

January 30, 2023

EMERGING COMPANY
SPECULATIVE BUY (no change)

Stock code:	GNX AU
Price:	A\$0.14
12-month target price:	A\$0.27
Previous target price:	A\$0.27
Up/downside to target price:	92.9%
Dividend yield:	0.0%
12-month TSR*:	92.9%
Market cap:	A\$193.9m
Average daily turnover:	A\$0.24m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-12.5	-30	-15.2	-32.6
Rel ASX/S&P200	-17.9	-39.5	-24.8	-38.3



Source: Bloomberg

Financial summary

	Jun-22A	Jun-23F	Jun-24F	Jun-25F
Revenue (A\$m)	24.80	26.29	36.03	60.28
EBITDA Norm (A\$m)	13.82	11.27	20.52	69.34
Net Profit (A\$m)	19.73	-12.71	-9.73	18.73
EPS Norm (A\$)	0.017	-0.009	-0.009	0.017
EPS Growth Norm (%)		-155%	-5%	
P/E Norm (x)	8.46	NA	NA	8.36
DPS (A\$)	0.000	0.000	0.000	0.001
Dividend Yield (%)	0.00%	0.00%	0.00%	0.77%
EV/EBITDA (x)	35.24	74.20	47.72	16.06
Gearing (Net Debt/EBITDA)	23.35	56.98	38.27	12.86

Source: Company data, Morgans estimates

Related research
[Sector report - 04 Jan 2023](#)
[GNX \(HOLD - TP A\\$0.20\) - 09 Nov 2022](#)
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Analyst(s) own shares in the following stocks mentioned in this report:

– Genex Power

Genex Power

1H solar falls short but hydro and BBP roll on

- GNX's 1H solar revenue fell short of our expectations with softer electricity and carbon prices than we'd hoped.
- Progress continues on constructing Kidston Hydro and the Bouldercombe Battery Project (BBP).
- We revise our FY23 forecasts, but this has a negligible impact on our valuation. We maintain our SPECULATIVE BUY rating and target price of 27cps.

Solar production there but not price:

- 1H solar production of 109.9GWh was in-line with our expectations but revenue fell significantly short (-15%). Pricing in 2Q was weaker than we'd hoped for both electricity and carbon.
- Spot LGC prices were trading ~\$65/MWh for significant periods in 1H, however realised prices were ~\$51/MWh. Additionally, our assumptions for Kidston Solar pricing, and to a lesser extent Jemalong, were too optimistic.
- The rate of cash spent on construction was also significantly lower than expected (\$149m vs \$289m). We had been allowing for a very steep climb in capital expenditure for both projects. We anticipate that the shortfall will still be spent in the next 12 months and this a timing issue rather than an indication of delays.

Electricity pricing relatively steady but LGCs are softening in short term:

- Since our last note in early January, electricity futures have been fairly steady with a soft March quarter being priced in along with expectations of a tighter winter period.
- Prices for LGCs have softened with spot falling from ~\$65/MWh down to ~\$51/MWh. Contracts for CY23 have also moved lower to \$50.75/MWh from \$55/MWh.

Forecast and valuation update:

- We lower our FY23 earnings estimate given the softer performance this half and reduced expectations for LGC revenue in 2H. Forecast EBITDA is down \$2.7m (-20%). Forecast net profit is down \$0.4m (-4%) as lower interest expenses from the flatter capital expenditure profile offsets some of the revenue impact.
- There is negligible change to our DCF valuation and we leave our rounded price target unchanged at 27cps.

Investment view:

- GNX has some important construction milestones ahead of it in CY23. If the company can keep Kidston Hydro on track over this period while successfully bringing BBP into operation, we think the stock could re-rate when there is a clear line of sight to higher earnings.
- The company has little room to manoeuvre however if it had to absorb higher costs in areas where the contractors haven't accepted risk (we understand GNX has some residual exposure to geotechnical risks) or if their ability to complete the project was compromised.
- We retain our SPECULATIVE BUY rating given the potential upside, but we note that the coming year will be critical for the success of the company.

Price catalysts:

- Energisation of BBP next quarter.
- Completion of underground works at Kidston Hydro in next 12 months.

Risks:

- Construction and commissioning risk at Kidston Hydro and BBP.
- Commodity prices, i.e. electricity and carbon.
- Solar production at Kidston Solar and Jemalong.
- Marginal loss factors on all projects other than Kidston Hydro and KS1.
- 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

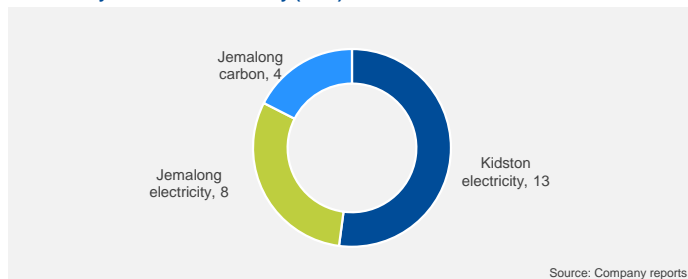
SPECULATIVE BUY

as at January 30, 2023

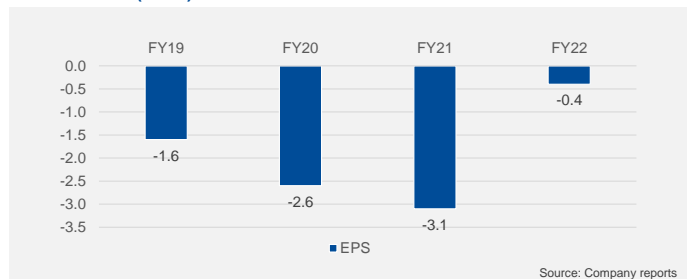
Price (A\$):	0.14	12-month target price (A\$):	0.27
Market cap (A\$m):	193.9	Up/downside to target price (%):	92.9
Free float (%):	69.3	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	92.9

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.

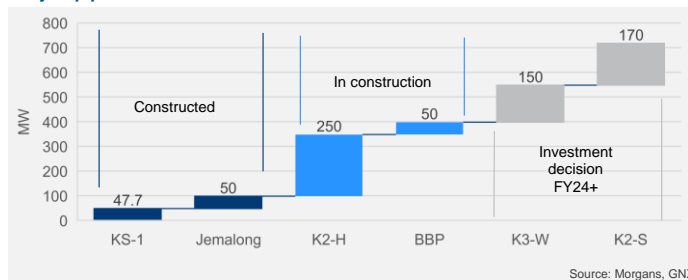
Revenue by asset and commodity (A\$m) - FY22



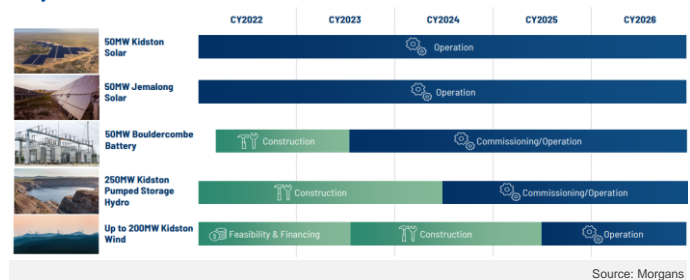
Historical EPS (cents)



Project pipeline



Project timeline



Bull points

One of the few remaining listed renewables pure plays
GNX is one of the few remaining listed renewables-focused companies on the ASX and the only one with a large exposure to energy storage projects.

Upside potential from key growth project

The Kidston Hydro project will drive a large increase in revenue and earnings when it begins operation in FY25. The project is funded by cheap debt from NAIF and has a long term off-take contract to give GNX infrastructure-like earnings from the project when it's completed.

Growth pipeline that can be matured and de-risked

The company also has a number of other renewables projects that it is maturing which will increase the company's value.



Bear points

Construction risk still elevated

There are still a number of higher risk milestones to be completed during construction of Kidston Hydro. Until the work is completed it's likely the market will continue to discount the stock for the risk.

Tight balance sheet

The Kidston Hydro project is highly leveraged which dominates the company's balance sheet. This leaves GNX with limited room to maneuver if there are unexpected impacts to its cash flow.

Risks to spot price exposure

The Jemalong solar farm retains full exposure to spot electricity and carbon prices. This has served the company well in the last year but it also comes with downside risks for earnings.



Environmental, Social and Governance



Exposure

GNX has strong environmental and social credentials. Its portfolio is expected to displace 2mt of carbon dioxide p.a. by 2025. In the region of the Kidston Clean Energy Hub, 900 jobs have been created while the project is in construction. Genex's board has seen a number of directors retire in recent years.

Management

To manage its corporate governance the GNX board has implemented a number of policies and charters such as: an Audit and Risk Management Committee Charter, a Code of Conduct, a Securities Trading Policy, a Continuous Disclosure Policy and a Sustainability and Climate Change Policy.

Source: Morgans

Figure 1: Financial summary

Production & Price	FY21A	FY22A	FY23E	FY24E	FY25E	Valuation	DCF (\$m)	EV x (\$m/MW)	EV (\$m)	Net debt (\$m)	Equity (\$m)	Blended (\$m)	Blended (cps)
Solar generation (GWh)	150.2	224.1	224.9	247.6	245.7	Solar	24.6	2.40	234.5	(170.7)	63.8	44.2	3.1
Wind generation (GWh)	-	-	-	-	-	Hydro	196.7	3.30	825.0	(646.0)	179.0	187.8	13.4
Hydro capacity (MW)	-	-	-	-	125	Battery	86.0	1.20	60.0	(4.5)	55.5	70.8	5.0
Battery capacity (MW)	-	-	-	50	50	Wind	94.0	0.38	57.0	-	57.0	75.5	5.4
Ave generation price (\$/MWh)	87.4	115.3	116.9	102.3	99.5	Total	401.3		1,176.5	(821.2)	355.3	378.3	27.0
Ave storage price (\$/MWh)	-	-	-	26.1	24.0	Price target (cps)							27.0
Profit and loss (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E	Key Multiples			FY21A	FY22A	FY23E	FY24E	FY25E
Net Revenue	10.6	24.8	26.3	36.0	60.3	EV/EBITDA (x)			61.0	74.8	41.1	12.2	
Other inc	11.0	2.4	0.4	0.8	20.8	Price-to-earnings (x)							11.5
Expenses	(28.5)	(13.4)	(15.4)	(16.3)	(11.7)	Dividend yield (%)		-	-	-	-	-	-
EBITDA	(6.8)	13.8	11.3	20.5	69.3	Free cashflow yield (%)		-80%	-115%	-152%	-83%	-121%	
D&A	(6.3)	(10.1)	(10.3)	(12.7)	(21.1)	Net Debt / ND+E (%)		52%	62%	76%	81%	70%	
Operating EBIT	(13.1)	3.7	1.0	7.8	48.3	Net Debt / EBITDA (x)		(21.2)	23.3	54.6	37.9	12.8	
Net Interest Expense	(5.7)	(7.7)	(12.7)	(18.5)	(20.4)	Operating CF-to-interest (x)		(0.9)	0.7	0.1	2.8	2.2	
Profit Before Tax	(18.7)	(4.1)	(11.7)	(10.7)	27.8								
Tax	-	-	-	2.1	(8.2)	Balance Sheet	FY21A	FY22A	FY23E	FY24E	FY25E		
Net Profit	(18.7)	(4.1)	(11.7)	(8.6)	19.6	Cash	45.4	62.9	37.1	22.7	30.6		
						Receivables	1.2	3.3	1.1	1.1	1.0		
EPS (cps)	(3.1)	(0.3)	(0.8)	(0.6)	1.2	Inventory & prepayments	2.7	3.4	3.4	3.4	3.4		
DPS (cps)	-	-	-	-	-	Other	-	-	-	-	-		
						Current Assets	49.4	69.5	41.6	27.2	35.1		
						Bank guarantees	5.0	71.9	71.9	21.9	21.9		
						PPE	291.9	447.7	737.2	829.6	1,094.7		
						Other	13.4	28.0	28.0	140.4	172.0		
						Non-Current Assets	310.3	547.6	837.1	991.9	1,288.7		
						Total Assets	359.7	617.2	878.7	1,019.1	1,323.7		
						Payables	11.8	13.6	13.6	13.7	13.3		
						Debt	7.7	18.9	10.8	9.3	26.1		
						Other	2.9	4.6	4.6	4.6	4.6		
						Current Liabilities	22.4	37.2	29.1	27.5	44.0		
						Debt	181.9	366.6	641.1	791.6	889.1		
						Government grant	6.9	6.4	6.4	6.4	6.4		
						Provisions	3.8	3.8	3.8	3.8	3.8		
						Other	10.4	2.9	2.9	2.9	2.9		
						Non-current Liabilities	203.0	379.7	654.2	804.7	902.2		
						Total Liabilities	225.4	416.9	683.3	832.2	946.2		
						Share capital	195.8	242.1	248.9	248.9	383.8		
						Reserves	(2.0)	21.8	21.8	21.8	61.8		
						Accumulated earnings	(59.5)	(63.6)	(75.3)	(83.9)	(68.1)		
						Equity	134.3	200.3	195.5	186.9	377.5		
						WANOS (m)	607.9	1,173.2	1,395.6	1,406.0	1,607.4		

Source: Morgans estimates, company data

Forecast changes

Figure 2: Forecast changes

Absolute changes	FY23	FY24	FY25	Relative changes (%)	FY23	FY24	FY25
Production (GWh)	-	-	-	Production	0%	0%	0%
Revenue (\$m)	(2.7)	(0.3)	0.1	Revenue	-9%	-1%	0%
EBITDA (\$m)	(2.7)	(0.3)	0.1	EBITDA	-20%	-1%	0%
D&A (\$m)	0.6	1.3	1.3	D&A	6%	9%	6%
Net interest expense (\$m)	1.7	0.3	(0.0)	Net interest expense	12%	2%	0%
Net Profit After Tax (\$m)	(0.4)	1.1	0.9	Net Profit After Tax	-4%	11%	5%
Capital Expenditure (\$m)	53.0	(53.0)	-	Capital Expenditure	15%	-33%	0%
Debt (\$m)	(53.0)	-	-	Debt	-8%	0%	0%
Cash balance (\$m)	5.8	5.6	5.3	Cash balance	19%	33%	21%

Source: Morgans estimates

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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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