

August 29, 2022

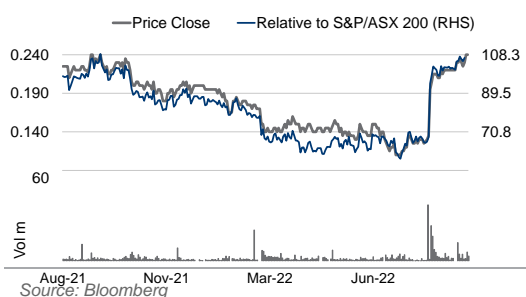
**HOLD** (no change)

Stock code:	GNX AU
Price:	A\$0.24
12-month target price:	A\$0.25
Previous target price:	A\$0.25
Up/downside to target price:	4.2%
Dividend yield:	0.0%
12-month TSR*:	4.2%
Market cap:	A\$332.4m
Average daily turnover:	A\$0.59m
Index inclusion:	N/A

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

**Price performance**

(%)	1M	3M	12M	3Y
Absolute	17.1	71.4	4.3	15.6
Rel ASX/S&P200	14.3	72.9	10.9	6.9


**Financial summary**

	Jun-22A	Jun-23F	Jun-24F	Jun-25F
Revenue (A\$m)	24.80	34.62	37.73	59.55
EBITDA Norm (A\$m)	13.82	19.60	22.35	68.73
Net Profit (A\$m)	19.73	-5.42	-7.19	17.47
EPS Norm (A\$)	0.017	-0.004	-0.007	0.016
EPS Growth Norm (%)		-124%	90%	
P/E Norm (x)	14.50	NA	NA	15.38
DPS (A\$)	0.000	0.000	0.000	0.001
Dividend Yield (%)	0.000%	0.000%	0.000%	0.449%
EV/EBITDA (x)	43.73	50.29	48.90	18.16
Gearing (Net Debt/EBITDA)	23.35	33.32	34.02	12.61

Source: Company data, Morgans estimates

**Related research**
[GNX \(HOLD - TP A\\$0.25\) - 17 Aug 2022](#)
[GNX \(ADD - TP A\\$0.30\) - 26 Jul 2022](#)
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Analyst(s) own shares in the following stocks mentioned in this report:

– Genex Power

# Genex Power

## FY22 was solid but still waiting on Skip and Stonepeak

- GNX delivered \$13.8m of EBITDA and \$4m of operating cash flow with a strong year for solar revenue as expected.
- Skip and Stonepeak are still conducting due diligence following their conditional 25cps bid which the board will potentially back.
- We retain our 25cps target price as we believe a binding offer is the most likely outcome at this stage.

**FY22 solid as expected**

- GNX's EBITDA result was largely as we expected (-2%) leading to a \$4m net loss after tax which was also in line with our forecast (+1%).
- The result was underpinned by the strong solar performance, previously disclosed in the 4Q report. The company ended the year with a higher cash balance than we'd anticipated with less cash spent on Kidston Hydro. We see this as only a temporary difference though as FY23 is likely to be a year of significant expenditure on the project as civil works accelerate.

**Forecast update**

- We have made minor changes to our forecasts to accommodate the historical data from FY22. For example, some capital expenditure has shifted from last year into this year.
- We have not made any changes to our fundamental valuation (30cps) and we retain our 25cps target price, in line with the current bid price.

**Investment view**

- It continues to be our view that the most likely outcome is for the bid to proceed to a binding, all cash offer at 25cps. Skip has been involved with GNX for some time so we'd be surprised if anything were to come out of the due diligence period that would change the acquirer's minds. With only a small upside margin to the bid price we retain our HOLD rating.
- While it's not our expectation, it is possible that the buyers do not proceed and withdraw their offer. In that scenario we would anticipate share price weakness but no impacts on the operating performance or balance sheet strength of the company. In the longer term we would expect the share price to move towards our fundamental valuation as Kidston Hydro construction is de-risked.

**Price catalysts**

- Completion of due diligence resulting in a firm offer.
- The emergence of a higher offer from a third party.

**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.

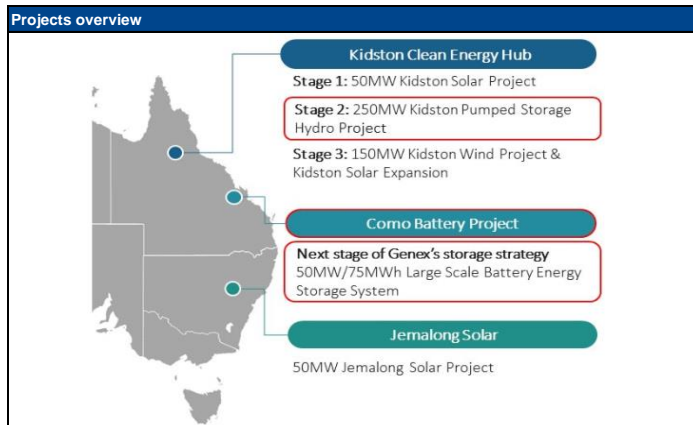
# Genex Power

as at August 29, 2022

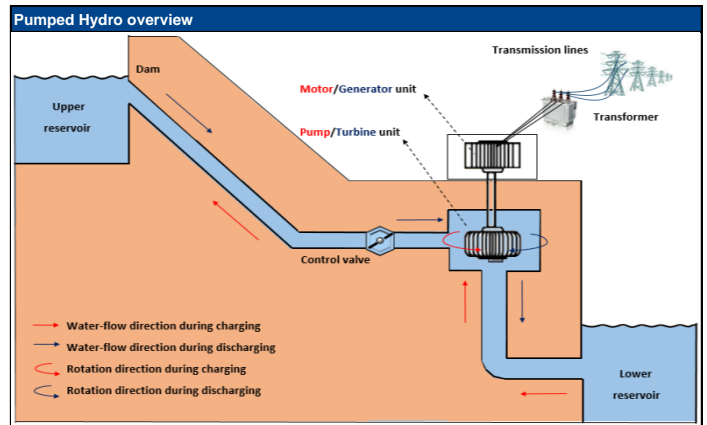
<b>Rating</b>	<b>HOLD</b>	Price (A\$):	0.24
Market cap (A\$m):	332.4	12-month target price (A\$):	0.25
Shares outstanding (m):	401.8	Up/downside to target price (%):	4.2
Free float (%):	69.3	Dividend yield (%):	0.0

## Company description

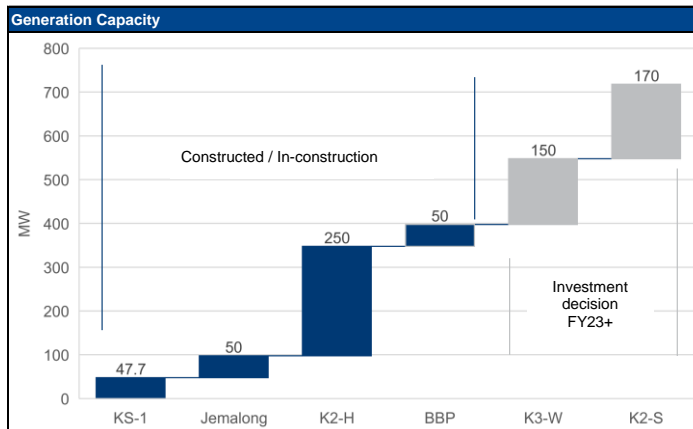
GNX is redeveloping an old gold mine in North Queensland into a 250MW energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has a second 50MW solar farm operating at Jemalong in Central NSW as well as plans to expand with a 50MW/100MWh battery in Central Queensland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

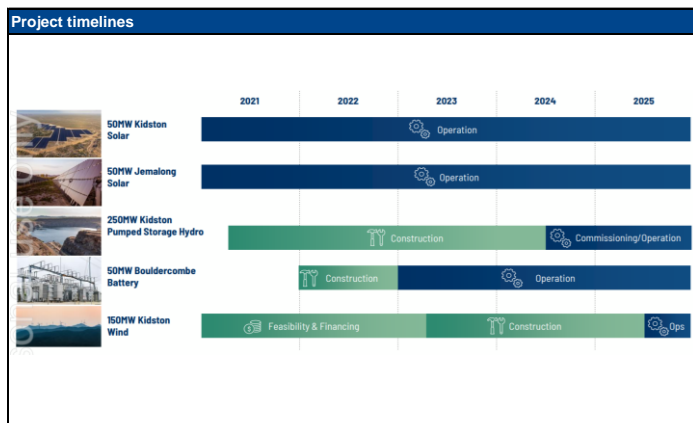
**Value drivers:**

- 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.

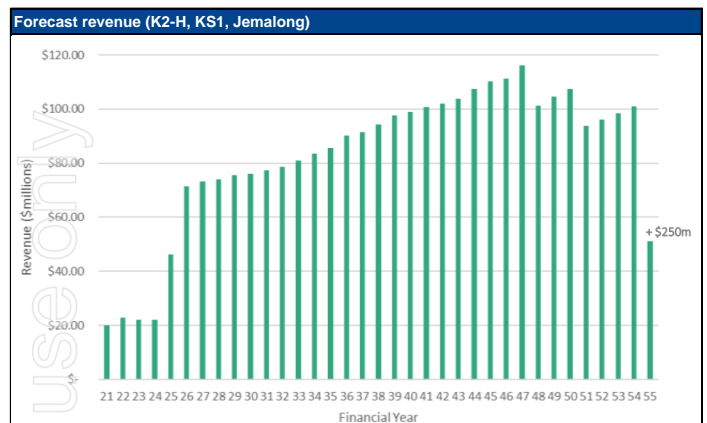
**Risks:**

- 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**

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	227.4	247.6	245.7	Solar	11.0	2.40	234.5	(167.5)	66.9	38.9	2.7
Wind generation (GWh)	-	-	-	-	-	Hydro	224.5	3.30	825.0	(565.9)	259.1	241.8	17.0
Hydro capacity (MW)	-	-	-	-	125	Battery	88.9	1.20	60.0	(11.4)	48.6	68.8	4.8
Battery capacity (MW)	-	-	-	50	50	Wind	101.2	0.38	57.0	-	57.0	79.1	5.6
Ave generation price (\$/MWh)	87.4	115.3	152.2	109.0	96.3	<b>Total</b>	<b>425.6</b>		<b>1,176.5</b>	<b>(744.8)</b>	<b>431.7</b>	<b>428.6</b>	<b>30.0</b>
Ave storage price (\$/MWh)	-	-	-	25.3	23.8	<b>Price target (cps)</b>							<b>25.0</b>
Profit and loss (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E	Key Multiples			FY21A	FY22A	FY23E	FY24E	FY25E
Net Revenue	10.6	24.8	34.6	37.7	59.6	EV/EBITDA (x)							
Other inc	11.0	2.4	0.4	0.4	20.4	Price-to-earnings (x)							21.8
Expenses	(28.5)	(13.4)	(15.4)	(15.8)	(11.2)	Dividend yield (%)			-	-	-	-	-
EBITDA	(6.8)	13.8	19.6	22.3	68.7	Free cashflow yield (%)			-48%	-51%	-99%	-47%	-72%
D&A	(6.3)	(10.1)	(10.9)	(13.9)	(22.2)	Net Debt / ND+E (%)			52%	62%	77%	80%	70%
Operating EBIT	(13.1)	3.7	8.7	8.4	46.6	Net Debt / EBITDA (x)			(21.2)	23.3	33.3	34.0	12.6
Net Interest Expense	(5.7)	(7.7)	(14.1)	(18.7)	(21.8)	Operating CF-to-interest (x)			(0.9)	0.7	0.5	0.2	2.0
Profit Before Tax	(18.7)	(4.1)	(5.4)	(10.3)	24.8								
Tax	-	-	-	3.1	(7.3)	Balance Sheet	FY21A	FY22A	FY23E	FY24E	FY25E		
Net Profit	(18.7)	(4.1)	(5.4)	(7.2)	17.5	Cash	45.4	62.9	37.0	40.5	48.5		
						Receivables	1.2	3.3	1.3	1.1	1.0		
EPS (cps)	(3.1)	(0.3)	(0.4)	(0.5)	1.1	Inventory & prepayments	2.7	3.4	3.4	3.4	3.4		
DPS (cps)	-	-	-	-	-	Other	-	-	-	-	-		
						<b>Current Assets</b>	<b>49.4</b>	<b>69.5</b>	<b>41.7</b>	<b>45.0</b>	<b>52.8</b>		
						Bank guarantees	5.0	71.9	71.9	21.9	21.9		
						PPE	291.9	447.7	774.5	812.7	1,076.8		
						Other	13.4	28.0	28.0	140.3	172.4		
						<b>Non-Current Assets</b>	<b>310.3</b>	<b>547.6</b>	<b>874.5</b>	<b>974.9</b>	<b>1,271.1</b>		
						<b>Total Assets</b>	<b>359.7</b>	<b>617.2</b>	<b>916.2</b>	<b>1,019.9</b>	<b>1,323.9</b>		
						Payables	11.8	13.6	13.6	13.7	13.3		
						Debt	7.7	18.9	14.3	11.0	38.1		
						Other	2.9	4.6	4.6	4.6	4.6		
						<b>Current Liabilities</b>	<b>22.4</b>	<b>37.2</b>	<b>32.5</b>	<b>29.3</b>	<b>56.0</b>		
						Debt	181.9	366.6	675.6	789.9	877.0		
						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		
						<b>Non-current Liabilities</b>	<b>203.0</b>	<b>379.7</b>	<b>688.7</b>	<b>802.9</b>	<b>890.1</b>		
						<b>Total Liabilities</b>	<b>225.4</b>	<b>416.9</b>	<b>721.3</b>	<b>832.2</b>	<b>946.2</b>		
						Share capital	195.8	242.1	242.1	242.1	378.2		
						Reserves	(2.0)	21.8	21.8	21.8	61.8		
						Accumulated earnings	(59.5)	(63.6)	(69.0)	(76.2)	(62.4)		
						<b>Equity</b>	<b>134.3</b>	<b>200.3</b>	<b>194.9</b>	<b>187.7</b>	<b>377.7</b>		
						<b>WANOS (m)</b>	<b>607.9</b>	<b>1,173.2</b>	<b>1,385.2</b>	<b>1,385.2</b>	<b>1,588.9</b>		

Source: Morgans estimates, company data

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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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