

14 October 2022

Genex Power Limited

Utilities

Rating
SPECULATIVE BUY
from HOLD

Price Target
A\$0.25
unchanged

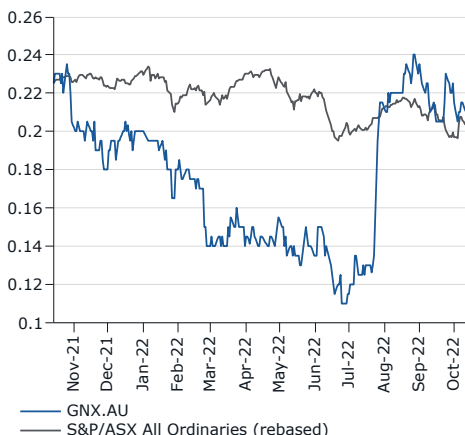
GNX-ASX

Price
A\$0.20

Market Data

52-Week Range (A\$) :	0.11 - 0.25
Avg Daily Vol (000s) :	4,233
Market Cap (A\$M) :	277.0
Shares Out. (M) :	1,385.2
Dividend /Shr (AUC) :	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	599

FYE Jun	2022E	2023E	2024E	2025E
Sales (A\$M)	24.8	27.5	33.8	70.6
EBITDA (A\$M)	13.8	20.8	25.9	53.9
EBIT (A\$M)	3.7	9.3	12.9	7.2
Net Income (A\$M)	(4.2)↓	5.3↑	(4.2)↓	(9.5)↓
Previous	(4.1)	1.8	0.9	(7.0)



Priced as of close of business 13 October 2022

Genex Power Ltd. is a power generation development company, which focuses on the production and storage of renewable energy. Its projects includes Kidston Solar, Kidston Pumped Hydro and Jemalong Solar.

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SepQ - rain, hail, shine and a touch of subterranean flooding

The sustained electricity price surge and continued strength in the LGC market resulted in GNX delivering its second-highest quarterly revenue result on record of \$7.2mn (+41% vs pc), despite unchanged generation levels. With electricity futures for CY23 currently at \$246/MWh and \$249/MWh for NSW and QLD, respectively, FY23 is shaping up as a record year, in our view.

We retain our price target of \$0.25 and upgrade to SPECULATIVE BUY (from Hold).

An inconvenient fault at Kidston Pumped Hydro

On 24 September 2022, whilst conducting drilling in the Main Access Tunnel (MAT) face at K2H, an unexpected geological feature was encountered which resulted in a substantial inflow of water into the MAT. The drill holes have been successfully plugged, water pumped out and the MAT was 75% complete at quarter-end. The company has indicated that the anticipated cost of this incident will be covered by its project contingency and the energisation schedule is not impacted.

GNX is currently investigating the extent of the feature with a view to restarting excavation of the MAT as soon as possible. The bidding consortium of Skip and Stonepeak have been kept informed throughout, and in the likely event that formal bid documents are lodged we will be looking closely at the Material Adverse Change conditions to see how this matter is being handled.

Another strong quarter

KS1 revenue totalled \$3.7mn from net generation of 28,908MWh, reflecting an average price of \$129/MWh.

JSP revenue for the quarter comprised \$2.5mn from electricity sales and \$1.0mn from LGC sales from net generation of 19,217MWh, reflecting an average bundled price of \$180/MWh.

GNX is a leader in renewable energy and storage

Renewable energy continues to attract significant amounts of cheap capital, but despite this power prices in Australia look set to remain elevated for a significant period of time (NSW CY25 futures are \$181/MWh). Additionally, the volatility that intermittent energy generates is set to be a boon for storage providers. GNX's existing portfolio (which is essentially unhedged) is extremely well-placed to capitalise on this situation and K2H will become a hugely strategic asset, in our opinion.

With M&A in the sector continuing apace we think the odds of this deal completing remain short.

Figure 1: Financial summary

FY Jun 30	2021	2022	2023E	2024E	2025E		2021	2022E	2023E	2024E	2025E
PROFIT & LOSS (A\$mn)						KEY PRICING ASSUMPTIONS					
Revenue	10.6	24.8	27.5	33.8	70.6	NSW Electricity Prices (\$/MWh)	52.5	89.5	82.5	71.3	73.6
Operational Costs	-1.4	-4.4	-4.1	-5.2	-13.9	SA Electricity Prices (\$/MWh)	50.9	75.9	77.5	71.3	73.6
Other income	11.0	2.4	2.0	2.0	2.0	WA Electricity Prices (\$/MWh)	50.9	52.2	53.5	54.9	56.6
Corporate & Other	-18.5	-9.0	-4.6	-4.7	-4.8	LGC Prices (\$/LGC)	27.5	32.5	22.5	12.1	7.6
EBITDA	1.7	13.8	20.8	25.9	53.9	REALISED PRICES					
DD&A	-6.3	-10.1	-11.5	-13.0	-46.8	Bundled price (\$/MWh)	53.3	93.8	104.0	127.4	267.1
Other	0.0	0.0	0.0	0.0	0.0	GENERATION FORECASTS*					
EBIT	-4.5	3.7	9.3	12.9	7.2	Australian Generation (GWh)	198	264	264	265	264
Financing Income	0.0	0.0	0.0	0.0	0.0	Total (GWh)	198	264	264	265	264
Financing Costs	-5.7	-7.8	-4.0	-17.1	-16.7	PER SHARE DATA					
NPBT	-10.2	-4.2	5.3	-4.2	-9.5	Average Shares (Diluted, M)	772	1333	1385	1385	1385
Tax	0.0	0.0	0.0	0.0	0.0	EOP Shares (Diluted, mn)	1070	1385	1385	1385	1385
Normalised NPAT	-10.2	-4.2	5.3	-4.2	-9.5	Normalised EPS (A¢/sh)	-1.3	-0.3	0.4	-0.3	-0.7
Sig Items, Discon Ops & Mins	-8.6	0.0	0.0	0.0	0.0	CF PS (A¢/sh)	-0.6	0.3	1.1	0.4	2.1
Reported NPAT	-18.8	-4.2	5.3	-4.2	-9.5	FCF PS (A¢/sh)	-20.5	-17.0	-26.4	1.0	2.7
Effective income tax rate	0.0	0.0	0.0	0.0	0.0	RATIOS					
CASHFLOW (A\$mn)						Dividend Yield	0%	0%	0%	0%	0%
Cash receipts	15.6	27.2	27.5	33.8	70.6	PE	-15.2	-64.2	52.5	-66.1	-29.1
Payments to suppliers	-14.9	-17.7	-8.7	-9.9	-18.7	PCF (Debt Adj)	-177.0	28.2	15.4	15.4	6.7
Interest received	0.0	0.0	0.0	0.0	0.0	EV / EBITDA	206.7	43.4	46.3	36.7	16.9
Interest paid	-5.6	-6.3	-4.0	-17.1	-16.7	Gearing (ND / ND + E)	52%	62%	77%	77%	76%
Other	0.1	0.7	0.4	-0.7	-5.8	Net Debt / EBITDA	83.7x	23.3x	33.0x	26.0x	11.8x
Operating Cashflow	-4.8	4.0	15.2	6.1	29.4	Interest Cover	-0.8x	0.5x	2.3x	0.8x	0.4x
Payments for PP&E	-153.1	-234.7	-0.5	-0.5	-0.5	ROE (Reported Profit / Av Equity)	-26%	-2%	3%	-2%	-5%
Payments for Intangible Assets	0.0	0.0	0.0	0.0	0.0	ROIC	-2%	1%	1%	1%	1%
Payments for Growth Developments	0.0	0.0	-382.0	0.0	-0.3	ROACE	-1%	1%	1%	1%	1%
Asset Sales / (Purchases)	0.0	0.0	0.0	0.0	0.0	FCF Yield	-102%	-85%	-132%	5%	13%
Other	-0.3	4.4	2.0	8.7	8.7	DIVIDEND AND FRANKING					
Investing Cashflow	-153.4	-230.4	-380.4	8.2	7.9	Dividend (A¢/sh)	0	0	0	0	0
Share Issuance / (Buyback)	139.4	48.3	0.0	0.0	0.0	Payout ratio	0%	0%	0%	0%	0%
Drawdown / (Repayment) of Debt	5.5	198.9	365.3	-14.4	-32.3	Franking Balance (A\$mn)	0	0	0	0	0
Dividends	0.0	0.0	0.0	0.0	0.0	VALUATION					
Other	-6.6	-3.3	0.0	0.0	0.0	K1-Solar	0.03				
Financing Cashflow	138.2	243.8	365.3	-14.4	-32.3	K2-Hydro	0.18				
Surplus / Defecit	-20.0	17.4	0.0	0.0	5.0	Jemalong	0.03				
BALANCE SHEET (A\$mn)						Bouldercombe Battery	0.04				
Current Assets	49.4	69.5	65.8	66.5	77.3	EV adjustments	0.06				
Non-Current Assets	310.3	547.6	918.6	906.1	860.1	TOTAL	0.34				
Total Assets	359.7	617.2	984.4	972.5	937.4	PREMIUM/(DISCOUNT)	-0.1				
Current Liabilities	22.4	44.7	63.7	62.0	59.9	PRICE TARGET	0.25				
Non-Current Liabilities	203.0	372.1	718.4	705.8	675.6						
Total Liabilities	225.4	416.9	782.1	767.8	735.5						
Net Assets	134.3	200.3	202.2	204.8	201.9						
Total Cash	45.4	62.9	62.9	62.9	67.9						
Total Debt	190.9	385.2	750.5	736.1	703.8						
Net Debt	145.5	322.4	687.6	673.3	635.9						

* - excl storage

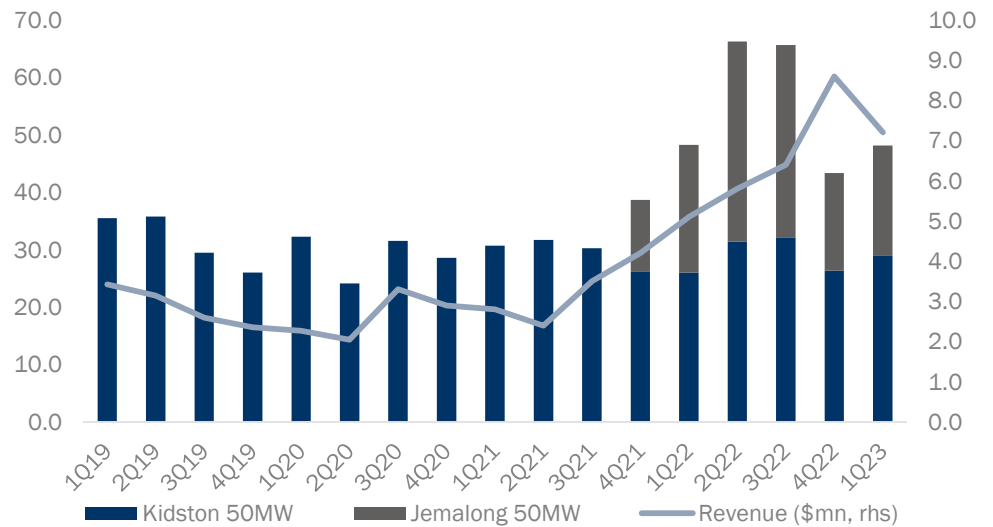
Source: Company reports, Canaccord Genuity estimates

Figure 2: Valuation build-up (free-cash-flow to equity based)

Asset	Equity %	Net Capacity MW	Risk %	Riskd FCF to equity A\$mn	A\$ps
K1-Solar	100%	50	100%	42.9	0.03
Jemalong	100%	50	100%	46.3	0.03
GENERATION		50		89.2	0.06
K2-Hydro	100%	250	100%	246.6	0.18
K2-Solar	100%	270	0%	0.0	0.00
K2-Wind	100%	270	0%	0.0	0.00
Bouldercombe Battery	100%	50	100%	51.0	0.04
DEVELOPMENT ASSETS		520		297.6	0.21
EV adjustments					0.06
Premium / (Discount)					-0.09
PRICE OBJECTIVE					0.25

Source: Company reports, Canaccord Genuity estimates

Figure 3: Quarterly performance (GWh, A\$mn)



Source: Company reports

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Investment Recommendation

Date and time of first dissemination: October 13, 2022, 20:55 ET

Date and time of production: October 13, 2022, 20:55 ET

Target Price / Valuation Methodology:

Genex Power Limited - GNX

Our price target is based on a sum-of-the-parts analysis.

Risks to achieving Target Price / Valuation:

Genex Power Limited - GNX

Energy policy risk: Australian energy policy has been extremely politicized over the last decade. Policy changes (both at a federal and state level) have occurred on numerous occasions. While we are hopeful that the NEG can provide the certainty craved by industry this outcome is far from certain.

Regulatory approval risk: Kidston is subject to a number of regulatory approvals which could slow the pace of development.

Pricing risk: Electricity and green credit pricing are historically volatile. While this risk can be mitigated by securing long-term offtake agreements for relevant parts of the project, this could result in lower or higher ultimate returns.

Technology risk: Pumped hydro and solar PV are mature technologies. Future advances in other technologies used to generate, manage and store electricity (e.g., large-scale battery storage) may be more efficient and/or more cost-effective and could adversely impact GNX's finances.

Development risk: the construction of a large development in remote QLD carries both budget and schedule risks. We believe the company will seek to minimise these risks through appropriate contracting strategies.

Operational risk: GNX will be subject to operational risks which are beyond its control. Operations may be curtailed or cancelled as a result of adverse weather conditions, mechanical difficulties, shortages or cost increases of consumables, external services failure (including energy and water supply), IT system failures etc. This risk is partially mitigated by having an experienced management team and using experienced contractors to plan for and manage such events.

Key personnel risk: A number of staff in GNX's management team has significant energy and/or hydroelectric industry experience and expertise. If one or more of these key personnel were to depart, it may be difficult to replace them adequately, in which case there could be an adverse effect on GNX's ability to execute its strategic plans.

Financing risk: GNX will require future financing to pursue its development plans. There is no guarantee that funding will be available on satisfactory terms, which could result in the Kidston Project not proceeding.

Distribution of Ratings:

Global Stock Ratings (as of 10/13/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	638	66.32%	31.50%
Hold	144	14.97%	18.06%
Sell	10	1.04%	10.00%
Speculative Buy	162	16.84%	40.74%
	962*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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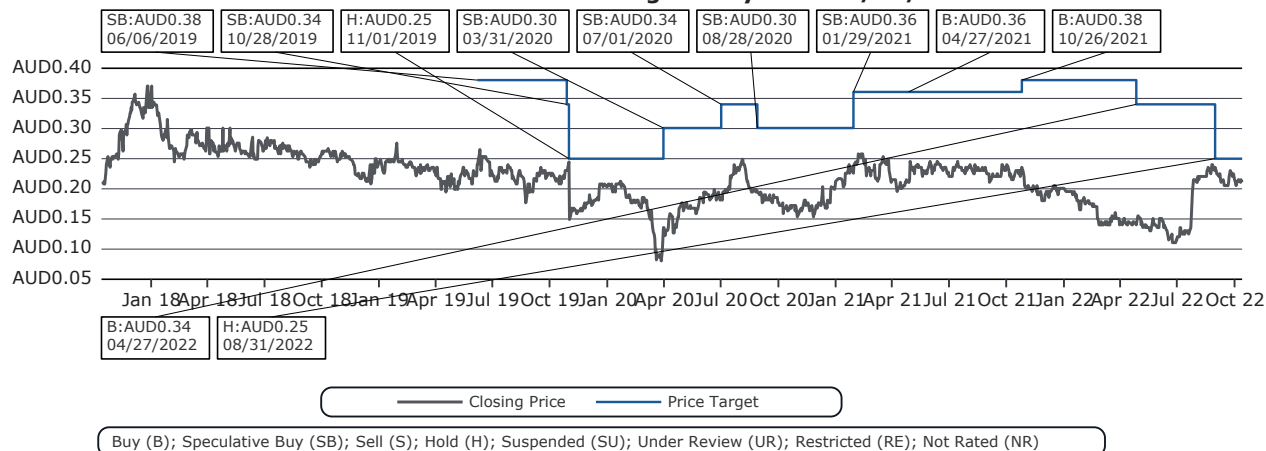
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Genex Power Limited Rating History as of 10/12/2022



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