July 26, 2022

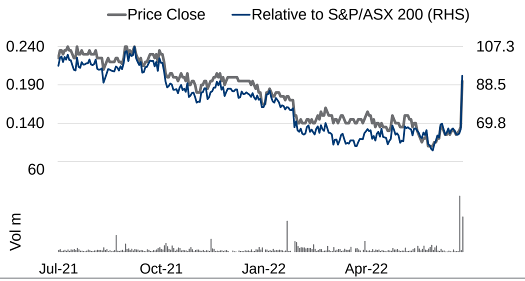
ADD (no change)

Stock code:	GNX AU
Price:	A$0.195
12-month target price:	A$0.30
Previous target price:	A$0.31
Up/downside to target price:	53.8%
Dividend yield:	0.0%
12-month TSR*:	53.8%
Market cap:	A$270.1m
Average daily turnover:	A$0.34m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	77.3	34.5	-15.2	-18.6
Rel ASX/S&P200	74.1	43.7	-7	-18.2



Source: Bloomberg

Financial summary

	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (A$m)	10.63	25.84	34.62	37.73
EBITDA Norm (A$m)	-6.82	14.12	19.60	22.35
Net Profit (A$m)	-10.40	0.91	-5.28	-6.84
EPS Norm (A$)	-0.014	0.001	-0.004	-0.007
EPS Growth Norm (%)	-75%		-615%	88%
P/E Norm (x)	NA	270.0	NA	NA
DPS (A$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDA (x)	NA	43.09	44.19	45.77
Gearing (Net Debt/EBITDA)	-21.16	25.79	30.06	33.38

Source: Company data, Morgans estimates

Related research

[Sector report - 07 Jul 2022](#)

[Sector report - 02 Jun 2022](#)

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

– Genex Power

Genex Power

Don't skip value for a quick deal

- GNX has received an indicative all cash takeover offer at 23cps from a partnership between a Skip Capital fund and Stonepeak Partners.
- The offer comes in the midst of record revenues achieved in FY22, operating cash flow and early progress on constructing Kidston Hydro.
- We think the 23cps materially undervalues the company given our confidence in the hydro project being delivered on budget and the medium-term outlook for the company. We retain our ADD rating and adjust our target price to 30cps.

4Q in line with expectations

- GNX achieved record revenues in FY22 of $26.1m (+1% on our forecast) and positive operating cashflow of $4m (-2% on our forecast) driven by strong electricity and LGC prices.
- We have extended our expected operation date of BBP until FY24 and will update our other forecasts at the full year result. This has lowered our valuation to 30cps.

23cps bid looks opportunistic to us

- While the bid from Skip and Stonepeak is much higher than Friday's closing price, we think investors are leaving money on the table by selling now.
- Kidston Hydro is the key value driver with large and stable revenues from the long term (30 years structured into three ten-year periods) offtake agreement with EnergyAustralia once it becomes operational in FY25. The revenue is not dependent upon energy prices or on how much the plant is utilised. The major risk factor is construction which is mitigated by the fixed price engineering contract.
- We forecast FY25 EBITDA of $68.7m which includes the two solar farms (operational), K2H (post construction) and BBP (post construction). We note that Tilt was acquired for 28x EV/EBITDA in 2021, and if we discount that back to FY23 terms then we would arrive at an estimated equity valuation of $1,040m. While that transaction was closed when interest rates were much lower, and that benchmark exceeds our own DCF valuation, clearly the bid is applying a heavy discount to the potential value of the company post construction.

Short-term opportunity for traders; value investors should hold out for more

- GNX is trading below the offer price (-11% at 11AM) which is conditional on a due diligence period. Skip Capital has been invested in GNX for some time though so we'd be surprised if anything were uncovered to reduce the offer price. We are confident that the gap will close and provides a short-term trading opportunity.
- We continue to see material upside beyond the offer price as GNX reaches significant construction milestones in the next 12 months. We maintain our ADD rating on our updated 12-month target price of 30cps. We think the board and shareholders can and should expect a higher price from a potential acquirer.

Never take the first offer

- As we saw with the Infigen takeover, it's quite possible that there will be other interested parties given the unique nature of GNX's assets. The emergence of an alternative bidder could drive the price significantly higher.
- Tilt was the subject of multiple takeover offers at lower prices before the final successful bid by PowAR and Mercury. Should the GNX board decline the bid, we expect there may be short-term weakness in the share price but we're confident that in a similar way to Tilt, a more appropriate takeover offer would be made in the future as the growth pipeline is de-risked.

Risks

- Resolution of the takeover offer.
- 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

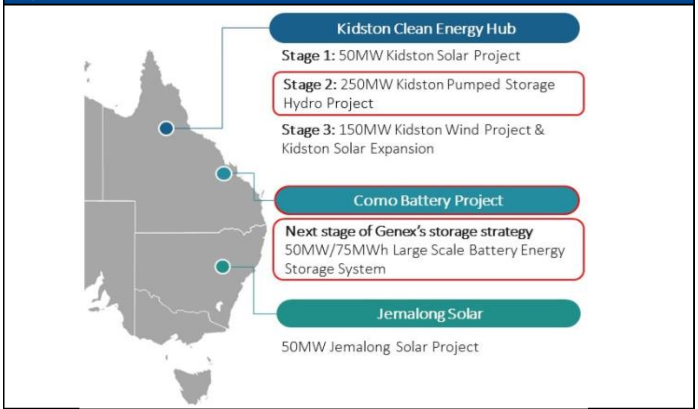
as at July 26, 2022

Rating	**ADD**	Price (A$):	0.195
Market cap (A$m):	270.1	12-month target price (A$):	0.30
Shares outstanding (m):	401.8	Up/downside to target price (%):	53.8
Free float (%):	69.3	Dividend yield (%):	0.0

Company description

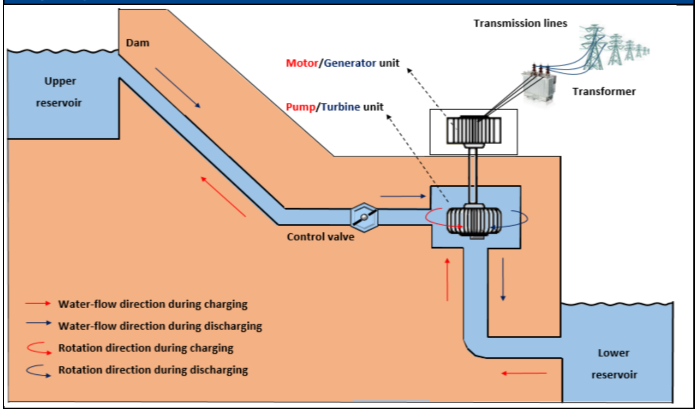
GNX is redeveloping an old gold mine in North Queensland into a 250MW energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has a second 50MW solar farm operating at Jemalong in Central NSW as well as plans to expand with a 50MW/100MWh battery in Central Queensland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

Projects overview



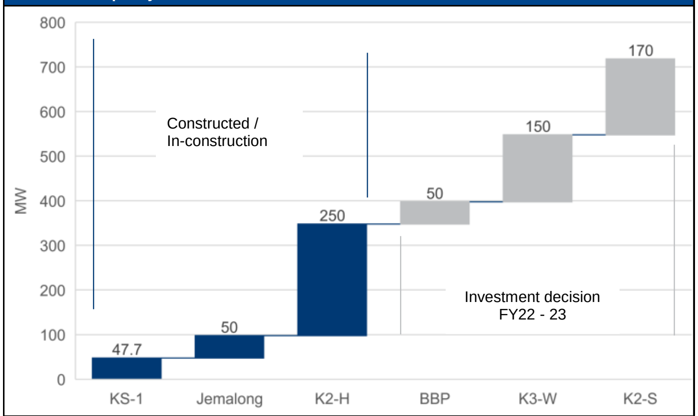
SOURCE: GNX

Pumped Hydro overview



SOURCE: Journal of Power Technologies (2017)

Generation Capacity



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:

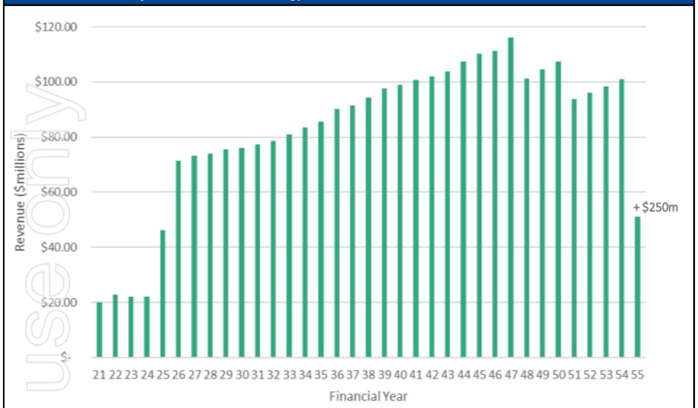
- Construction and comissioning risk of the K2-H pumped hydro, Bouldercombe battery and K3-W wind projects.
- Price and volume risk at Jemalong and volume risk at KS-1.
- Electricity network congestion for Jemalong and future wind / solar from an excess of renewable generation.
- Non-renewal of K2-H 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

Project timelines

SOURCE: GNX

Forecast revenue (K2-H, KS1, Jemalong)



SOURCE: GNX

Figure 1: Financial summary (share price as at yesterday's close)

Production & Price	FY21A	FY22E	FY23E	FY24E	FY25E
Solar generation (GWh)	150.2	224.1	227.4	247.6	245.7
Wind generation (GWh)	-	-	-	-	-
Hydro capacity (MW)	-	-	-	-	125
Battery capcity (MW)	-	-	-	50	50
Ave generation price ($/MWh)	87.4	115.3	152.2	109.0	96.3
Ave storage price ($/MWh)	-	-	-	25.3	23.8

Valuation	DCF ($m)	EV x ($m/MW)	EV ($m)	Net debt ($m)	Equity ($m)	Blended ($m)	Blended (cps)
Solar	11.0	2.40	234.5	(167.5)	66.9	38.9	2.7
Hydro	224.5	3.30	825.0	(565.9)	259.1	241.8	17.0
Battery	88.9	1.20	60.0	(11.4)	48.6	68.8	4.8
Wind	101.2	0.38	57.0	-	57.0	79.1	5.6
Total	**425.6**		**1,176.5**	**(744.8)**	**431.7**	**428.6**	**30.0**

Profit and loss ($m)	FY21A	FY22E	FY23E	FY24E	FY25E
Net Revenue	10.6	25.8	34.6	37.7	59.6
Other inc	11.0	2.5	0.4	0.4	20.4
Expenses	(28.5)	(14.2)	(15.4)	(15.8)	(11.2)
EBITDA	(6.8)	14.1	19.6	22.3	68.7
D&A	(6.3)	(10.0)	(11.1)	(14.0)	(22.2)
Operating EBIT	(13.1)	4.1	8.5	8.3	46.5
Net Interest Expense	(5.7)	(8.2)	(13.8)	(18.3)	(21.9)
Profit Before Tax	(18.7)	(4.1)	(5.3)	(9.9)	24.6
Tax	-	-	-	3.1	(7.3)
Net Profit	(18.7)	(4.1)	(5.3)	(6.8)	17.3
EPS (cps)	(3.6)	(0.3)	(0.4)	(0.5)	1.1
DPS (cps)	-	-	-	-	-

Cashflows ($m)	FY21A	FY22E	FY23E	FY24E	FY25E
EBITDA	(6.8)	14.1	19.6	22.3	68.7
WC & non-cash adjustments	7.5	(2.8)	0.1	0.2	(0.2)
Gross operating cashflow	0.7	11.4	19.7	22.6	68.5
Net interest paid	(5.6)	(7.3)	(13.8)	(18.3)	(21.9)
Cash paid for Tax	-	-	-	-	(3.0)
Operating cashflow	**(4.8)**	**4.1**	**5.9**	**4.3**	**43.5**
Solar - growth capital	(54.0)	-	-	-	-
Hydro - growth capital	(99.1)	(256.4)	(185.7)	(161.3)	(15.5)
Battery - growth capital	-	(15.0)	(45.0)	-	-
Wind - growth capital	-	-	-	-	(267.0)
Sustaining capital & other	(0.3)	(9.3)	-	-	-
Investing cashflow	**(153.4)**	**(280.7)**	**(230.7)**	**(161.3)**	**(282.5)**
Equity issuance/(buy-backs)	133.2	50.0	-	-	134.5
Debt drawdown/(repaid)	5.0	263.8	200.3	156.8	113.6
Dividends paid	-	-	-	-	(1.9)
Financing cashflow	**138.2**	**313.8**	**200.3**	**156.8**	**246.2**
Net cashflow	**(20.0)**	**37.1**	**(24.5)**	**(0.2)**	**7.2**

Key Multiples	FY21A	FY22E	FY23E	FY24E	FY25E
EV/EBITDA (x)		63.4	45.7	40.1	13.0
Price-to-earnings (x)					18.3
Dividend yield (%)	-	-	-	-	-
Free cashflow yield (%)	-57%	-100%	-81%	-57%	-86%
Net Debt / ND+E (%)	52%	66%	77%	81%	70%
Net Debt / EBITDA (x)	(21.2)	25.8	30.1	33.4	12.4
Operating CF-to-interest (x)	(0.9)	0.6	0.4	0.2	2.0

Balance Sheet	FY21A	FY22E	FY23E	FY24E	FY25E
Cash	45.4	82.7	58.2	58.0	65.3
Receivables	1.2	1.4	1.3	1.1	1.0
Inventory & prepayments	2.7	3.3	3.3	3.3	3.3
Other	-	-	-	-	-
Current Assets	**49.4**	**87.4**	**62.8**	**62.4**	**69.5**
Bank guarantees	5.0	5.1	5.1	5.1	5.1
PPE	291.9	555.7	775.3	813.4	1,077.4
Other	13.4	13.9	13.9	126.2	158.2
Non-Current Assets	**310.3**	**574.7**	**794.3**	**944.7**	**1,240.7**
Total Assets	**359.7**	**662.1**	**857.1**	**1,007.1**	**1,310.2**
Payables	11.8	9.9	9.9	9.9	9.5
Debt	7.7	10.4	15.0	11.7	38.9
Other	2.9	3.0	3.0	3.0	3.0
Current Liabilities	**22.4**	**23.2**	**27.9**	**24.6**	**51.4**
Debt	181.9	436.6	632.3	792.4	878.8
Government grant	6.9	6.6	6.6	6.6	6.6
Provisions	3.8	3.8	3.8	3.8	3.8
Other	10.4	6.6	6.6	6.6	6.6
Non-current Liabilities	**203.0**	**453.6**	**649.3**	**809.4**	**895.8**
Total Liabilities	**225.4**	**476.9**	**677.2**	**834.0**	**947.2**
Share capital	195.8	245.8	245.8	245.8	382.0
Reserves	(2.0)	3.1	3.1	3.1	43.1
Accumulated earnings	(59.5)	(63.7)	(68.9)	(75.8)	(62.1)
Equity	**134.3**	**185.2**	**179.9**	**173.1**	**362.9**
WANOS (m)	**516.0**	**1,253.2**	**1,419.8**	**1,419.8**	**1,623.6**

Source: Morgans estimates, company data

We think the multiple should be tilted towards the high end

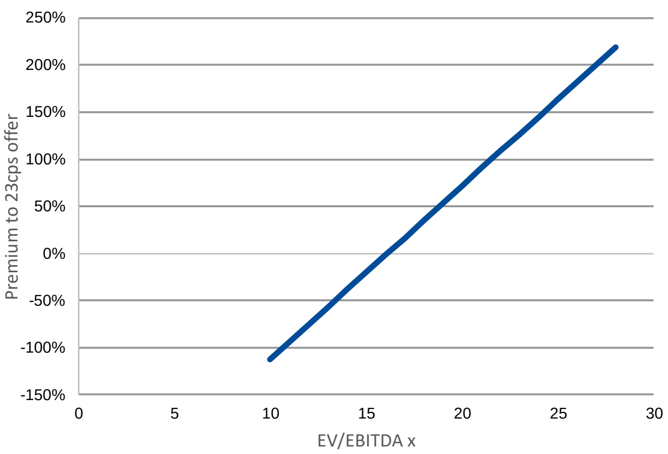
We estimate that the 23cps offer implies an FY25 EV/EBITDA multiple (post K2H and BBP construction) of 16.2x after allowing for a discount to FY23 terms. This would put GNX at slightly above the average of our listed peer set. However, this ignores the value that could be unlocked from the Kidston Windfarm project. We also note that a number of those companies also have energy retail exposures that GNX doesn't face. High wholesale prices are a boon for GNX, not so much a risk to be mitigated. We think the Tilt acquisition (28x EV/EBITDA) offers a better comparison which was a pure play renewables company with a growth pipeline. The Tilt deal may have set a high water mark given interest rates have moved upwards. We still think a higher-than-average multiple is appropriate given the unique nature of K2H and the very attractively priced and long duration PPA on the Kidston Solar farm.

Figure 2: Offer implied post-construction multiple

	FY25F EBITDA ($m)	EV/EBITDA (x)	EV ($m)	Net debt ($m)	Discounted Equity ($m)
Solar	17.0	16.2	275	-	236
Kidston	41.9	16.2	677	-	581
BBP	10.8	16.2	175	-	150
Net debt				(746)	(640)
Total					327
Offer					327

Source: Morgans estimates

Figure 3: Discounted FY25 EV/EBITDA equity valuation vs bid price



Source: Morgans estimates

Figure 4: Listed renewable energy company multiples

Symbol	Company	Market Capitalisation (A$m)	EV/EBITDA
CEN-NZE	Contact Energy	5,160	10.2
EIX-USA	Edison International	33,494	14.6
GNE-ASX	Genesis Energy	2,709	12.1
UKW-LON	Greencoat UK Wind	6,130	11.4
IBE-MCE	Iberdrola	91,389	9.0
9513-TKS	J-POWER	4,293	10.5
MCY-ASX	Mercury Energy	7,354	12.6
MEZ-ASX	Meridian Energy	11,160	15.5
NEE-NYS	NextEra Energy	225,861	30.2
NEP-USA	NextEra Energy Partners	20,505	12.3
TRIG-LON	Renewables Infrastructure Group	5,833	15.9
RNW-TSE	Transalta Renewables	5,096	15.9
	Average		14.2
	Median		12.5

Source: Morgans estimates, Factset

Queensland		New South Wales		Victoria	
Brisbane	+61 7 3334 4888	Sydney	+61 2 9043 7900	Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677	Sydney: Grosvenor Place	+61 2 8215 5000	Brighton	+61 3 9519 3555
Brisbane: Tynan Partners	+61 7 3152 0600	Sydney: Reynolds Securities	+61 2 9373 4452	Domain	+61 3 9066 3200
Brisbane: North Quay	+61 7 3245 5466	Sydney: Currency House	+61 2 8216 5111	Geelong	+61 3 5222 5128
Bundaberg	+61 7 4153 1050	Armidale	+61 2 6770 3300	Hawthorn	+61 3 9900 4350
Cairns	+61 7 4222 0555	Ballina	+61 2 6686 4144	South Yarra	+61 3 9006 9955
Gladstone	+61 7 4972 8000	Balmain	+61 2 8755 3333	Southbank	+61 3 9037 9444
Gold Coast	+61 7 5581 5777	Bowral	+61 2 4851 5555	Traralgon	+61 3 5176 6055
Holland Park	+61 7 3151 8300	Chatswood	+61 2 8116 1700	Warrnambool	+61 3 5559 1500
Kedron	+61 7 3350 9000	Coffs Harbour	+61 2 6651 5700		
Mackay	+61 7 4957 3033	Gosford	+61 2 4325 0884	**Western Australia**	
Milton	+61 7 3114 8600	Hurstville	+61 2 8215 5079	West Perth	+61 8 6160 8700
Newstead	+61 7 3151 4151	Merimbula	+61 2 6495 2869	Stockbroking, Corporate Advice, Wealth Management	
Noosa	+61 7 5449 9511	Mona Vale	+61 2 9998 4200	Perth	+61 8 6462 1999
Redcliffe	+61 7 3897 3999	Neutral Bay	+61 2 8969 7500		
Rockhampton	+61 7 4922 5855	Newcastle	+61 2 4926 4044	**South Australia**	
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Spring Hill	+61 7 3833 9333	Port Macquarie	+61 2 6583 1735	Stockbroking, Corporate Advice, Wealth Management	
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Toowoomba Chalk Capital	+61 7 4639 1277	Wollongong	+61 2 4227 3022	Norwood	+61 8 8461 2800
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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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