

November 9, 2022

HOLD (no change)

Stock code:	GNX AU
Price:	A\$0.18
12-month target price:	A\$0.20
Previous target price:	A\$0.25
Up/downside to target price:	11.1%
Dividend yield:	0.0%
12-month TSR*:	11.1%
Market cap:	A\$249.3m
Average daily turnover:	A\$0.47m
Index inclusion:	N/A

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

Price performance

(%)	1M	3M	12M	3Y
Absolute	-16.3	-18.2	-10	7.7
Rel ASX/S&P200	-19.8	-17.8	-4.1	3.6



Financial summary

	Jun-22A	Jun-23F	Jun-24F	Jun-25F
Revenue (A\$m)	24.80	36.33	39.57	62.62
EBITDA Norm (A\$m)	13.82	21.30	24.06	71.68
Net Profit (A\$m)	19.73	-3.98	-6.72	20.43
EPS Norm (A\$)	0.017	-0.003	-0.006	0.018
EPS Growth Norm (%)		-117%	118%	
P/E Norm (x)	10.88	NA	NA	9.88
DPS (A\$)	0.000	0.000	0.000	0.001
Dividend Yield (%)	0.00%	0.00%	0.00%	0.66%
EV/EBITDA (x)	38.63	43.00	42.51	16.24
Gearing (Net Debt/EBITDA)	23.35	31.29	32.15	12.26

Source: Company data, Morgans estimates

Related research

[LGI \(HOLD - TP A\\$1.81\) - 11 Oct 2022](#)

[GNX \(HOLD - TP A\\$0.25\) - 29 Aug 2022](#)

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– Genex Power

Genex Power

Tunnel trouble

- GNX expects an additional \$10m - \$15m cost due to additional costs to complete the Main Access Tunnel.
- Additional equity funding is not being considered as cash flow from solar and battery project partnerships are expected to meet additional funding requirements.
- We maintain our HOLD rating on a reduced price target of 20cps. Short term uncertainty is weighing on the outlook despite the potential for long term gains.

Reroute needed to avoid fractured rock

- In the 1Q23 report, GNX disclosed that while drilling the face of the Main Access Tunnel (MAT), it hit an area with high pressure water and had to seal the face. The company has decided to reroute the tunnel to avoid the area of fractured rock. The MAT was reported to be 75% complete at the end of 1Q.
- This decision will increase the total expected spend (previously \$775.5m) by \$10m - \$15m. This implies that the contingency allowances included in the financial close budget have already been allocated. We have not allowed for any further increases in our capital expenditure estimate but we think the risks are higher if there is little to no contingency buffer remaining.
- The company still plans to energise the project in 2H CY24 and intends to manage the additional cash needs from its current portfolio.

Solar & batteries to the rescue?

- LGC spot and futures prices are well in excess of our prior assumptions. Contracts for CY22 are currently just short of \$66/MWh while we had allowed for \$48/MWh for LGCs. Similar increases are warranted across the futures curve which lifts average realised prices by 5% - 13% across FY23 – FY25. Our forecast for operating cash flow in that period lifts by ~\$5m for that period.
- It is possible that GNX could also realise additional funds by finding partners to farm into its battery projects (Bouldercombe and/or Bulli Creek). It's difficult to be too definitive about the details but we recognise the possibility reduces the likelihood of needing additional equity capital.

Forecast and valuation update

- After allowing for cost overruns, higher solar revenues and rolling forward our model our estimated fundamental valuation has reduced to 28cps (-7%).
- Our target price is still driven by the unresolved, non-binding take over bid. Given the capital cost increases, the length of time for a binding offer and the materially lower undisturbed price (14cps), we think it's prudent to risk-weight the 25cps non-binding bid price to 20cps.

Investment view

- We think there is long term value once Kidston Hydro is mostly de-risked, the risks in the short term are high. We note that the share price was trading materially lower prior to the bid. If GNX can demonstrate that it can secure funding from its own portfolio, without relying too much on potentially volatile merchant revenues we would look to potentially increase our target price. While those issues are unresolved we retain our HOLD rating.

Price catalysts

- Conversion of the non-binding offer to a committed bid.
- Cash increases from developing battery project partnerships.

Risks

- Resolution of the takeover offer.
- Successful completion of K2H project on time and with no further cost increases.
- 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.

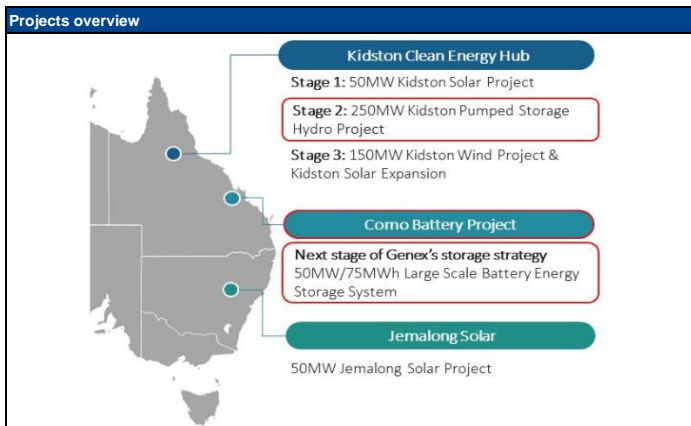
Genex Power

HOLD

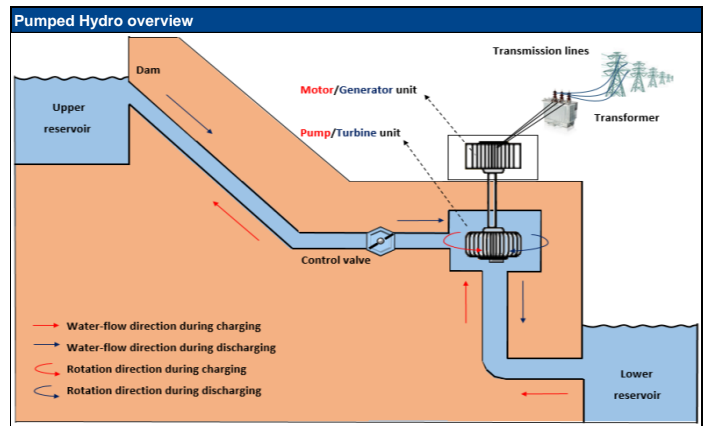
as at November 9, 2022

Price (A\$):	0.18	12-month target price (A\$):	0.20
Market cap (A\$m):	249.3	Up/downside to target price (%):	11.1
Free float (%):	69.3	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	11.1

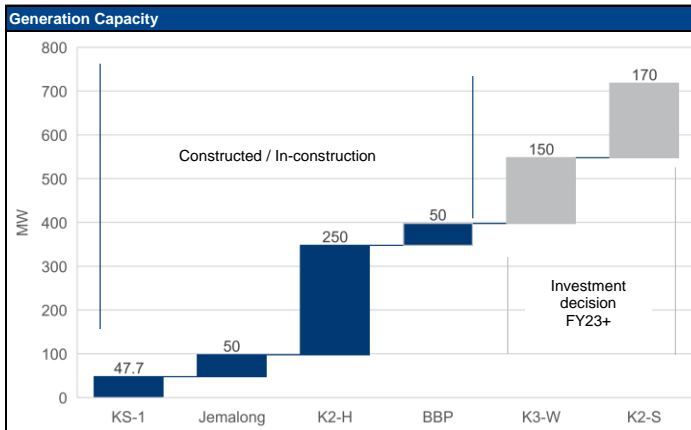
GNX is redeveloping an old gold mine in North Queensland into a 250MW energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has a second 50MW solar farm operating at Jemalong in Central NSW as well as plans to expand with a 50MW/100MWh battery in Central Queensland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



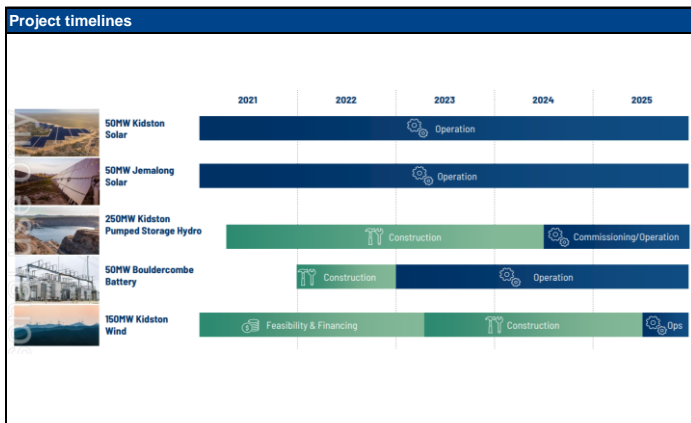
SOURCE: Journal of Power Technologies (2017)



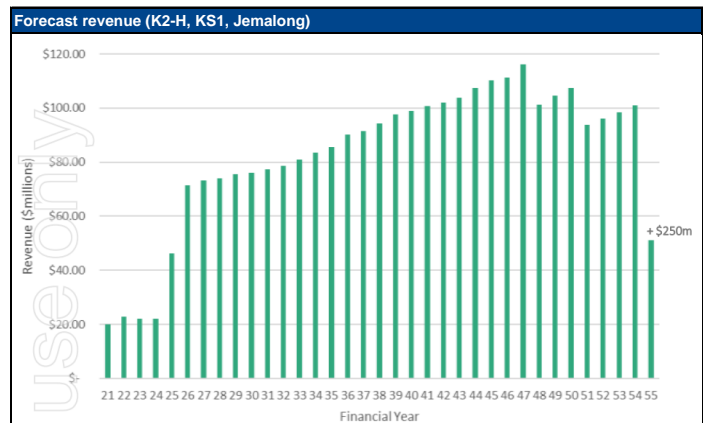
SOURCES: MORGANS, GNX

- 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	40.2	2.40	234.5	(164.5)	70.0	55.1	4.0
Wind generation (GWh)	-	-	-	-	-	Hydro	203.6	3.30	825.0	(648.0)	177.0	190.3	13.7
Hydro capacity (MW)	-	-	-	-	125	Battery	82.4	1.20	60.0	(11.3)	48.7	65.6	4.7
Battery capacity (MW)	-	-	-	50	50	Wind	94.0	0.38	57.0	-	57.0	75.5	5.5
Ave generation price (\$/MWh)	87.4	115.3	159.7	116.6	109.0	Total	420.3		1,176.5	(823.8)	352.7	386.5	28.0
Ave storage price (\$/MWh)	-	-	-	26.1	24.0	Price target (cps)							20.0
Profit and loss (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E	Key Multiples			FY21A	FY22A	FY23E	FY24E	FY25E
Net Revenue	10.6	24.8	36.3	39.6	62.6	EV/EBITDA (x)				68.5	44.5	39.4	13.2
Other inc	11.0	2.4	0.4	0.8	20.8	Price-to-earnings (x)							14.0
Expenses	(28.5)	(13.4)	(15.4)	(16.3)	(11.7)	Dividend yield (%)			-	-	-	-	-
EBITDA	(6.8)	13.8	21.3	24.1	71.7	Free cashflow yield (%)			-63%	-91%	-138%	-43%	-95%
D&A	(6.3)	(10.1)	(10.9)	(13.9)	(22.3)	Net Debt / ND+E (%)			52%	62%	77%	80%	70%
Operating EBIT	(13.1)	3.7	10.4	10.1	49.3	Net Debt / EBITDA (x)			(21.2)	23.3	31.3	32.1	12.3
Net Interest Expense	(5.7)	(7.7)	(14.4)	(18.8)	(20.4)	Operating CF-to-interest (x)			(0.9)	0.7	0.6	2.9	2.3
Profit Before Tax	(18.7)	(4.1)	(4.0)	(8.7)	28.9								
Tax	-	-	-	2.0	(8.5)	Balance Sheet	FY21A	FY22A	FY23E	FY24E	FY25E		
Net Profit	(18.7)	(4.1)	(4.0)	(6.7)	20.4	Cash	45.4	62.9	38.3	27.4	36.7		
						Receivables	1.2	3.3	1.4	1.2	1.1		
EPS (cps)	(3.1)	(0.3)	(0.3)	(0.5)	1.3	Inventory & prepayments	2.7	3.4	3.4	3.4	3.4		
DPS (cps)	-	-	-	-	-	Other	-	-	-	-	-		
						Current Assets	49.4	69.5	43.1	32.0	41.3		
						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	140.1	172.0		
						Non-Current Assets	310.3	547.6	889.5	989.8	1,285.5		
						Total Assets	359.7	617.2	932.6	1,021.8	1,326.8		
						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)	(67.6)	(74.3)	(58.1)		
						Equity	134.3	200.3	196.3	189.6	380.6		
						WANOS (m)	607.9	1,173.2	1,385.2	1,385.2	1,586.2		

Source: Morgans estimates, company data

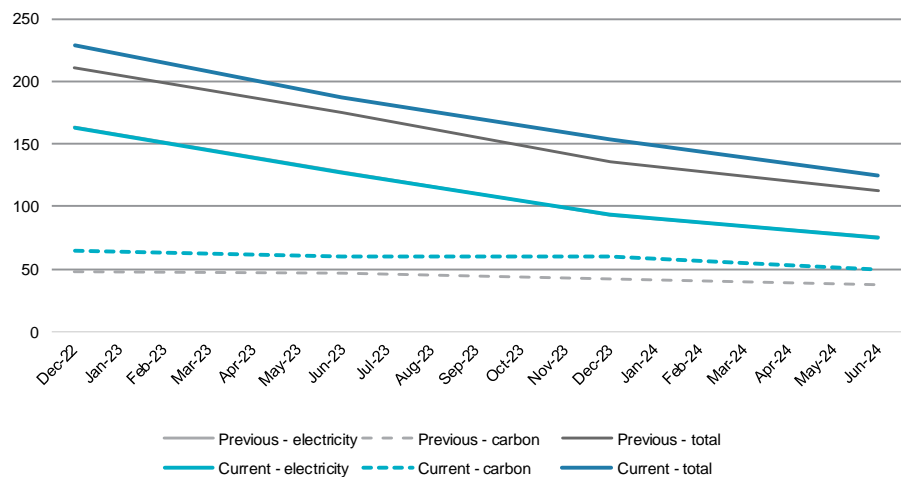
Takeover bid scenarios

GNX's undisturbed share price was 14cps prior to the bid being announced on the 25th of July. The non-binding offer was initially 23cps but was then increased to 25cps when access to due diligence was granted. Our price target therefore assumes a slightly higher than 50% chance that the deal proceeds at 25cps, or alternatively, the share price returns to its pre-bid level.

We note the difficulty in assigning probabilities to these events and that there is the potential for a bid to proceed at a lower price. We also note there is no certainty that the share price would simply return to the undisturbed price if the bid didn't proceed. The overall market hasn't moved significantly in the period since the bid emerged (ASX200 index has increased in value by ~3%) but energy prices are significantly higher. Risks to the downside could materialise though if Skip and Stonepeak reduce their holdings in GNX if they don't wish to continue with the takeover.

Price assumption and forecast changes

Figure 2: Changes to Jemalong pricing assumptions



Source: Morgans estimates

Figure 3: Forecast changes

Absolute changes	FY23	FY24	FY25	Relative changes (%)	FY23	FY24	FY25
Production (GWh)	-	-	-	Production	0%	0%	0%
Revenue (\$m)	1.7	1.8	3.1	Revenue	5%	5%	5%
EBITDA (\$m)	1.7	1.7	2.9	EBITDA	9%	8%	4%
D&A (\$m)	-	-	(0.2)	D&A	0%	0%	-1%
Net interest expense (\$m)	(0.3)	(0.1)	1.3	Net interest expense	-2%	0%	6%
Net Profit After Tax (\$m)	1.4	0.5	3.0	Net Profit After Tax	26%	6%	17%
Capital Expenditure (\$m)	(15.0)	-	-	Capital Expenditure	-4%	0%	0%
Debt (\$m)	18.4	1.7	12.0	Debt	3%	0%	1%
Cash balance (\$m)	1.4	(13.1)	(11.8)	Cash balance	4%	-32%	-24%

Source: Morgans estimates

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