morgans

Stockbroking | Wealth Management | Corporate Advice

Power

Right now, it's all about that base

June 2, 2022

- The squeeze in the wholesale market continues as electricity futures surge to new record highs. ORG's announcement today highlights the difference in its exposure compared to AGL although both coal fleets aren't running at full capacity.
- Retail tariffs are jumping in FY23 but prices could continue to climb higher in FY24 which we see as a strong tailwind for AGL's vertically integrated position.
- Despite the defeat of its demerger, AGL's leadership issues could be easier to resolve than ORG's coal shortage. In our small cap coverage, GNX is likely to receive an earnings boost from spot sales at its solar farms.

Highlighted companies

AGL Energy

AGL's coal fleet should support the company well in FY23 as rising prices move into customer tariffs. Leadership questions remain but we expect this to be resolved before too long. The company remains our preferred exposure and we retain our ADD rating and update our price target to $10.08.

Origin Energy

ORG's difficulties with coal supply make forecasting FY23 difficult and we expect that investors will treat the stock with caution while that risk is unresolved. We retain our HOLD rating and reduce our price target to $6.17.

Genex Power

GNX remains our key pick for renewables and storage exposure. Share price performance has been weak due to uncertainty as the Kidston Hydro project is being constructed. After our recent site visit we are comfortable that the project remains on track but we note that most of the risk is still ahead of the company as activity ramps up significantly in the next 12 – 18 months. High spot prices are supportive of solar earnings in 2H22 and 1H23 though. We retain our ADD rating and our price target of 31cps.

Baseload power squeeze pushing the market higher

- Persistently higher spot prices, at all times of the day, have pushed the FY23 baseload futures price to record highs (> $250/MWh in NSW and QLD, ~$168/MWh in VIC and $194/MWh in SA). Futures remain above $100/MWh in NSW, QLD and SA out to the end of FY25.
- High prices are not being driven by short duration surges up to the market cap but instead remain stubbornly and consistently high. In that kind of environment baseload generation is the most effective and fuel efficient method to cover spot market exposures.
- AGL's fixed price NSW coal contracts, better logistics and its integrated mining operation in Victoria will insulate it from the worst of the forces that have driven ORG to withdraw its FY23 Energy Markets guidance.

Retail market is showing signs of stress

- The final Default Market Offer (DMO) for FY23 showed a sharp increase in wholesale energy costs (40% – 50% higher than FY22 in NSW and QLD for average retail customers). Retailers like AGL that can cover most of the higher wholesale prices with fixed fuel contracts should see margins expand.
- Competition also appears to be constrained as a number of smaller retailers are encouraging their customers to leave to find better prices. Despite the allowance for higher tariffs with the DMO, we expect a number of smaller retailers are struggling to manage their wholesale exposures which will limit a jump in churn.

Uncertainties for both AGL and ORG but one is easier to fix than the other

- AGL's standing has suffered because of the wrangling over the long term direction of the company but the generation assets support stronger margins as consumer prices increase. We expect the leadership issues will be resolved and we retain our ADD rating.
- ORG's share price has plunged in reaction to its announcement but we're wary of wading in too soon. By withdrawing guidance, management has highlighted the risks that can get amplified while spot electricity markets are so unruly. We retain our HOLD rating and will wait to see how the wholesale market fares during the coming peak winter season.

Max VICKERSON, CFA

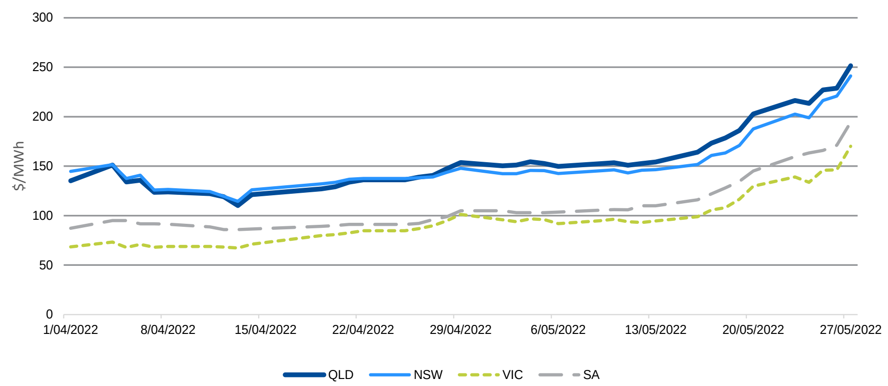
+61 7 3334 4804

max.vickerson@morgans.com.au

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

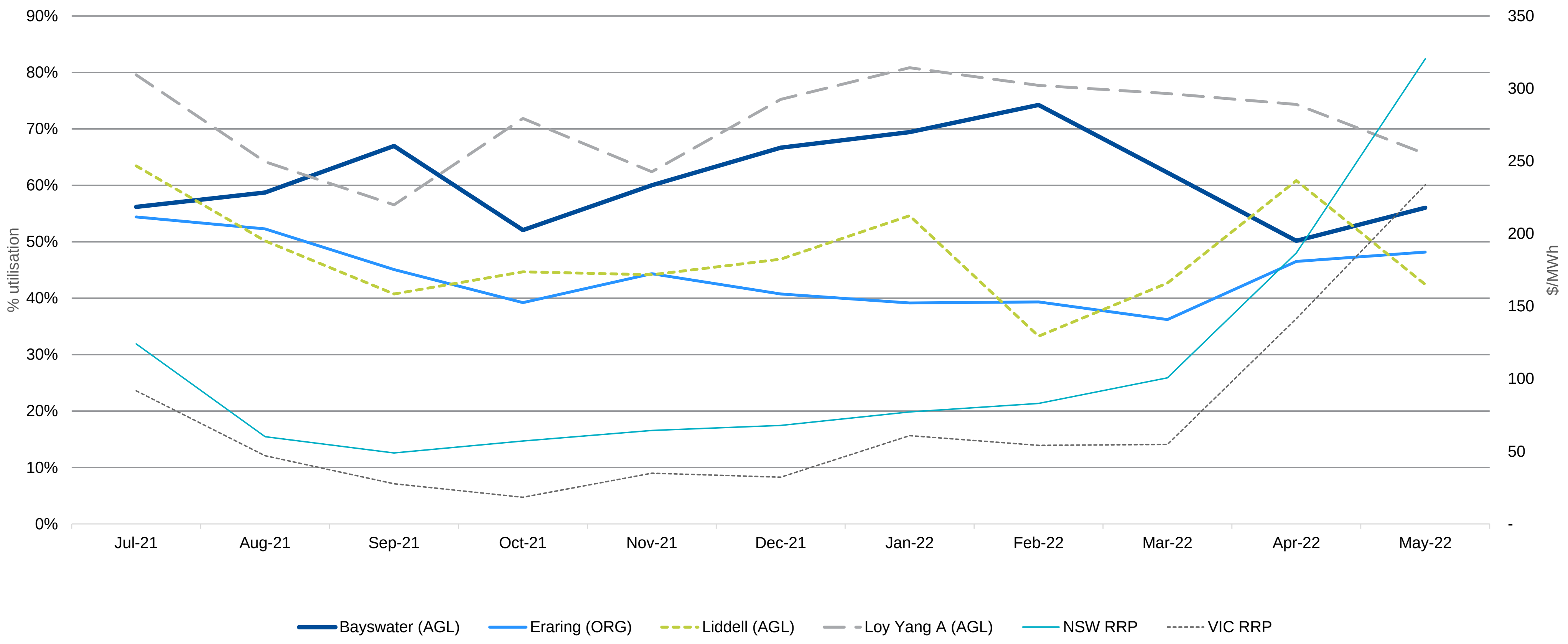
– Genex Power

Figure 1: FY23 baseload electricity futures



Source: Morgans Financial, AEMO

Figure 2: Estimated coal plant utilisation and spot prices



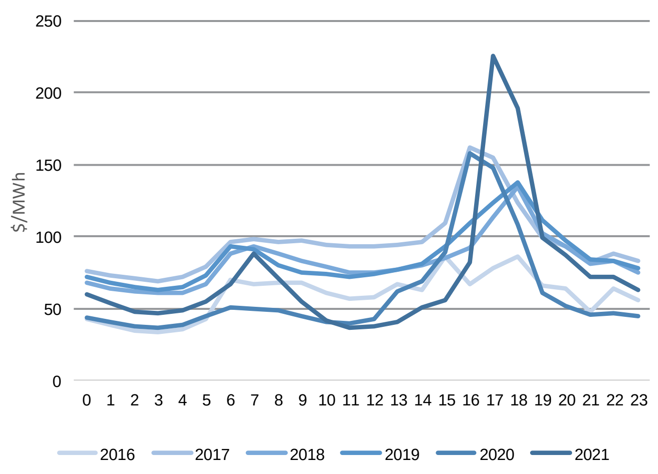
Source: Morgans estimates, AEMO

A deeper look at wholesale market performance

Both companies coal plants on average are operating at much lower utilisation than would be expected in the current market. Despite rising spot prices, plant output hasn't risen above 70% of nameplate but reasons for this differ.

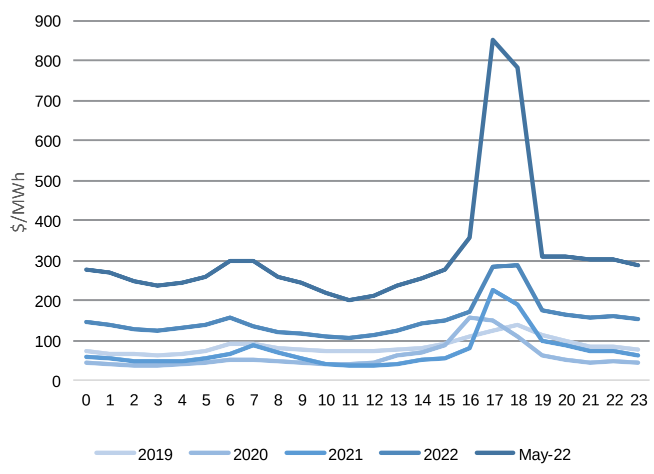
AGL's plants, apart from the well-publicised outage at Loy Yang A, appear to be cycling units down progressively for maintenance. This gives us confidence that the company is not facing the same challenges that are currently besetting ORG. Typically when an outage is planned, a generator would put in place hedging contracts to cover the duration of the outage so we don't expect AGL to be as reliant on the spot market. Unfortunately for ORG the lack of coal wasn't anticipated and the company is exposed to spot prices while deliveries and its stockpile volume is low. ORG has suggested that the coal supply issues could continue into 1HFY23.

Figure 3: Average NSW prices by hour (CY16 - CY21)



Source: Morgans estimates, AEMO

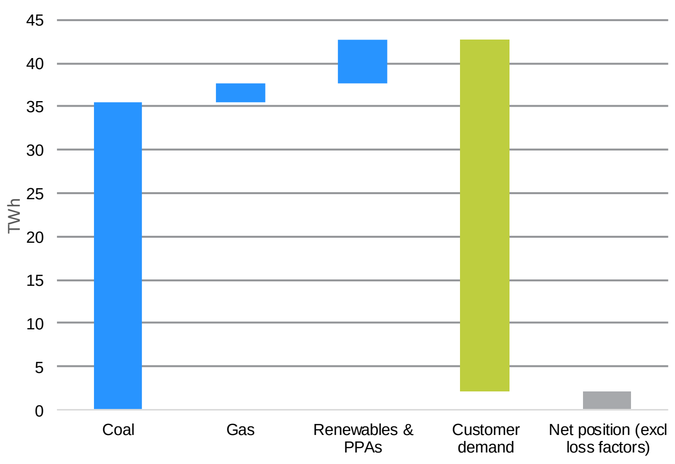
Figure 4: Average NSW prices by hour (CY19 - May 22)



Source: Morgans estimates, AEMO

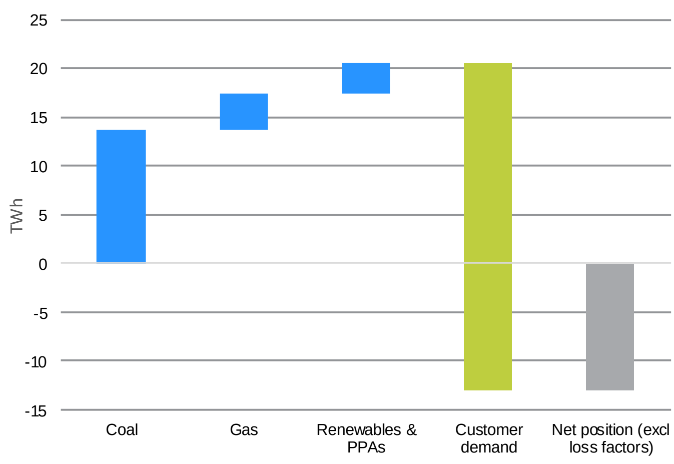
The lack of coal capacity and higher spot prices for coal and gas have lifted average prices across all times of the day to prices well above normal. Over the last several years, intraday power prices have been developing the frequently mentioned 'duck-curve' in the middle of that day. In the current quarter though the effect is negligible. Coal plants were vulnerable when daytime prices would plunge down to, or below, their fuel costs. Now, with prices well above the price of legacy coal contracts, it's much easier for a plant to run at maximum capacity, provided it has the fuel to do so. This puts AGL at a distinct advantage given its current tilt towards coal generation. ORG has been running its gas peaking plants harder but they are much less fuel efficient and are likely to need accelerated maintenance plans if they run for long periods of time.

Figure 5: FY21 AGL electricity position



Source: Morgans estimates, company data

Figure 6: FY21 ORG electricity position



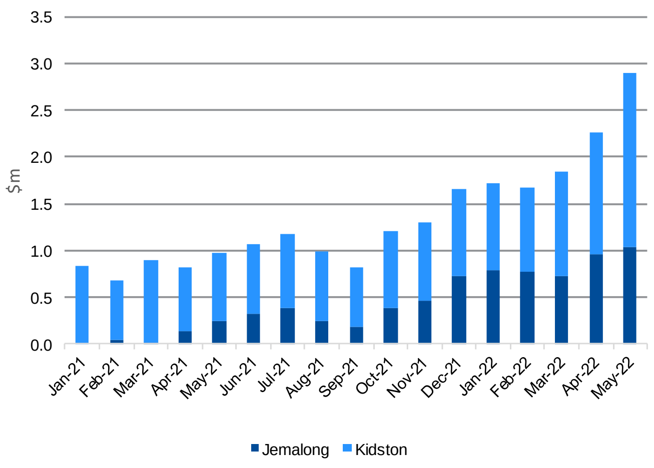
Source: Morgans estimates, company data

In the medium term, if futures prices remain elevated, ORG is also more exposed from a structural short energy position. AGL can cover a lot more of its customers' demand from its own generation whereas ORG needs to hedge using financial contracts. In FY23 ORG had hedged its position, outside of its Eraring shortfall. It's not clear how much of a shortfall it might have during FY24 which could raise the cost of supply considerably.

Is anyone benefiting from the wholesale squeeze?

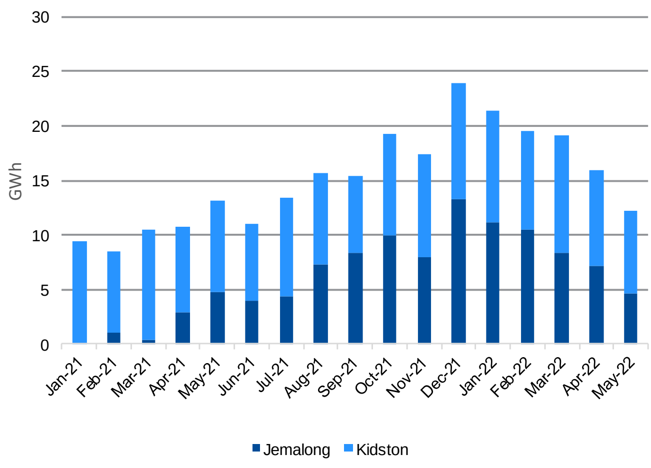
One company that is unequivocally benefiting from high spot prices is GNX. The Jemalong solar farm is fully merchant and we understand that the Kidston solar farm can participate in prices above its contract with the Queensland Government. Jemalong is also able to sell its LGCs into the spot market which has also rallied. Production in May is lower than last year due to the overcast conditions however the average price is multiples higher which will boost revenue significantly.

Figure 7: Estimated monthly electricity revenue



Source: Morgans estimates, AEMO

Figure 8: Estimated monthly generation



Source: Morgans estimates, AEMO

Retail markets are starting to feel the pinch

Price increases are coming quickly in NSW and QLD. The final FY23 default market offers for significantly higher than the draft numbers released in February. The major shift is a jump in the wholesale energy cost which ranges from 39% - 44% in NSW and 49% in QLD over FY22. VIC and SA are also seeing increases but not yet as severe as the two northern markets. Recent increases in electricity futures in the southern states though point to further retail tariff increases in FY24.

Figure 9: Wholesale energy costs - retail customers without controlled load

(A$ pa)	Ausgrid	Endeavour	Essential	Energex	SAPN
DMO FY22	377	476	407	375	526
Draft FY23	420	533	463	468	564
Final FY23	524	670	587	559	592
% change on draft	25%	26%	27%	19%	5%
% change on FY22	39%	41%	44%	49%	13%

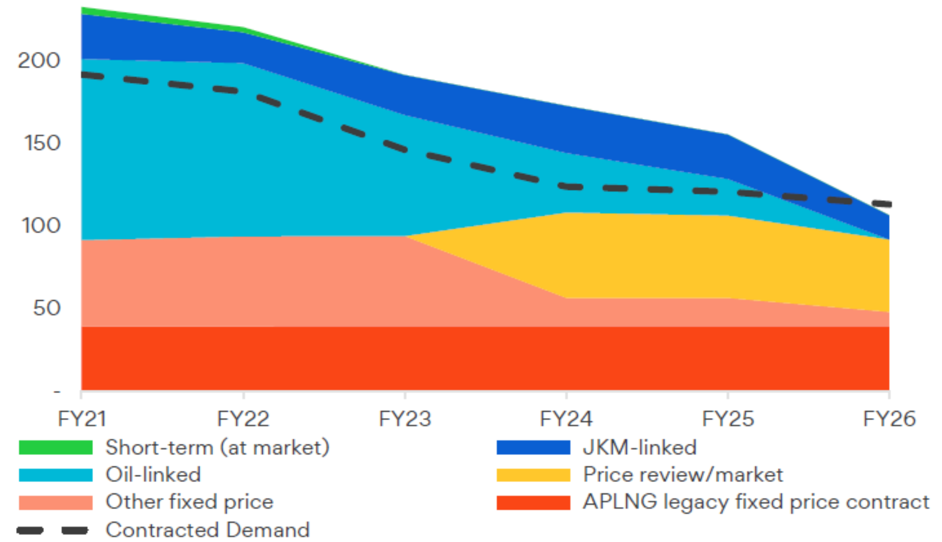
Source: AER

In a more normal market rising prices might be expected to lead to increased competition and churn among retailers. Instead the tight wholesale market has claimed a number of smaller retailers already which highlights the difficulties facing the second tier and smaller retailers and their limited ability to compete. It's possible that retail tariffs actually increase faster than the change in DMO given that a number of retailers would usually discount below the benchmark but may not be able to in FY23. This will be another tailwind favouring the larger integrated retailers, and AGL in particular because of its tighter vertical integration.

Gas also tight but FY23 supply costs are mostly hedged

Both AGL and ORG have largely fixed price gas contracts for their wholesale purchases which will limit the impact from surging spot gas prices. ORG did have some floating oil and JKM linked exposures but these have been hedged. Higher customer prices could therefore benefit gross margins for their respective gas businesses. Both companies could be exposed in the medium term as some contracts are due for repricing by FY24. ORG's contract with BPT is expected to require a pricing reset which could lead to a meaningful increase in a portion of its gas position.

Figure 10: ORG gas position outlook



Source: ORG (HY22 results)

AGL Energy

Changes to forecasts

We have brought forward some of our expectations of higher retail tariffs given the higher DMO figure into FY23 which has lifted our earnings forecast slightly (+2%). Our assumed split of earnings between Customer Markets and Integrated Energy transfers most of the earnings into Integrated Energy on the assumption that the transfer price would resemble the tight conditions in the spot market. We have also assumed a smoother build-up of earnings across FY24 – 26 rather than a sharp peak in FY24 and a decline with long term energy prices. This lowers our FY24 numbers but raises our DCF valuation to $10.08ps (+9%).

Figure 11: AGL forecast changes

Absolute ($m)	FY22	FY23	FY24	Relative (%)	FY22	FY23	FY24
Revenue	0	281	(857)	Revenue	0%	2%	-6%
U-EBITDA	(0)	22	(475)	U-EBITDA	0%	1%	-18%
U-NPAT	(0)	15	(332)	U-NPAT	0%	2%	-25%
Operating CF	(0)	80	(465)	Operating CF	0%	5%	-23%
Investing CF	0	12	(0)	Investing CF	0%	3%	0%
Net CF	0	116	(463)	Net CF	0%	17%	-73%

Source: Morgans estimates

Can a phoenix emerge from the ashes of the demerger?

If so, it will certainly be coal fired in the short to medium term. The debate around the demerger seemed to centre around the long term prospects for the coal fleet. We think what's more important is the company's mostly fixed fuel costs that will insulate it from the worst of the shortage that is driving up energy prices globally. Mike Cannon-Brookes is right to question the view that the coal plants will run for decades more but we imagine the remaining 88.7% of shareholders will expect AGL to deliver the energy that the market is desperate for right now. If the revamped board can deliver a practical and convincing plan that there is a bridge between the coal heavy business now to a Paris-aligned, low carbon future then we expect the market to respond very positively. We retain our ADD rating and see potential 12-m TSR of 19% on today's closing price.

Key risks:

- Performance of the generation fleet, including the return to service of unit 2 at Loy Yang by 1 August 2022.
- Resolution of the leadership roles on the board and the CEO.
- Realistic investment program for renewables and storage including a partnership with lower capital cost investors.
- Commodity prices (coal, gas, electricity and carbon).
- Interest rates and securing debt replacement in medium term.
- Changing market regulation, particularly while wholesale markets are tight.
- Self-insurance of the generation fleet.

Figure 12: AGL Energy – financial summary

Volumes & Margins	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Elec - Consumer (TWh)	13.6	13.8	14.6	14.7	14.6	14.6
Elec - Lrg Business (TWh)	9.8	10.6	10.2	10.2	10.2	10.2
Elec - Wholesale (TWh)	15.8	15.9	15.8	15.0	15.0	15.0
Elec - Total Demand (TWh)	**39.2**	**40.3**	**40.6**	**39.9**	**39.8**	**39.8**
C'mer Mkts GM ($/MWh)	23.1	22.0	20.6	17.8	10.9	19.7
Gas - Consumer (PJ)	57.3	58.2	55.9	56.6	57.3	57.3
Gas - Lrg Business (PJ)	16.4	15.8	19.4	18.8	18.8	18.8
Gas - Wholesale (PJ)	93.4	81.5	83.1	82.2	82.2	82.2
Total Demand (PJ)	**167.1**	**155.5**	**158.4**	**157.6**	**158.3**	**158.3**
C'mer Mkts GM ($/GJ)	3.5	3.1	3.5	2.9	3.0	3.0

Profit and Loss ($m)	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	13,246	12,160	10,942	12,427	15,078	12,608
GM - Customer Markets	827	818	854	699	536	763
GM - Integrated Energy	2,974	2,841	2,420	2,045	2,725	2,710
U-EBITDA C'mer Mrkts	295	318	337	212	49	266
U-EBITDA IE	2,222	2,076	1,630	1,345	2,098	2,243
U-EBITDA Other	(232)	(324)	(301)	(278)	(275)	(281)
U-EBITDA	**2,285**	**2,070**	**1,666**	**1,279**	**1,872**	**2,227**
D&A	(625)	(753)	(707)	(705)	(626)	(574)
U-EBIT	**1,660**	**1,317**	**959**	**574**	**1,246**	**1,653**
Net finance costs	(193)	(179)	(224)	(241)	(255)	(254)
Underlying NPBT	1,467	1,138	735	333	991	1,400
Tax	(427)	(322)	(199)	(96)	(297)	(420)
Underlying NPAT	**1,040**	**816**	**536**	**237**	**694**	**980**
Adjustments	(135)	199	(2,594)	365	-	-
Statutory NPAT	**905**	**1,015**	**(2,058)**	**602**	**694**	**980**
Nr of shares (m)	656	623	623	653	653	653
EPS (cps)	158.6	127.5	86.0	37.3	106.3	150.1
DPS (cps)	119	98	75	21	72	105
Payout ratio	75%	77%	87%	57%	68%	70%

Cash flows ($m)	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
EBITDA	2,285	2,070	1,666	1,279	1,872	2,227
Non-cash adjustments	(299)	427	(205)	29	-	-
Gross operating CF	1,986	2,497	1,461	1,308	1,872	2,227
Net finance costs paid	(124)	(108)	(97)	(99)	(118)	(115)
Tax paid	(263)	(233)	(114)	(115)	(123)	(540)
Operating Cash Flow	**1,599**	**2,156**	**1,250**	**1,094**	**1,632**	**1,573**
PPE capital investment	(909)	(758)	(695)	(701)	(673)	(489)
Acquisitions	-	(48)	(183)	95	-	-
Sales / restructure	67	(11)	(3)	(358)	230	-
Other investing cash flow	(62)	(62)	(56)	-	-	-
Investing Cash Flow	**(904)**	**(879)**	**(937)**	**(964)**	**(443)**	**(489)**
Debt drawdowns	508	1,637	3,006	1,125	-	-
Debt repaid	(772)	(1,543)	(2,794)	(1,232)	(213)	(31)
Share buybacks	(5)	(627)	(5)	(1)	-	-
Dividends paid	(774)	(719)	(573)	(315)	(167)	(884)
New shares issued	-	-	-	315	-	-
Financing Cash Flow	**(1,043)**	**(1,252)**	**(366)**	**(108)**	**(380)**	**(915)**
Free Cash Flow	**695**	**1,277**	**313**	**130**	**1,189**	**1,084**
Net Cash Flow	**(348)**	**25**	**(53)**	**22**	**809**	**169**

Rating			ADD
Share price	8.72	Valuation	10.08
		potential capital return	16%
		12-m dividend yield	3%
		12-m potential TSR	19%

Valuation	($m)	$ps
Customer Markets	5,034	7.71
Wholesale Gas	1,640	2.51
Peaking generation & renewables	868	1.33
CM Share of overheads	(1,035)	(1.58)
CM Expected net debt	(1,873)	(2.87)
Liddell	288	0.44
Bayswater	2,123	3.25
Loy Yang A	528	0.81
Torrens Island	(103)	(0.16)
Legacy PPAs	399	0.61
Wholesale electricity	(130)	(0.20)
IE Share of overheads	(690)	(1.06)
IE Expected net debt	(468)	(0.72)
Total AGL Energy	**6,581**	**10.08**

Key metrics	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
EBITDA margin	17%	17%	15%	10%	12%	18%
NPAT margin	8%	7%	5%	2%	5%	8%
Op CF / EBITDA	0.70	1.04	0.75	0.86	0.87	0.71
FCF yield	12%	22%	5%	2%	21%	19%
Net debt / EBITDA	1.20	1.43	1.86	2.28	1.01	0.76
ROE	12%	10%	10%	4%	10%	14%
EV / EBITDA	3.7	4.2	5.3	6.7	4.0	3.3
P / E	5.5	6.8	10.1	23.4	8.2	5.8

Balance sheet ($m)	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Cash & equivalents	115	141	88	110	919	1,088
Trade receivables	1,703	1,571	1,889	1,655	1,655	1,655
Other	1,578	1,410	1,698	2,144	2,144	2,144
Total Current Assets	**3,396**	**3,122**	**3,675**	**3,909**	**4,718**	**4,887**
PPE	6,588	6,640	6,283	6,293	6,110	6,025
Intangibles	3,740	3,786	3,302	3,276	3,276	3,276
Deferred Tax	261	252	971	641	641	641
Other	836	910	1,219	1,389	1,389	1,389
Total Non-Current Assets	**11,425**	**11,588**	**11,775**	**11,599**	**11,416**	**11,331**
Trade payables	1,556	1,351	1,838	1,550	1,550	1,550
Current portion of IBL	102	38	305	213	31	32
Other	888	999	832	1,043	1,218	1,098
Total Current Liabilities	**2,546**	**2,388**	**2,975**	**2,806**	**2,799**	**2,680**
IBL	2,748	3,070	2,880	2,807	2,776	2,744
Provisions	481	424	3,301	2,916	3,035	3,156
Deferred Tax	97	273	330	285	285	285
Other	511	480	458	529	548	566
Total NCL	**3,837**	**4,247**	**6,969**	**6,537**	**6,643**	**6,752**
Issued capital	6,223	5,603	5,601	5,916	5,916	5,916
Reserves	(33)	(80)	20	68	68	68
Retained earnings	2,248	2,552	(115)	189	716	812
Total Equity	**8,438**	**8,075**	**5,506**	**6,173**	**6,700**	**6,796**

Source: Morgans estimates, company data

Origin Energy

Changes to forecasts

We have reduced our Energy Market forecasts considerably across FY22-24 given the uncertainty in the coal position and the potential impact on earnings. Our forecast for Eraring's generation output has increased as we had allowed for much reduced run hours due to high coal prices reducing the amount of economic periods for the plant to run. After confirming that domestic coal pricing is theoretically available at a significant discount to export coal benchmarks we have instead set our expected generation output at levels reflecting the ongoing tightness in supply. We also are allowing for higher costs of hedging to account for the shortfall in the energy position.

Additionally, we also reduce our expectation for capital management. We had seen potential for further opportunities beyond the current buy-back given APLNG's strong cash flow. However given the uncertainty facing the business we have reduced our expectations for special dividends above the company's typical 30% – 50% free cash flow target payout ratio.

We also note the high uncertainty in the FY23 outlook. If spot prices do not ease during 1HFY23 or become sharply tighter as winter intensifies then there could be downside to our numbers.

Figure 13: ORG forecast changes

Change	FY22	FY23	FY24	FY22 (%)	FY23 (%)	FY24 (%)
Total electricity sales (GWh)	-	-	-	0%	0%	0%
Coal generation (GWh)	-	2,642	1,659	0%	41%	19%
Total gas sales (GJ)	-	-	-	0%	0%	0%
Underlying EBITDA Energy Markets ($m	(177)	(153)	(212)	-35%	-29%	-21%
Underlying EBITDA Integrated Gas ($m)	95	18	(0)	6%	1%	0%
Underlying EBITDA Corporate ($m)	-	-	-	0%	0%	0%
Total Underlying EBITDA ($m)	(82)	(136)	(212)	-4%	-5%	-8%
Underlying Net Profit ($m)	(112)	(102)	(80)	-27%	-20%	-12%
Operating cash flow ($m)	(177)	(194)	(178)	-270%	-58%	-31%
Investing cash flow ($m)	-	-	-	0%	0%	0%
Financing cash flow ($m)	413	483	351	60%	264%	463%

Source: Morgans estimates

Too much uncertainty to jump in yet

Despite the sharp drop in ORG's share price and the tailwinds from APLNG, we think there is too much uncertainty in the Energy Markets position to recommend buying the stock yet. If the company can somehow navigate its spot exposure over the next several months then there is the possibility that it could retrace towards previous prices but this is not our base case expectation. We retain our HOLD rating with a reduced price target of $6.17ps (-8%).

Key risks:

- Performance of the generation fleet.
- Coal availability for Eraring.
- Commodity prices (coal, oil, LNG, gas, electricity and carbon).
- Interest rates and tax regimes.
- Changing market regulation, particularly while wholesale markets are tight.

Figure 14: Origin Energy – financial summary

Sales and margin	FY20A	FY21A	FY22E	FY23E	FY24E
Elec sales - NSW (GWh)	16,500	16,500	16,052	14,872	16,135
Elec sales - VIC (GWh)	6,200	6,000	7,767	7,785	7,785
Elec sales - QLD (GWh)	7,700	8,000	8,106	8,259	8,259
Elec sales - SA (GWh)	3,000	3,100	3,153	3,205	3,205
Total elec sales (GWh)	**33,400**	**33,600**	**35,077**	**34,122**	**35,385**
Coal generation (GWh)	13,634	13,276	10,846	9,114	10,236
Gas generation (GWh)	5,805	4,072	5,940	6,060	5,399
Renewables (GWh)	3,027	3,081	2,258	2,258	2,260
Net purchases (GWh)	10,934	13,171	16,033	16,690	17,490
Gas - retail demand (PJ)	44.9	48.7	48.3	48.3	48.3
Gas - C&I	158.5	147.0	134.2	134.2	134.2
Total gas sales (PJ)	**203.4**	**195.7**	**182.4**	**182.4**	**182.4**
GM electricity ($ / MWh)	35.60	26.73	9.47	14.27	23.39
GM electricity ($m)	1,189	898	332	487	828
GM gas ($ / GJ)	3.67	2.29	2.16	1.96	2.55
GM gas ($m)	746	448	395	357	465

Profit and loss ($m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	13,157	12,097	12,270	12,915	13,247
Energy Markets EBITDA	1,461	991	327	384	802
Integrated Gas EBITDA	1,741	1,135	1,789	2,159	1,815
Corporate EBITDA	(59)	(78)	(78)	(80)	(82)
EBITDA - total	**3,143**	**2,048**	**2,038**	**2,464**	**2,535**
D&A	(511)	(550)	(508)	(709)	(678)
ITDA of subsidiaries	(1,301)	(958)	(1,131)	(1,035)	(925)
Operating EBIT	**1,331**	**540**	**399**	**719**	**932**
Net Interest Expense	(126)	(133)	(134)	(139)	(131)
Profit Before Tax	**1,205**	**407**	**265**	**580**	**801**
Tax (ordinary)	(177)	(87)	46	(157)	(227)
NCI	(3)	(2)	(3)	(3)	(3)
Underlying Net Profit	**1,025**	**318**	**308**	**419**	**570**
Excluded items	(940)	(2,609)	(399)	-	-
Statutory Net Profit	**85**	**(2,291)**	**(91)**	**419**	**570**
Underlying EPS	**0.58**	**0.18**	**0.18**	**0.24**	**0.33**

Cashflows ($m)	FY20A	FY21A	FY22E	FY23E	FY24E
EBITDA	3,143	2,048	2,038	2,464	2,535
Non cash items	(1,977)	(1,115)	(2,147)	(2,247)	(1,903)
Gross operating CF	1,166	933	(110)	216	632
Tax	(215)	31	(2)	(75)	(227)
Net operating CF	**951**	**964**	**(112)**	**141**	**405**
PP&E capex	(665)	(500)	(728)	(470)	(515)
Sales / (Investments)	234	7	2,006	-	-
Exploration	-	-	-	-	-
Investing CF	**(431)**	**(493)**	**1,279**	**(470)**	**(515)**
Debt drawn / (repaid)	(1,173)	(1,273)	(1,027)	(266)	-
Net interest (ex APLNG)	(292)	(231)	(198)	(140)	(132)
APLNG net CF	1,275	709	1,426	1,102	880
Dividends paid	(550)	(442)	(355)	(272)	(322)
Other	56	-	(125)	(125)	-
Financing CF	**(684)**	**(1,237)**	**(278)**	**300**	**427**
Net CF (incl FX)	**(164)**	**(766)**	**889**	**(29)**	**316**

Projected returns		
12m Target Price	$	6.17
Share Price	$	5.91
Upside/(downside)		4.3%
12m Yield		2.6%
12m potential TSR		6.9%

Valuation as at Dec 22		
APLNG - DCF of FCFF @ 8.9% WACC ($m) less APLNG net debt	$	5,495
Energy Markets - DCF of FCFE @ 7.75% Re ($m) plus cash at val date	$	3,484
Share of Octopus Energy ($m)	$	866
Exploration Assets - multiples on reserves ($m)	$	733
DCF Total ($m)	**$**	**10,579**
Shares issued (m)		1,716
Value per share	**$**	**6.17**

Key multiples & div	FY20A	FY21A	FY22E	FY23E	FY24E
U-EBITDA margin	24%	17%	17%	19%	19%
U-NP margin	8%	3%	3%	3%	4%
EV / EBITDA	4.1	6.1	6.0	4.1	4.0
P / E	10.3	33.2	34.3	25.2	18.6
FCF yield	15%	9%	24%	6%	6%
FCF payout ratio	29%	36%	16%	39%	49%
Dividends (cps)	25	20	23	14	18
Dividend yield	4.2%	3.4%	3.8%	2.4%	3.1%

Growth metrics	FY20A	FY21A	FY22E	FY23E	FY24E
Elec energy sold	-8%	1%	4%	-3%	4%
Gas sold	-8%	-4%	-7%	0%	0%
Revenue growth	-11%	-8%	1%	5%	3%
U-EBITDA growth	-3%	-35%	-1%	21%	3%
U-NPAT growth	0%	-69%	-3%	36%	36%

Gearing	FY20A	FY21A	FY22E	FY23E	FY24E
Net Debt ($m)	5,612	4,756	2,715	2,398	2,001
Net Debt / ND+E	31%	33%	22%	19%	16%
Net Debt / Adj EBITDA	2.24	2.95	2.04	1.75	1.28

Balance sheet ($m)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	1,240	472	1,361	1,333	1,649
Receivables	1,959	2,298	1,863	1,863	1,863
Inventories	164	113	135	135	135
Intangibles	5,420	4,374	4,684	4,764	4,764
Derivatives	528	366	912	912	912
ORG share of MRCPS	2,225	1,465	165	138	113
Equity acc'ted inv'tment	7,360	6,952	6,127	6,184	6,227
Exploration assets	190	245	307	387	452
PPE	4,331	3,291	3,180	2,781	2,553
Other	1,676	1,461	2,156	2,073	2,073
Total Assets	**25,093**	**21,037**	**20,890**	**20,570**	**20,741**
Payables	2,136	2,576	1,936	1,936	1,936
Debt	6,852	5,228	4,076	3,730	3,650
Derivatives	749	741	1,608	1,608	1,608
Other liabilities	2,655	2,677	3,364	3,364	3,364
Total Liabilities	**12,392**	**11,222**	**10,984**	**10,638**	**10,558**
Net Assets	**12,701**	**9,815**	**9,906**	**9,932**	**10,183**
Ave shares (m)	**1,757**	**1,759**	**1,747**	**1,726**	**1,716**

Source: Morgans estimates, company data

Genex Power

Changes to forecasts

We have increased our earnings forecast for FY22 and FY23 on stronger prices for the solar generation. We expect generation volumes to be weaker given the overcast weather conditions but nevertheless strong pricing more than offsets that impact. We also marginally increase our FY24 expectations on a slightly stronger LGC curve.

Figure 15: GNX forecast changes

Absolute changes	FY22	FY23	FY24	Relative changes (%)	FY22	FY23	FY24
Production (GWh)	(10.3)	(20.7)	-	Production	-5%	-9%	0%
Revenue ($m)	1.7	4.8	0.4	Revenue	8%	15%	1%
EBITDA ($m)	1.7	4.8	0.4	EBITDA	16%	28%	2%
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 ($m)	1.2	3.5	0.3	Net Profit After Tax	18%	65%	3%
Capital Expenditure ($m)	-	-	-	Capital Expenditure	0%	0%	0%
Debt ($m)	-	-	-	Debt	0%	0%	0%
Cash balance ($m)	1.3	4.6	5.0	Cash balance	4%	15%	16%

Source: Morgans estimates

Kidston Hydro won't happen overnight but it will happen

During our recent site visit we saw the construction activity on the main access tunnel which was just short of 500m complete at the time (of an expected 1.5km). The project team seems to be executing well with both major contractors (McConnell Dowell and John Holland) integrated across the organisation. Significant progress is expected to be made on the subsurface construction in the next year but the project is still in its early stages. We expect that if GNX can continue to keep the project on track, and as major milestones are reached, that the share price will rerate towards our price target. GNX is one of the few listed renewable energy and storage focused opportunities on the ASX. We maintain our ADD rating and 31cps price target.

Key risks:

- Construction of the Kidston Hydro and Bouldercombe battery projects.
- Solar production at Kidston and Jemalong.
- Spot electricity and LGC prices at Jemalong.
- Interest rates and tax regimes.
- Changing energy market regulations.
- Continued progress towards development of the Kidston windfarm.

Figure 16: Genex Power – 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)	48.0	36.3	48.9	18.2	10.2	9.7	8.9
Price-to-earnings (x)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	22	7	7	7
Dividend yield (%)	-	-	-	-	-	-	-	-	5.1	4.8	5.0
Free cashflow yield (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	44.9	45.0	47.0
Net Debt / ND+E (%)	85.6	92.2	91.5	51.8	66.6	76.5	81.3	70.4	67.6	64.5	61.0

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	23.6	37.2	33.9	58.4	126.0	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)	11.9	21.9	19.5	61.6	104.6	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)	1.9	10.9	5.5	39.4	76.0	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)	(6.3)	(2.9)	(12.8)	17.5	52.3	53.0	56.9
Tax	-	-	-	-	0.6	1.0	3.8	(5.3)	(15.6)	(15.9)	(17.0)
Statutory Net Profit	(4.4)	(5.5)	(10.5)	(18.7)	(5.7)	(1.9)	(9.0)	12.2	36.7	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)	(0.7)	(1.9)	(9.0)	12.2	36.7	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)	11.9	21.9	19.5	61.6	104.6	104.1	106.8
WC & non-cash adjustments	(0.5)	(0.8)	(2.5)	7.5	1.2	0.1	(0.3)	0.1	(0.6)	0.2	(0.0)
Gross operating cashflow	(2.2)	4.8	(0.8)	0.7	13.1	22.1	19.3	61.7	104.0	104.4	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	-	-	-	-	(0.3)	(2.2)	(1.8)	(1.9)	(9.6)	(10.9)	(11.4)
Operating cashflow	**(6.1)**	**0.5**	**(4.1)**	**(4.8)**	**4.6**	**6.1**	**(0.9)**	**37.9**	**70.7**	**70.9**	**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	-	-	-	-	-	-	-	-	(13.5)	(12.6)	(13.2)
Financing cashflow	**88.3**	**4.3**	**104.1**	**138.2**	**313.8**	**200.3**	**157.0**	**249.7**	**(52.5)**	**(52.7)**	**(54.3)**
Net cashflow	**(0.7)**	**(7.4)**	**62.0**	**(20.0)**	**37.2**	**(24.3)**	**(1.3)**	**5.1**	**18.2**	**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	80.4	56.1	54.9	60.0	78.2	96.4	116.1
Receivables	0.9	2.0	3.5	1.2	1.2	1.1	2.0	2.0	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**	**660.5**	**858.9**	**1,007.6**	**1,309.5**	**1,293.0**	**1,277.5**	**1,263.0**
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**	**183.6**	**181.7**	**172.7**	**361.0**	**384.3**	**408.7**	**435.4**
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

Queensland

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan Partners	+61 7 3152 0600
Brisbane: North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Holland Park	+61 7 3151 8300
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Newstead	+61 7 3151 4151
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Springfield-Ipswich	+61 7 3202 3995
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba Chalk Capital	+61 7 4639 1277
Townsville	+61 7 4725 5787

Northern Territory

Darwin	+61 8 8981 9555

New South Wales

Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
Sydney: Grosvenor Place	+61 2 8215 5000
Sydney: Reynolds Securities	+61 2 9373 4452
Sydney: Currency House	+61 2 8216 5111
Armidale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
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

Australian Capital Territory

Canberra	+61 2 6232 4999

Victoria

Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Hawthorn	+61 3 9900 4350
South Yarra	+61 3 9006 9955
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

Western Australia

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

South Australia

Adelaide	+61 8 8464 5000
Stockbroking, Corporate Advice, Wealth Management	
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

Tasmania

Hobart	+61 3 6236 9000

Disclosure of interest

Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

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.

Recommendation structure

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

Research team

For analyst qualifications and experience, refer to our website at morgans.com.au/research-and-markets/our-research-team

Research coverage policy

For an overview on the stock selection process, refer to our website at morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy

Research independence statement

morgans.com.au/Research-Independence-Statement

Stocks under coverage

For a full list of stocks under coverage, refer to our website at morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage and morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage

If you no longer wish to receive Morgans publications please contact your local Morgans branch or write to GPO Box 202 Brisbane QLD 4001 and include your account details.

morgans.com.au