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Power

Renewables and regulation short circuit prices

January 4, 2023

- Wholesale electricity prices continue to tumble as growing renewables' market share and government intervention weigh on both spot and futures markets.
- We expect a jump in tariffs in FY24 when the draft DMO is released in February but we're less confident of continued increases into FY25.
- Our view is that upside is limited in the sector but for those willing to accept higher risks, there is potentially significant upside for GNX.

Summer spot prices well below the squeeze anticipated by the futures market

- NSW and QLD average prices settled at ~$120/MWh in the last quarter. This is well below the >$200/MWh level that the baseload futures contracts were trading at when the quarter began. Futures prices have tumbled across the board with prices expected to remain at more normal levels during CY23 and beyond.
- So far, summer temperatures have been mild while renewables output and capacity have climbed. This has meant that wind and solar have claimed more market share from fossil fuels, and black coal in particular.
- Government intervention to limit the costs of fuel are also likely having an effect on the outlook. In the longer term though we fear this may lead to underinvestment in generation and upstream fuel projects.

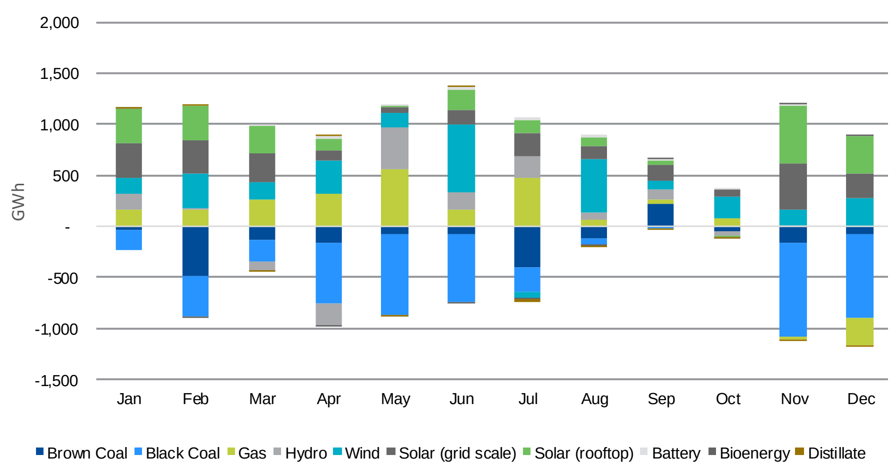
Retail rebound may not last beyond FY24

- The integrated retailers are likely to receive an earnings boost as we think that the past six months of extreme prices will have an effect on tariffs next year. Outside a further period of energy market volatility, tariffs are likely to soften in FY25, limiting the upside for AGL and ORG.
- We downgrade our rating on AGL to HOLD because of the softening outlook. We retain our HOLD rating on ORG because of the possibility of the takeover proceeding but we see downside risks because of the proposed code of conduct.

Juniors have to make do with weakening merchant outlook

- The outlook for smaller, more spot exposed generators like GNX and LGI will also be softer and in the long term, they are both price takers.
- LGI has better short term price protection and much lower risk but we believe it is appropriately valued and maintain our HOLD rating.
- GNX faces significant construction risk and as a result we think the market is under-pricing the stock. We upgrade to SPECULATIVE BUY but we note there are significant risks to be overcome for our 27cps price target to be realised.

Figure 1: CY22 NEM generation output changes vs pcp



Source: Morgans Financial, Open NEM

Highlighted companies

AGL Energy (downgrade to HOLD)

Given the softer outlook in the electricity market and steady share price gains we downgrade our rating to HOLD. Softer forecast earnings have reduced our target price 11% to $7.88. We see AGL as the most well positioned company because of its vertical integration and long term fuel contracts. Higher investment uncertainty in the sector makes it harder to identify upside.

Genex Power (upgrade to SPECULATIVE BUY)

GNX's suitors have abandoned their pursuit of the company and the share price has fallen. We think the market is effectively writing off any value associated with Kidston Hydro. We upgrade our rating to SPECULATIVE BUY and revert to our blended DCF and EV/MW valuation for an updated price target of 27cps. Risks are stacking up for the company however and it will not suit all investors.

Max Vickerson

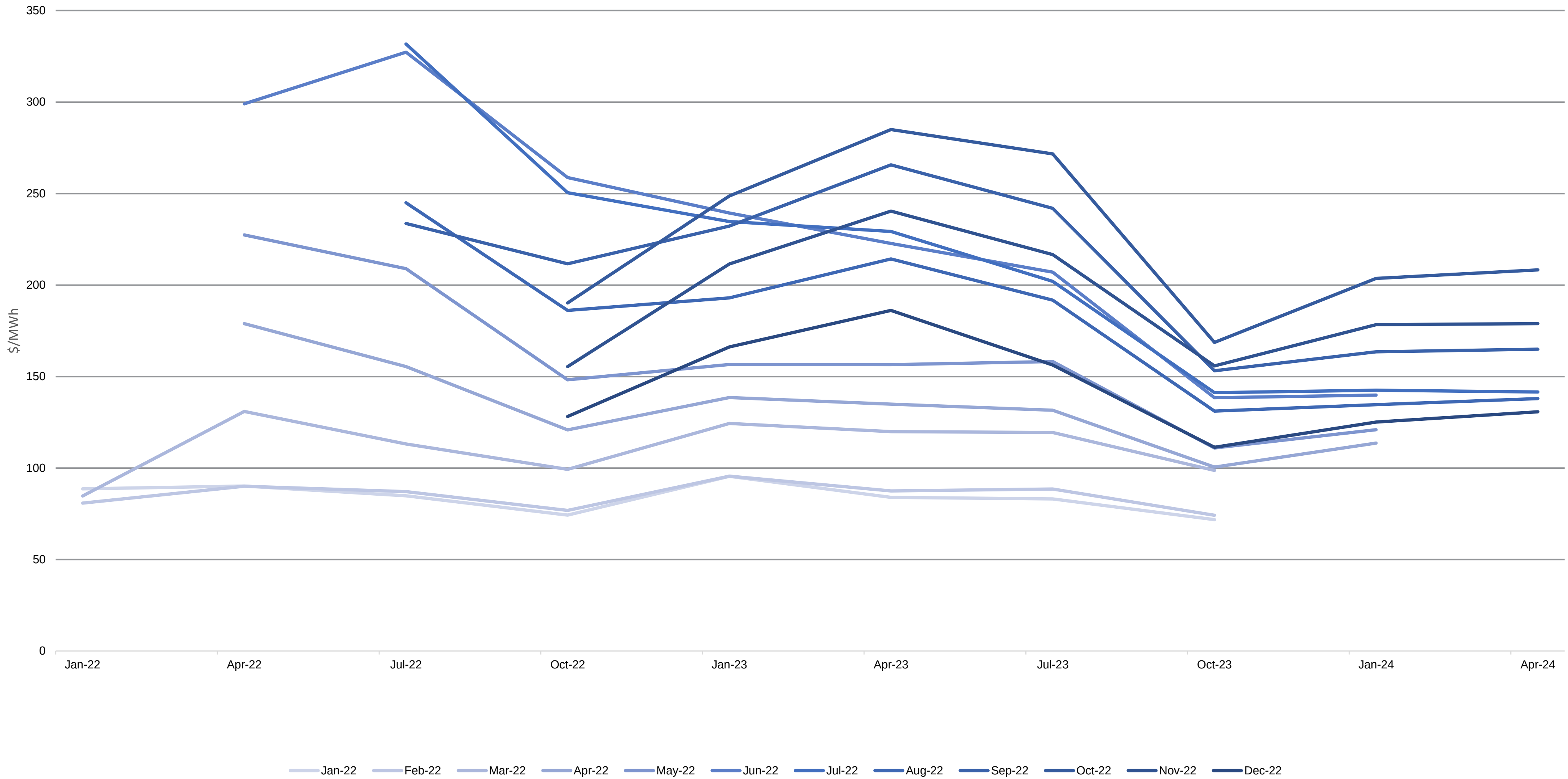
+61 7 3334 4804

max.vickerson@morgans.com.au

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

– Genex Power

Figure 2: NSW baseload electricity futures monthly average price history (legend shows trading month)



Source: Morgans estimates, company data

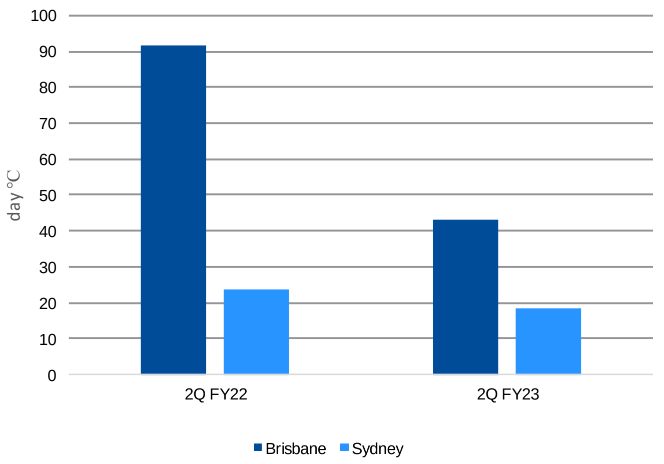
Electricity and carbon markets

Coal losing more ground to renewables

A combination of mild summer temperatures and stronger competition from renewables led to black coal volumes and electricity falling significantly in the last quarter. Cooling needs in the two key metro areas in northern states, i.e. Brisbane and Sydney was markedly reduced. This has led to continued significantly fewer price spikes, and therefore average prices, in QLD during evening peak demand periods.

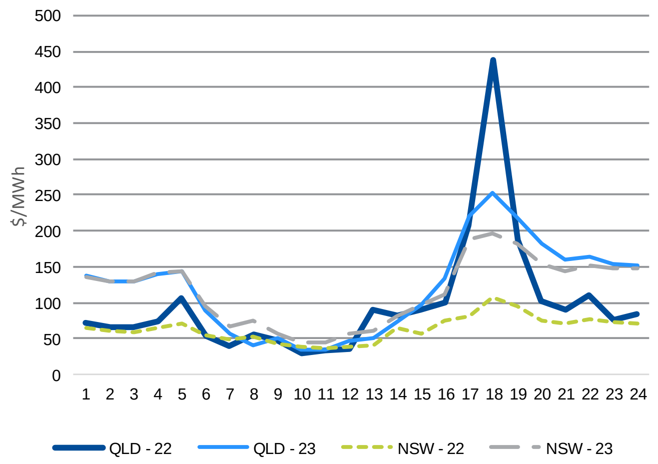
Solar (rooftop and grid-scale) output has jumped which has kept spot prices suppressed during daylight hours. NSW prices have been stronger in evening and overnight periods, most likely as a result of higher fuel prices but this could change with government intervention.

Figure 3: Cooling degree days comparison (24C Base)



Source: Morgans estimates, Wolfram Alpha

Figure 4: Average hourly 2Q prices

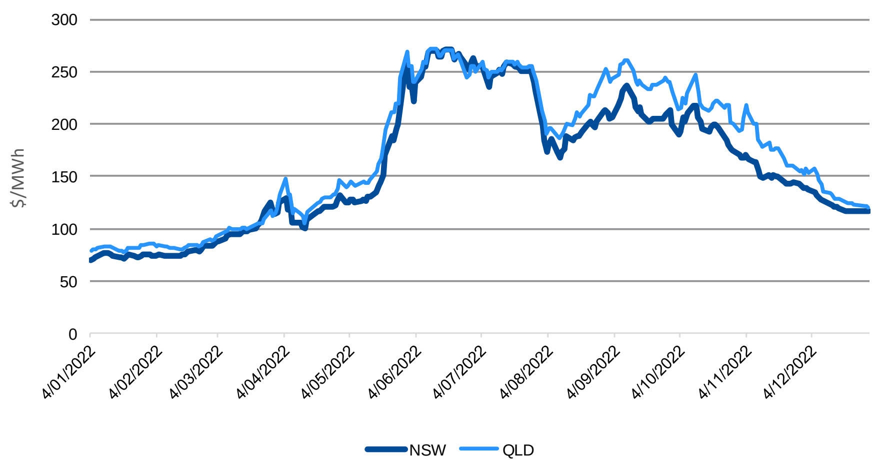


Source: Morgans estimates, AEMO

Futures curve falling away softens medium term tariff outlook

Given the softer spot market conditions and the prospect of intervention weighing on future periods, futures prices have fallen away after jumping to record highs during the winter price squeeze. Just six months ago, electricity traders priced in expected average wholesale prices of over $250/MWh in NSW and QLD. Instead, the quarter just settled at ~$120/MWh. This has impacted on the outlook for futures years as well. For example, the expectations for CY23 NSW baseload fell from ~$240/MWh in October down to a traded average of ~$155/MWh during December.

Figure 5: December quarter baseload futures price history

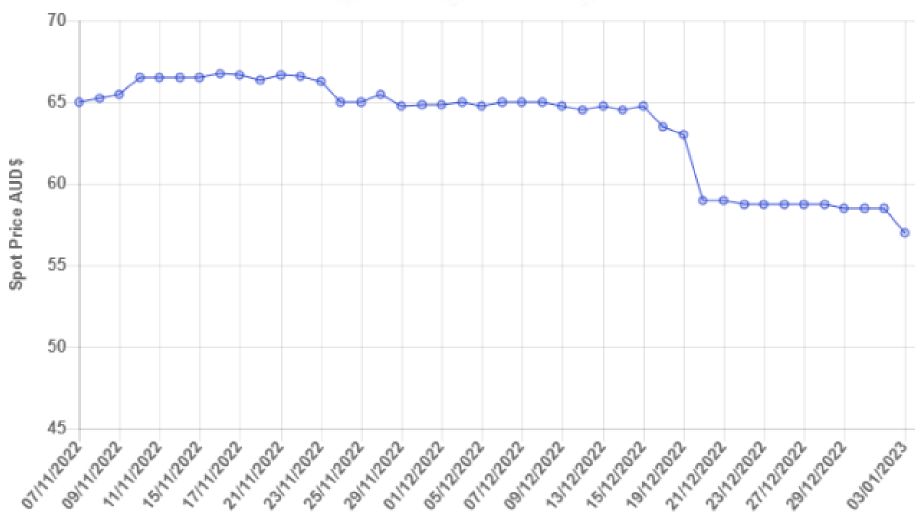


Source: Morgans estimates, Bloomberg

Carbon prices are mixed

Spot prices for Large-scale Generation Certificates (LGCs) have softened while Australian Carbon Credit Units (ACCUs) continue to be range bound between $25/CO2-e to $35/CO2-e. LGC futures remain in backwardation out to CY26.

Figure 6: LGC spot price history



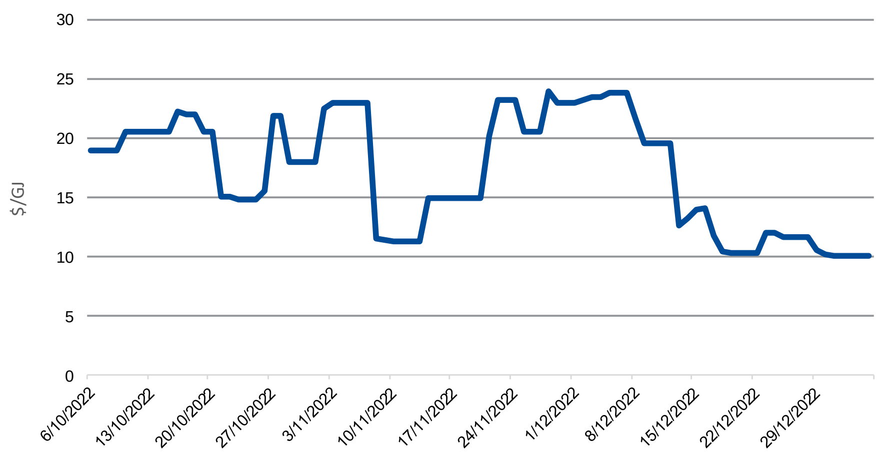
Source: Morgans estimates, company data

Gas markets

Spot prices fall below price cap

Spot prices for gas have fallen below the $12/GJ price cap although there are reports of a disconnect developing between tariffs and wholesale prices. We doubt that retailers would seriously entertain making themselves a target for the ACCC and we would expect that new tariffs will be based on available wholesale domestic supply costs.

Figure 7: Wallumbilla benchmark price

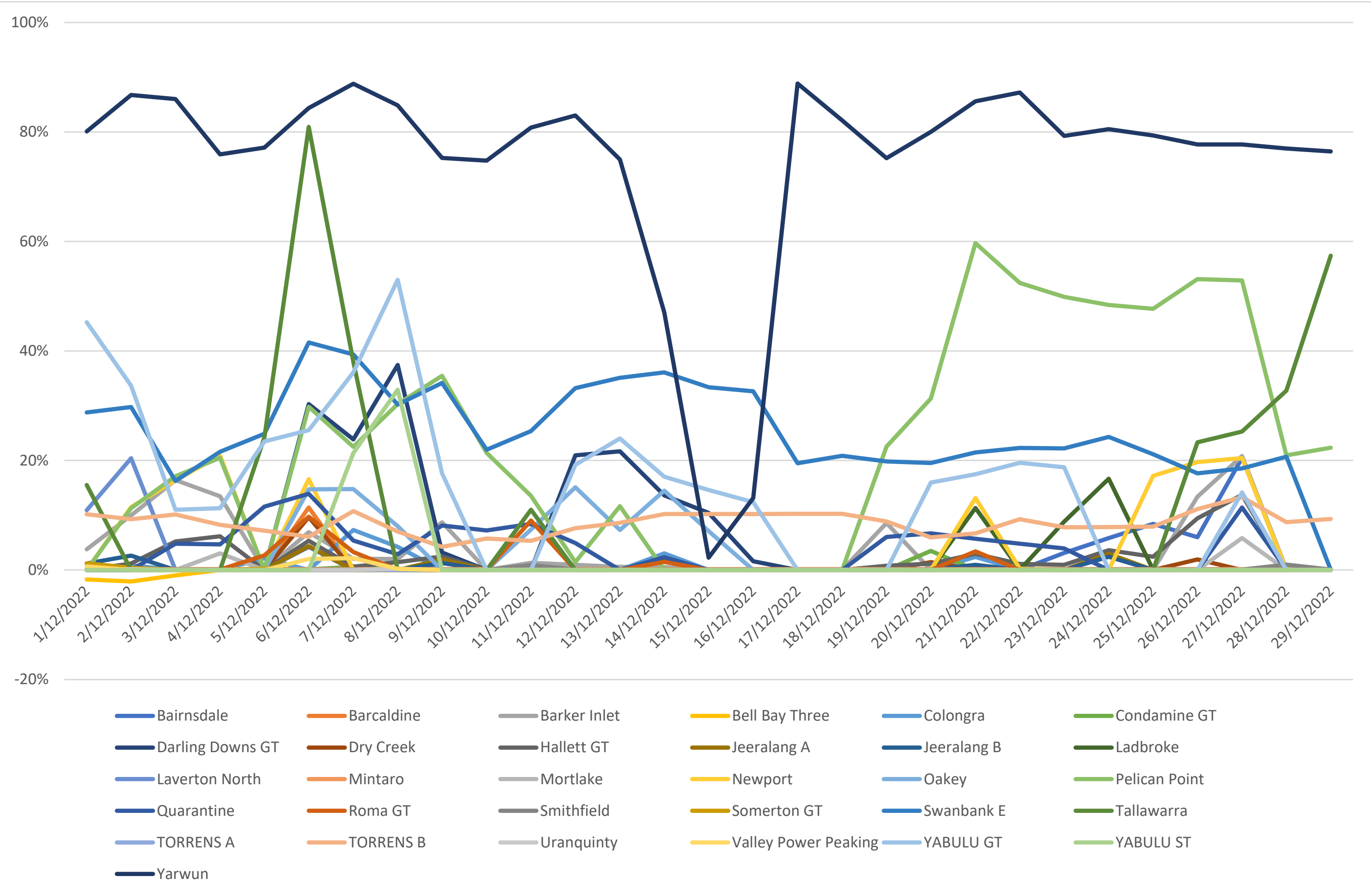


Source: Morgans estimates, AEMO

Gas fired generation also drops

Despite spot gas prices falling we haven't seen an appreciable difference in the utilisation of gas fired generation during December. This is likely due to the fact that so far, spot electricity prices have been subdued.

Figure 8: December 2022 gas plant capacity factors



Source: Morgans estimates, AEMO

What does this mean for the sector?

Large integrated retailers

Australia's two listed large scale integrated retailers, AGL and ORG, will not be able to count on a sustained recovery in margins beyond FY24. Default retail electricity tariff benchmarks typically average contract prices over a two year period. Because of the large jump in the futures curve during 4QFY22 – 1QFY23, it's likely that tariffs will still increase markedly next year. If the government intervention to lower fuel costs is successful at averting future market shocks, then the rally will likely be short lived.

For the rest of the decade, we think that the intervention will only add to investment uncertainty for both new generation and fuel supply. New policies are being proposed to incentivise non-fossil fuel storage and firming capacity but we still see an increasing likelihood of supply constraints as coal plants retire. Companies with a greater degree of integration and long term fuel supply will be less vulnerable to market shocks, all things being equal.

Spot exposed generators

Smaller generators such as GNX and LGI have somewhat less room to manoeuvre. Both companies have some protection (LGI more than GNX) in the short term but in the long term both are essentially price takers. Prices are still above historical averages but neither company can expect a return to recent record highs.

AGL Energy

Bull case harder to see in short to medium term

Falling futures prices and the government intervention have lowered our confidence in exceptional growth for AGL's earnings over the medium term. Unfortunately we see a more difficult environment for the electricity sector, and AGL, to confidently make capital investment decisions. Our view is that to whatever extent the government intervention has had on wholesale markets, it is papering over the signals the market needs to understand where to build capacity and in which form.

A bullish view would be that there could be another energy shortage, like last winter, which AGL could benefit from. Its low cost coal contracts would put it at a potential advantage as other coal units exit the market. We think the large number of unknowns makes this a difficult investment proposition however and we don't see enough upside given the risks.

We therefore downgrade our rating to HOLD with a reduced price target of $7.88ps (-11%) derived from our DCF model.

Changes to forecasts

We have aligned our pool revenue forecasts in FY24 with the current futures pricing which lowers revenue and earnings. Retail tariffs are still likely to increase next year but softer wholesale prices for the Integrated Energy segment outweighs the gains in forecast consumer margins. We expect that by FY25, in the absence of major wholesale volatility we think retail tariffs could soften and fall below our previous forecast.

Figure 9: Change in forecasts

Absolute ($m)	FY23	FY24	FY25	Relative (%)	FY23	FY24	FY25
Revenue	(18)	(414)	(207)	Revenue	0%	-4%	-2%
U-EBITDA	(5)	(144)	(61)	U-EBITDA	0%	-8%	-3%
U-NPAT	(3)	(101)	(43)	U-NPAT	-1%	-15%	-5%
Operating CF	(34)	(67)	(16)	Operating CF	-4%	-5%	-1%
Investing CF	(0)	0	0	Investing CF	0%	0%	0%
Net CF	(70)	59	56	Net CF	-102%	23%	7%

Source: Morgans estimates, company data

Risks:

- Performance of the generation fleet.
- Commodity prices (coal, gas, electricity and carbon), interest rates and tax regimes.
- Capital investment into new generation.
- Market regulation.

Figure 10: AGL Financial Summary

Volumes & Margins	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Elec - Consumer (TWh)	13.8	14.6	14.4	14.3	14.3	14.3
Elec - Lrg Business (TWh)	10.6	10.2	10.5	10.5	10.5	10.5
Elec - Wholesale (TWh)	15.9	15.8	14.0	14.0	14.0	14.0
Elec - Total Demand (TWh)	**40.3**	**40.6**	**39.0**	**38.8**	**38.8**	**38.8**
C'mer Mkts GM ($/MWh)	22.0	20.6	20.2	21.5	25.4	21.2
Gas - Consumer (PJ)	58.2	55.9	54.1	55.1	55.1	55.1
Gas - Lrg Business (PJ)	15.8	19.4	17.9	17.9	17.9	17.9
Gas - Wholesale (PJ)	81.5	83.1	81.1	81.1	66.1	66.1
Total Demand (PJ)	**155.5**	**158.4**	**153.1**	**154.1**	**139.1**	**139.1**
C'mer Mkts GM ($/GJ)	3.1	3.5	3.7	3.5	3.7	3.8

Profit and Loss ($m)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	12,160	10,942	13,221	13,248	11,167	11,137
GM - Customer Markets	818	854	811	829	944	841
GM - Integrated Energy	2,841	2,420	1,871	1,223	1,494	2,074
U-EBITDA C'mer Mrkts	318	337	320	333	438	324
U-EBITDA IE	2,076	1,630	1,146	1,166	1,435	2,014
U-EBITDA Other	(324)	(301)	(248)	(189)	(193)	(197)
U-EBITDA	**2,070**	**1,666**	**1,218**	**1,310**	**1,680**	**2,142**
D&A	(753)	(707)	(717)	(710)	(627)	(649)
U-EBIT	**1,317**	**959**	**501**	**600**	**1,054**	**1,493**
Net finance costs	(179)	(224)	(217)	(242)	(253)	(273)
Underlying NPBT	1,138	735	284	358	800	1,220
Tax	(322)	(199)	(66)	(107)	(240)	(366)
Underlying NPAT	**816**	**536**	**218**	**251**	**560**	**854**
Adjustments	199	(2,594)	642	700	-	-
Statutory NPAT	**1,015**	**(2,058)**	**860**	**(449)**	**560**	**854**
Nr of shares (m)	623	623	641	641	641	641
EPS (cps)	127.5	86.0	34.4	39.1	87.4	133.2
DPS (cps)	98	75	26	24	59	99
Payout ratio	77%	87%	76%	62%	67%	74%

Cash flows ($m)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA	2,070	1,666	1,218	1,310	1,680	2,142
Non-cash adjustments	427	(205)	76	(200)	-	-
Gross operating CF	2,497	1,461	1,294	1,110	1,680	2,142
Net finance costs paid	(108)	(97)	(67)	(122)	(131)	(150)
Tax paid	(233)	(114)	-	(125)	(282)	(201)
Operating Cash Flow	**2,156**	**1,250**	**1,227**	**862**	**1,267**	**1,790**
PPE capital investment	(758)	(695)	(636)	(753)	(632)	(574)
Acquisitions	(48)	(183)	(1)	-	-	-
Sales / restructure	(11)	(3)	(358)	50	-	-
Other investing cash flow	(62)	(56)	110	-	-	-
Investing Cash Flow	**(879)**	**(937)**	**(885)**	**(703)**	**(632)**	**(574)**
Debt drawdowns	1,637	3,006	1,832	800	-	1,000
Debt repaid	(1,543)	(2,794)	(2,134)	(669)	(31)	(1,032)
Share buybacks	(627)	(5)	(1)	-	-	-
Dividends paid	(719)	(573)	(317)	(154)	(450)	(316)
New shares issued	-	-	317	-	-	-
Financing Cash Flow	**(1,252)**	**(366)**	**(303)**	**(23)**	**(481)**	**(348)**
Free Cash Flow	**1,277**	**313**	**342**	**159**	**636**	**1,216**
Net Cash Flow	**25**	**(53)**	**39**	**136**	**154**	**869**

Rating			HOLD
Share price	8.20	Valuation	7.88
		potential capital return	-4%
		12-m dividend yield	3%
		12-m potential TSR	-1%

Valuation	($m)	$ps
Customer Markets	5,655	8.82
Wholesale Gas	1,807	2.82
Peaking generation & renewables	688	1.07
CM Share of overheads	(845)	(1.32)
CM Expected net debt	(2,125)	(3.31)
Liddell	-	-
Bayswater	442	0.69
Loy Yang A	502	0.78
Torrens Island	(48)	(0.08)
Legacy PPAs	594	0.93
Wholesale electricity	(521)	(0.81)
IE Share of overheads	(563)	(0.88)
IE Expected net debt	(531)	(0.83)
Total AGL Energy	**5,055**	**7.88**

Key metrics	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA margin	17%	15%	9%	10%	15%	19%
NPAT margin	7%	5%	2%	2%	5%	8%
Op CF / EBITDA	1.04	0.75	1.01	0.66	0.75	0.84
FCF yield	24%	6%	7%	3%	12%	23%
Net debt / EBITDA	1.43	1.86	2.26	2.03	1.47	0.73
ROE	10%	10%	3%	4%	9%	12%
EV / EBITDA	4.0	5.0	6.6	6.0	4.6	3.2
P / E	6.4	9.5	23.8	21.0	9.4	6.2

Balance sheet ($m)	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	141	88	127	263	417	1,286
Trade receivables	1,571	1,889	3,130	3,130	3,130	3,130
Other	1,410	1,698	5,374	5,374	5,374	5,374
Total Current Assets	**3,122**	**3,675**	**8,631**	**8,767**	**8,921**	**9,790**
PPE	6,640	6,283	6,013	6,006	6,012	5,937
Intangibles	3,786	3,302	3,252	3,252	3,252	3,252
Deferred Tax	252	971	344	344	344	344
Other	910	1,219	1,030	1,030	1,030	1,030
Total Non-Current Assets	**11,588**	**11,775**	**10,639**	**10,632**	**10,638**	**10,563**
Trade payables	1,351	1,838	3,164	3,164	3,164	3,164
Current portion of IBL	38	305	355	31	1,032	151
Other	999	832	4,088	4,070	4,029	4,193
Total Current Liabilities	**2,388**	**2,975**	**7,607**	**7,265**	**8,225**	**7,508**
IBL	3,070	2,880	2,523	2,888	1,856	2,705
Provisions	424	3,301	1,961	2,063	2,166	2,272
Deferred Tax	273	330	-	-	-	-
Other	480	458	662	680	699	718
Total NCL	**4,247**	**6,969**	**5,146**	**5,631**	**4,721**	**5,695**
Issued capital	5,603	5,601	5,918	5,918	5,918	5,918
Reserves	(80)	20	97	597	597	597
Retained earnings	2,552	(115)	501	(102)	8	546
Total Equity	**8,075**	**5,506**	**6,516**	**6,413**	**6,523**	**7,061**

Source: Morgans estimates, company data

Origin Energy

Will they, won't they

ORG's share price is dominated by the prospect of the yet to be consummated takeover proposal by EIG and Brookfield. We think that the proposed gas industry code of conduct is somewhat of a curveball for the industry. We would be surprised if this is not impacting the thinking of the potential buyers. It is difficult to say if this would be enough to completely kill the deal but we would find it understandable if the buyers sought a lower acquisition price given the unforeseen risk of such a strongly interventionist policy.

We maintain our HOLD rating and continue to suggest that investors take some profit at these levels. We don't see enough upside compared to the conditional and non-binding $9ps bid price given the uncertainty. We adjust our target price to be a 60/40 (down from 75/25) weighting between the bid price and our DCF ($5.28ps, -3%) which reduces it to $7.51ps.

Changes to forecasts

We see ORG's as a potential beneficiary of the coal price intervention which will lift Energy Markets EBITDA in CY23 by lowering fuel costs. However, we also see limited opportunities for ORG to run Eraring profitably given the encroachment of renewables and we think that the currently low utilisation rates will continue and therefore we revise our expected generation volumes downward. Next year, we think higher tariffs and cheaper fuel could provide a sugar hit for electricity earnings but this won't last into FY25.

We have also reduced our expectations for spot LNG sales from APLNG given the difficult political environment for the industry. This offsets the benefits for Energy Markets this year and reduces our estimated value for APLNG (-38cps impact to DCF valuation).

Figure 11: Changes to forecasts

Change	FY23	FY24	FY25	FY23 (%)	FY24 (%)	FY25 (%)
Total electricity sales (GWh)	-	-	-	0%	0%	0%
Coal generation (GWh)	(614)	(902)	-	-5%	-8%	0%
Total gas sales (GJ)	-	-	-	0%	0%	0%
Underlying EBITDA Energy Markets ($m)	79	441	(68)	14%	69%	-7%
Underlying EBITDA Integrated Gas ($m)	(292)	(158)	(88)	-13%	-7%	-5%
Underlying EBITDA Corporate ($m)	-	-	-	0%	0%	0%
Total Underlying EBITDA ($m)	(213)	283	(156)	-8%	10%	-6%
Underlying Net Profit ($m)	(153)	197	(111)	-22%	25%	-13%
Operating cash flow ($m)	55	308	(48)	114%	158%	-7%
Investing cash flow ($m)	-	-	-	0%	0%	0%
Financing cash flow ($m)	34	(238)	34	7%	-33%	20%

Source: Morgans estimates

Risks:

- Successful completion of the takeover offer including conversion to a binding offer, receipt of regulatory and shareholder approvals.
- Availability of fuel, generation performance and renegotiation of Eraring fuel contracts.
- Commodity prices (oil, gas, electricity, coal, carbon).
- Energy markets regulation.
- Interest rates.
- Tax regimes.

Figure 12: ORG Financial Summary

Sales and margin	FY21A	FY22A	FY23E	FY24E	FY25E
Elec sales - NSW (GWh)	16,500	15,700	14,600	15,815	15,815
Elec sales - VIC (GWh)	6,000	7,800	7,785	7,785	7,785
Elec sales - QLD (GWh)	8,000	8,200	8,602	8,602	8,602
Elec sales - SA (GWh)	3,100	3,600	3,616	3,616	3,616
Total elec sales (GWh)	**33,600**	**35,300**	**34,603**	**35,818**	**35,818**
Coal generation (GWh)	13,634	13,276	11,550	10,579	11,468
Gas generation (GWh)	5,805	4,072	6,060	5,399	5,401
Renewables (GWh)	3,027	3,081	2,258	2,260	2,258
Net purchases (GWh)	11,134	14,871	14,736	17,579	16,690
Gas - retail demand (PJ)	48.7	44.1	44.1	44.1	44.1
Gas - C&I	147.0	141.8	141.8	141.8	141.8
Total gas sales (PJ)	**195.7**	**185.9**	**185.9**	**185.9**	**185.9**
GM electricity ($ / MWh)	26.73	5.86	11.45	25.66	25.10
GM electricity ($m)	898	207	396	919	899
GM gas ($ / GJ)	2.29	3.03	3.75	3.48	3.56
GM gas ($m)	448	564	697	648	662

Profit and loss ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	12,097	14,461	14,045	14,226	14,081
Energy Markets EBITDA	991	365	635	1,077	876
Integrated Gas EBITDA	1,135	1,837	1,994	2,028	1,581
Corporate EBITDA	(78)	(88)	(99)	(101)	(103)
EBITDA - total	**2,048**	**2,114**	**2,529**	**3,004**	**2,354**
D&A	(550)	(449)	(493)	(473)	(500)
ITDA of subsidiaries	(958)	(1,138)	(1,093)	(1,000)	(859)
Operating EBIT	**540**	**527**	**944**	**1,531**	**995**
Net Interest Expense	(133)	(129)	(117)	(106)	(103)
Profit Before Tax	**407**	**398**	**827**	**1,424**	**892**
Tax (ordinary)	(87)	9	(287)	(439)	(144)
NCI	(2)	(4)	(3)	(3)	(3)
Underlying Net Profit	**318**	**403**	**537**	**982**	**745**
Excluded items	(2,609)	(1,836)	-	-	-
Statutory Net Profit	**(2,291)**	**(1,433)**	**537**	**982**	**745**
Underlying EPS	**0.18**	**0.23**	**0.31**	**0.57**	**0.43**

Cashflows ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA	2,048	2,114	2,529	3,004	2,354
Non cash items & APLN(	(1,115)	(1,556)	(2,138)	(2,061)	(1,614)
Gross operating CF	933	558	391	943	739
Tax	31	(29)	(287)	(439)	(144)
Net operating CF	**964**	**529**	**104**	**504**	**595**
PP&E capex	(500)	(728)	(563)	(455)	(391)
Sales / (Investments)	7	1,957	60	-	-
Exploration	-	-	-	-	-
Investing CF	**(493)**	**1,229**	**(503)**	**(455)**	**(391)**
Debt drawn / (repaid)	(1,273)	(1,929)	(306)	-	-
Net interest (ex APLNG)	(231)	(183)	(117)	(106)	(103)
APLNG net CF	709	1,595	1,375	1,100	688
Dividends paid	(442)	(314)	(449)	(503)	(378)
Other	-	(782)	-	-	-
Financing CF	**(1,237)**	**(1,613)**	**504**	**490**	**207**
Net CF (incl FX)	**(766)**	**145**	**105**	**539**	**411**

Projected returns		
12m Target Price	$	7.51
Share Price	$	7.69
Upside/(downside)		-2.3%
12m Yield		3.0%
12m potential TSR		0.7%

Valuation as at Jun 23		
APLNG - DCF of FCFF @ 9.3% WACC ($m) less APLNG net debt	$	4,357
Energy Markets - DCF of FCFE @ 10% Re ($m) plus cash at val date	$	3,664
Share of Octopus Energy ($m)	$	1,040
Exploration Assets - multiples on reserves ($m)	$	-
DCF Total ($m)	**$**	**9,061**
Shares issued (m)		1,717
Value per share	**$**	**5.28**

Key multiples & div	FY21A	FY22A	FY23E	FY24E	FY25E
U-EBITDA margin	17%	15%	18%	21%	17%
U-NP margin	3%	3%	4%	7%	5%
EV / EBITDA	7.64	7.15	5.81	4.39	5.61
P / E	28.48	22.47	16.87	9.23	12.16
FCF yield	7%	24%	7%	8%	6%
FCF payout ratio	36%	16%	47%	50%	40%
Dividends (cps)	20	29	23	30	18
Dividend yield	2.6%	3.8%	3.0%	3.9%	2.4%

Growth metrics	FY21A	FY22A	FY23E	FY24E	FY25E
Elec energy sold	1%	5%	-2%	4%	0%
Gas sold	-4%	-5%	0%	0%	0%
Revenue growth	-8%	20%	-3%	1%	-1%
U-EBITDA growth	-35%	3%	20%	19%	-22%
U-NPAT growth	-69%	27%	33%	83%	-24%

Gearing	FY21A	FY22A	FY23E	FY24E	FY25E
Net Debt ($m)	4,756	2,770	2,449	1,910	1,499
Net Debt / ND+E	33%	22%	20%	15%	12%
Net Debt / Adj EBITDA	2.95	1.76	1.56	0.94	1.05

Balance sheet ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	472	620	725	1,264	1,675
Receivables	2,298	3,416	3,416	3,416	3,416
Inventories	113	182	182	182	182
Intangibles	4,374	2,523	2,603	2,603	2,603
Derivatives	366	3,075	3,075	3,075	3,075
ORG share of MRCPS	1,465	243	243	243	243
Equity acc'ted inv'tmen	6,952	6,245	6,115	6,076	6,144
Exploration assets	245	286	236	241	241
PPE	3,291	3,255	3,237	3,214	3,104
Other	1,461	4,175	4,175	4,175	4,175
Total Assets	**21,037**	**24,020**	**24,007**	**24,489**	**24,858**
Payables	2,576	3,616	3,616	3,616	3,616
Debt	5,228	3,390	3,174	3,174	3,174
Derivatives	741	1,744	1,744	1,744	1,744
Other liabilities	2,677	5,248	5,448	5,448	5,448
Total Liabilities	**11,222**	**13,998**	**13,982**	**13,982**	**13,982**
Net Assets	**9,815**	**10,022**	**10,025**	**10,506**	**10,876**
Ave shares (m)	**1,758**	**1,737**	**1,717**	**1,717**	**1,717**

Source: Morgans estimates, company data

Genex Power

Back to plan A

Skip and Stonepeak are no longer pursuing their acquisition of GNX and Stonepeak is no longer a substantial holder of the company's stock. The share price has fallen significantly, effectively ignoring the value of the hydro project given our estimate for the solar farms, Bouldercombe and K3-W. We upgrade our rating to SPECULATIVE BUY and price target to 27cps (+35%, +107% upside to today's closing price) on the view that GNX can successfully deliver its growth projects.

We do note though that the risks to this occurring have increased. The cost increases flowing from the Main Access Tunnel (MAT) workarounds indicate that GNX hasn't successfully transferred all of its risk to its contractors and there is still another 18 months of significant construction activity to complete. As the market saw with the collapse of Clough, fixed price contracts are also vulnerable to the financial health of contractors. We don't see any glaring issues in the limited information available publicly but it is a risk we can't rule out entirely.

Changes to forecasts

We lower our forecasts for earnings mostly as a result of weaker electricity pricing and to a lesser extent, carbon as well. We also anticipate slightly lower solar volumes this year.

Figure 13: Forecast changes

Absolute changes	FY23	FY24	FY25	Relative changes (%)	FY23	FY24	FY25
Production (GWh)	(2.5)	-	-	Production	-1%	0%	0%
Revenue ($m)	(7.3)	(3.2)	(2.4)	Revenue	-20%	-8%	-4%
EBITDA ($m)	(7.3)	(3.2)	(2.4)	EBITDA	-34%	-13%	-3%
D&A ($m)	-	-	-	D&A	0%	0%	0%
Net interest expense ($m)	(0.0)	(0.0)	(0.0)	Net interest expense	0%	0%	0%
Net Profit After Tax ($m)	(7.3)	(2.9)	(1.8)	Net Profit After Tax	-183%	-43%	-9%
Capital Expenditure ($m)	-	-	-	Capital Expenditure	0%	0%	0%
Debt ($m)	-	-	-	Debt	0%	0%	0%
Cash balance ($m)	(7.1)	(10.3)	(11.4)	Cash balance	-18%	-38%	-31%

Source: Morgans estimates

Risks:

- Successful completion of K2H project on time and with no further cost increases.
- Successful completion of the Bouldercombe battery project and the K3W windfarm.
- 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.

Figure 14: GNX Financial Summary

Production & Price	FY21A	FY22A	FY23E	FY24E	FY25E
Solar generation (GWh)	150.2	224.1	224.9	247.6	245.7
Wind generation (GWh)	-	-	-	-	-
Hydro capacity (MW)	-	-	-	-	125
Battery capacity (MW)	-	-	-	50	50
Ave generation price ($/MWh)	87.4	115.3	129.1	103.6	99.1
Ave storage price ($/MWh)	-	-	-	26.1	24.0

Profit and loss ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
Net Revenue	10.6	24.8	29.0	36.3	60.2
Other inc	11.0	2.4	0.4	0.8	20.8
Expenses	(28.5)	(13.4)	(15.4)	(16.3)	(11.7)
EBITDA	(6.8)	13.8	14.0	20.8	69.2
D&A	(6.3)	(10.1)	(10.9)	(13.9)	(22.3)
Operating EBIT	(13.1)	3.7	3.1	6.9	46.9
Net Interest Expense	(5.7)	(7.7)	(14.4)	(18.8)	(20.4)
Profit Before Tax	(18.7)	(4.1)	(11.3)	(11.9)	26.5
Tax	-	-	-	2.3	(7.8)
Net Profit	(18.7)	(4.1)	(11.3)	(9.6)	18.7
EPS (cps)	(3.1)	(0.3)	(0.8)	(0.7)	1.2
DPS (cps)	-	-	-	-	-

Cashflows ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA	(6.8)	13.8	14.0	20.8	69.2
WC & non-cash adjustments	7.5	(4.3)	2.2	50.1	(0.4)
Gross operating cashflow	0.7	9.6	16.2	70.9	68.9
Net interest paid	(5.6)	(5.6)	(14.4)	(18.8)	(20.4)
Cash paid for Tax	-	-	-	(0.9)	(3.1)
Operating cashflow	**(4.8)**	**4.0**	**1.8**	**51.2**	**45.3**
Solar - growth capital	(54.0)	-	-	-	-
Hydro - growth capital	(99.1)	(153.2)	(303.9)	(161.3)	(15.5)
Battery - growth capital	-	(11.2)	(48.8)	-	-
Wind - growth capital	-	-	-	-	(267.0)
Sustaining capital & other	(0.3)	(66.0)	-	-	-
Investing cashflow	**(153.4)**	**(230.4)**	**(352.7)**	**(161.3)**	**(282.5)**
Equity issuance/(buy-backs)	133.2	45.8	-	-	133.0
Debt drawdown/(repaid)	5.0	198.0	319.4	95.9	114.4
Dividends paid	-	-	-	-	(1.9)
Financing cashflow	**138.2**	**243.8**	**319.4**	**95.9**	**245.4**
Net cashflow	**(20.0)**	**17.4**	**(31.6)**	**(14.2)**	**8.2**

Valuation	DCF ($m)	EV x ($m/MW)	EV ($m)	Net debt ($m)	Equity ($m)	Blended ($m)	Blended (cps)
Solar	27.8	2.40	234.5	(168.6)	65.9	46.8	3.4
Hydro	194.7	3.30	825.0	(648.0)	177.0	185.8	13.4
Battery	82.4	1.20	60.0	(11.3)	48.7	65.6	4.7
Wind	94.0	0.38	57.0	-	57.0	75.5	5.5
Total	**398.9**		**1,176.5**	**(827.9)**	**348.5**	**373.7**	**27.0**
Price target (cps)							**27.0**

Key Multiples	FY21A	FY22A	FY23E	FY24E	FY25E
EV/EBITDA (x)		64.5	63.7	42.8	12.9
Price-to-earnings (x)					11.5
Dividend yield (%)	-	-	-	-	-
Free cashflow yield (%)	-85%	-121%	-188%	-59%	-127%
Net Debt / ND+E (%)	52%	62%	78%	81%	71%
Net Debt / EBITDA (x)	(21.2)	23.3	48.1	37.6	12.9
Operating CF-to-interest (x)	(0.9)	0.7	0.1	2.7	2.2

Balance Sheet	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	45.4	62.9	31.3	17.1	25.3
Receivables	1.2	3.3	1.2	1.1	1.0
Inventory & prepayments	2.7	3.4	3.4	3.4	3.4
Other	-	-	-	-	-
Current Assets	**49.4**	**69.5**	**35.8**	**21.6**	**29.8**
Bank guarantees	5.0	71.9	71.9	21.9	21.9
PPE	291.9	447.7	789.5	827.7	1,091.6
Other	13.4	28.0	28.0	140.4	172.0
Non-Current Assets	**310.3**	**547.6**	**889.5**	**990.1**	**1,285.5**
Total Assets	**359.7**	**617.2**	**925.3**	**1,011.6**	**1,315.3**
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	694.1	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**	**707.2**	**804.7**	**902.2**
Total Liabilities	**225.4**	**416.9**	**736.3**	**832.2**	**946.2**
Share capital	195.8	242.1	242.1	242.1	376.9
Reserves	(2.0)	21.8	21.8	21.8	61.8
Accumulated earnings	(59.5)	(63.6)	(74.9)	(84.5)	(69.6)
Equity	**134.3**	**200.3**	**189.0**	**179.4**	**369.1**
WANOS (m)	**607.9**	**1,173.2**	**1,385.2**	**1,385.2**	**1,586.6**

Source: Morgans estimates, company data

LGI

Softening our medium term expectations

We expect LGI to have limited its near term downside exposure by selling electricity derivatives and effectively locking in a price for most of its production. Over a two – three year window however, the company will still be affected by softer prices as it typically does not hedge that far in advance. However, because of the flexibility of its all-gas generation fleet, we do not see a need to adjust our post FY26 – long term nominal average realised price assumption of $80/MWh. This limits the impact to our estimated valuation. Given that our forecast for 12-m TSR is within 10% of the current share price we retain our HOLD rating.

We think the range-bound price of ACCUs seen since 2Q CY22 suggests that a carbon bull run is not imminent, but it is a source of potential upside in a more bullish scenario. Alternatively, LGI could secure faster than expected volume growth by securing additional contracts but we have not allowed for this in our base case valuation scenario.

Changes to forecasts

We have allowed for an increase in gas flow rates and therefore ACCU production given the wet weather in 1H23 which we understand can lead to faster degeneration of waste and therefore higher gas flows. Offsetting this however is a weaker outlook for electricity and LGC prices in the medium term. LGI typically hedges the bulk of its spot exposure and so we see no need to update forecasts this year. In FY24 – FY25 however the company is likely to be more exposed as it will have progressively less of its electricity & LGC production prices locked in.

The overall impact is a reduction of our valuation and target price to $1.75ps (-3%).

Figure 15: Changes to forecasts

Absolute Changes	FY23	FY24	FY25	Relative changes (%)	FY23	FY24	FY25
Elec / LGC production (GWh)	-	-	-	Elec / LGC production (%)	0%	0%	0%
ACCU production (kt CO2-e)	50.0	25.0	-	ACCU production (%)	15%	6%	0%
Revenue ($m)	1.1	(3.1)	(7.7)	Revenue (%)	4%	-7%	-17%
EBITDA ($m)	1.1	(2.2)	(5.5)	EBITDA (%)	9%	-10%	-24%
EBIT ($m)	1.1	(2.2)	(5.5)	EBIT (%)	15%	-14%	-34%
Net Profit ($m)	0.8	(1.7)	(4.1)	Net Profit (%)	19%	-15%	-36%
Operating cash flow ($m)	0.8	(2.3)	(4.4)	Operating cash flow (%)	18%	-15%	-27%
Investing cash flow ($m)	-	-	-	Investing cash flow (%)	0%	0%	0%
Net cash flow ($m)	0.8	1.0	(3.1)	Net cash flow (%)	N/A	N/A	N/A

Source: Morgans estimates

Risks:

- Electricity and carbon prices.
- Renewal of contracts when landfill sites come up for tender.
- Operational reliability of gas network and generation and flaring equipment.
- Successful delivery of growth projects.
- Changes to energy and carbon market regulation.
- Changes to interest rates and tax regimes.

Figure 16: LGI Financial Summary

Prices and production	FY21A	FY22A	FY23E	FY24E	FY25E
Electricity ($/MWh)	49.8	106.0	155.0	163.6	93.4
LGCs ($/MWh)	53.0	35.5	48.8	48.6	39.8
ACCUs ($ / CO2-e)	30.3	22.3	22.3	30.0	35.0
Electricity & LGCs (GWh)	81.0	88.1	103.5	115.5	129.1
ACCU (kCO2-e)	130.1	244.5	381.5	415.4	471.8

Rating			HOLD
Share price	1.80	Target price	1.75
		potential capital return	-3%
		12-m dividend yield	1%
		12-m potential TSR	-2%

Profit and Loss ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	15.0	25.5	32.3	39.7	36.5
Cost of sales	(3.7)	(6.4)	(9.2)	(10.0)	(9.4)
Gross profit	**11.3**	**19.1**	**23.1**	**29.7**	**27.1**
Corporate overheads	(0.9)	(1.8)	(2.5)	(2.6)	(2.7)
Labour and other	(3.8)	(5.4)	(6.8)	(6.4)	(6.5)
EBITDA	**6.6**	**11.8**	**13.7**	**20.7**	**17.9**
D&A	(3.6)	(4.1)	(5.2)	(7.0)	(7.0)
EBIT	**3.0**	**7.7**	**8.5**	**13.7**	**10.9**
Net interest	(0.8)	(0.8)	(1.5)	(1.3)	(1.0)
Tax	(0.4)	(2.1)	(1.9)	(3.4)	(2.7)
Net profit	**1.7**	**4.8**	**5.1**	**9.0**	**7.1**
Nr of shares (m)	71.2	71.2	88.3	88.3	88.3
EPS (cps)	2.5	6.7	5.8	10.2	8.1
DPS paid (cps)	0.7	-	1.6	2.5	1.9

Valuation	
WACC	7.3%
DCF ($m)	178.8
Less net debt ($m)	(24.2)
Total ($m)	154.6
Value per share ($ps)	1.75

Key metrics	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA margin	44%	47%	43%	52%	49%
NPAT margin	12%	19%	16%	23%	20%
FCF yield	0%	-1%	-14%	4%	3%
Net debt / EBITDA		2.01	1.76	0.97	0.94
ROE		36%	13%	19%	14%
EV / EBITDA	24.2	15.4	13.3	8.6	9.8
P / E		26.9	31.0	17.6	22.2

Cash flows ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA	6.6	11.8	13.7	20.7	17.9
Non-cash adjustments	(2.3)	(3.9)	(4.2)	(3.5)	(1.8)
Gross operating CF	4.2	7.9	9.5	17.2	16.1
Net finance costs paid	(0.8)	(0.8)	(1.5)	(1.3)	(1.0)
Tax paid	(0.2)	0.3	(2.5)	(2.5)	(3.1)
Operating Cash Flow	**3.3**	**7.4**	**5.5**	**13.5**	**12.0**
PPE capital investment	(3.8)	(8.3)	(28.0)	(7.1)	(7.1)
Acquisitions	-	-	-	-	-
Sales / restructure	1.3	0.1	-	-	-
Other investing cash flow	-	(0.1)	-	-	-
Investing Cash Flow	**(2.5)**	**(8.3)**	**(28.0)**	**(7.1)**	**(7.1)**
Debt drawdowns	-	1.3	6.5	2.6	-
Debt repaid	(0.3)	(0.6)	(5.3)	(5.2)	(5.2)
Share buybacks	-	-	-	-	-
Dividends paid	(0.5)	-	(1.4)	(2.2)	(1.7)
New shares issued	-	0.1	23.5	-	-
Financing Cash Flow	**(0.8)**	**0.9**	**23.3**	**(4.8)**	**(6.9)**
Free Cash Flow	**0.7**	**(0.9)**	**(22.5)**	**6.4**	**4.9**
Net Cash Flow	**(0.0)**	**(0.0)**	**0.8**	**1.6**	**(2.0)**

Balance sheet ($m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	-	0.9	1.7	3.3	1.4
Trade receivables	-	3.4	7.6	11.1	12.8
Other	-	10.0	10.0	10.0	10.0
Total Current Assets	**-**	**14.2**	**19.3**	**24.4**	**24.2**
PPE	-	35.5	58.3	58.3	58.4
Intangibles	-	2.9	2.9	2.9	2.9
Other	-	1.7	1.7	1.7	1.7
Total Non-Current Assets	**-**	**40.0**	**62.8**	**62.9**	**62.9**
Trade payables	-	5.3	5.3	5.3	5.3
Current portion of IBL	-	2.1	5.2	5.2	5.2
Derivatives and Other	-	9.8	9.2	10.1	9.7
Total Current Liabilities	**-**	**17.1**	**19.6**	**20.6**	**20.2**
IBL	-	22.7	20.8	18.2	13.0
Provisions	-	0.1	0.1	0.1	0.1
Deferred Tax	-	1.1	1.1	1.1	1.1
Other	-	-	-	-	-
Total NCL	**-**	**23.9**	**21.9**	**19.4**	**14.2**
Net Assets	**-**	**13**	**40**	**47**	**53**

Source: Morgans estimates, company data

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	
Springfield-Ipswich	+61 7 3202 3995	Orange	+61 2 6361 9166	Adelaide	+61 8 8464 5000
Spring Hill	+61 7 3833 9333	Port Macquarie	+61 2 6583 1735	Stockbroking, Corporate Advice, Wealth Management	
Sunshine Coast	+61 7 5479 2757	Scone	+61 2 6544 3144	Exchange Place	+61 8 7325 9200
Toowoomba Chalk Capital	+61 7 4639 1277	Wollongong	+61 2 4227 3022	Norwood	+61 8 8461 2800
Townsville	+61 7 4725 5787			Unley	+61 8 8155 4300
Northern Territory		Australian Capital Territory		Tasmania	
Darwin	+61 8 8981 9555	Canberra	+61 2 6232 4999	Hobart	+61 3 6236 9000

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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.; Morgans Corporate Limited was Joint Lead Manager and Underwriter to the Initial Public Offer of shares in LGI Limited 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

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