,048.6	1,023.7	998.8
Other	5.6	11.0	9.5	21.2	23.1	26.2	140.4	172.6	163.7	155.2	146.1
Total Assets	135.6	134.5	253.9	359.7	659.2	854.2	1,002.5	1,304.0	1,287.2	1,271.7	1,257.2
Debt	102.1	103.7	188.0	189.7	447.0	647.3	804.3	917.9	878.9	838.8	797.7
Other liabilities	18.3	22.4	54.5	35.7	29.9	29.9	30.5	30.6	29.9	29.9	30.0
Total Liabilities	120.4	126.1	242.5	225.4	476.9	677.2	834.8	948.4	908.8	868.7	827.6
Net Assets	15.3	8.4	11.4	134.4	182.4	177.0	167.7	355.6	378.4	402.9	429.5
Shares on issue (m)	303.9	312.4	401.8	1,086.5	1,419.8	1,419.8	1,419.8	1,832.5	1,832.5	1,832.5	1,832.5

Source: Morgans estimates, company data

Figure 2: Changes to Jemalong pricing assumptions



Source: Morgans estimates

Figure 3: Forecast changes

Abolite changes	FY22	FY23	FY24	Relative changes (%)	FY22	FY23	FY24
Production (GWh)	-	-	-	Production	0%	0%	0%
Revenue (\$m)	2.2	4.2	-	Revenue	11%	15%	0%
EBITDA (\$m)	2.2	4.2	-	EBITDA	27%	33%	0%
D&A (\$m)	-	-	-	D&A	0%	0%	0%
Net interest expense (\$m)	-	0.0	0.0	Net interest expense	0%	0%	0%
Net Profit After Tax (\$m)	1.6	3.1	0.0	Net Profit After Tax	19%	36%	0%
Capital Expenditure (\$m)	-	-	-	Capital Expenditure	0%	0%	0%
Debt (\$m)	-	-	-	Debt	0%	0%	0%
Cash balance (\$m)	2.0	6.2	6.4	Cash balance	7%	21%	21%

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 December 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	11.6	1
K2H	234.9	17
K3W	101.2	7
Bouldercombe	89.6	6
Total	437.2	31

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	(180.6)	53.8
K2-H	250	3.3	825.0	(562.0)	263.0
Bouldercombe	50	1.2	60.0	(6.9)	53.1
K3-W	150	0.4	57.0	-	57.0
Total	547.7	2.1	1,176.5	(749.6)	426.9
Number of shares					1,419.8
Discounted equity value (cps)					30

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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Regulatory disclosures

Analyst owns shares in the following mentioned company(ies): Genex Power

Morgans Corporate Limited was Joint Lead Manager to the Placement and Share Purchase Plan of shares in Genex Limited announced to market on 23 February 2022 and received fees in this regard.

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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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