

24 March 2023

Genex Power Limited (GNX)**BUY****Share Price: A\$0.14****Market dynamics remain favourable for BBP****Target Price: A\$0.22**

We explore the changes in the wholesale electricity pricing market in terms of both price and volatility in recent years. While the high and volatile prices seen in CY22 have moderated to some degree, we believe market dynamics continue to support the investment case for storage assets with the BBP likely to benefit when it becomes operational later this year. We reiterate our BUY recommendation and \$0.22 TP.

Key points

- Since the conclusion of discussions with the Skip Capital / Stonepeak consortium, the GNX share price has maintained a reasonably stable \$0.14-\$0.16 trading range.
- We see potential upside to our earnings forecasts post the energisation of the company's 50MW/100MWh Bouldercombe Battery Project (BBP).
- Wholesale electricity prices have changed significantly - in terms of being both higher and more volatile - since the lead-in to the BBP final investment decision which we believe was based on pricing data prior to 2QCY21.
- This represents a highly favourable trading environment for the BBP with the spread between the charge and discharge price having widened considerably.

Investment case

- GNX is building a portfolio of high-quality renewable energy and storage assets underpinned by offtake agreements with top tier counterparties (eg Qld government, Energy Australia, Tesla).
- With all 40 Tesla Megapack units having arrived on site this month, the construction schedule for the BBP has been largely de-risked.
- The flagship pumped hydro project is on track to be completed on schedule with energisation expected in 2HCY24.
- From FY26, 83% of revenue will be contracted for 30 years at >73% EBITDA margin.

Financial Summary

- We reiterate our Buy recommendation and \$0.22 target price which reflects the recent unsuccessful offer at \$0.25 adjusted for estimated cost overruns from the MAT water ingress issue. Despite valuing the company more highly than this, we believe this corporate activity places a near-term ceiling on the share price.

Key Dates Ahead

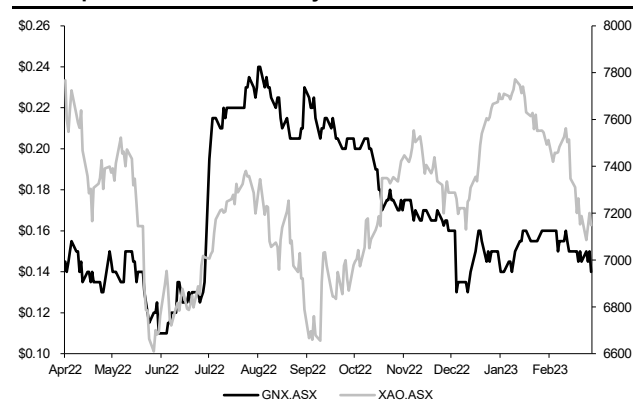
- Completion Main Access Tunnel in June/July.
- Energisation of BBP in 2HCY23.
- Completion of powerhouse cavern in November.

Company Data

| | |
|--------------------------------|--|
| Shares – ordinary (M) | 1385.2 |
| Dilution (M) | 0.0 |
| Total (fully diluted) (M) | 1385.2 |
| Market capitalisation (\$M) | 193.9 |
| 12 month low/high (\$) | 0.1/ 0.24 |
| Average monthly turnover (\$M) | 2.8 |
| GICS Industry | Independent Power and Renewable Energy |

Financial Summary (fully diluted/normalised)

| Year end June | FY22A | FY23F | FY24F | FY25F | FY26F |
|---------------------|--------|--------|--------|-------|-------|
| Revenue (\$M) | 27.2 | 26.9 | 40.8 | 66.5 | 93.5 |
| Costs (\$M) | -13.4 | -12.0 | -16.1 | -22.2 | -28.4 |
| EBITDA (\$M) | 13.8 | 14.9 | 24.8 | 44.4 | 65.1 |
| NPAT (\$M) | -4.1 | 0.1 | 6.6 | 20.2 | 15.1 |
| EPS (¢ps) | -0.3 | 0.0 | 0.5 | 1.5 | 1.1 |
| EPS Growth (%) | na | na | >100 | 206% | -25% |
| PER (x) | na | 1571.7 | 29.4 | 9.6 | 12.8 |
| Free Cashflow (\$M) | -230.7 | -255.0 | -135.9 | -22.9 | 36.7 |
| FCFPS (¢ps) | -19.7 | -18.4 | -9.8 | -1.7 | 2.7 |
| P/FCFPS (x) | na | na | na | na | 5.3 |
| EV (\$M) | 521.3 | 781.7 | 915.7 | 938.5 | 920.2 |
| EV / EBITDA (x) | 37.7 | 52.5 | 37.0 | 21.2 | 14.1 |
| Payout ratio (%) | 0% | 0% | 0% | 55% | 101% |
| Dividends (¢ps) | 0.0 | 0.0 | 0.0 | 0.8 | 1.1 |
| Yield (%) | 0.0% | 0.0% | 0.0% | 5.7% | 7.9% |
| Franking (%) | na | na | na | 0% | 0% |

GNX – performance over one year**Disclosure and Disclaimer**

This report must be read with the disclosure and disclaimer on the final page of this document.

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Analysis

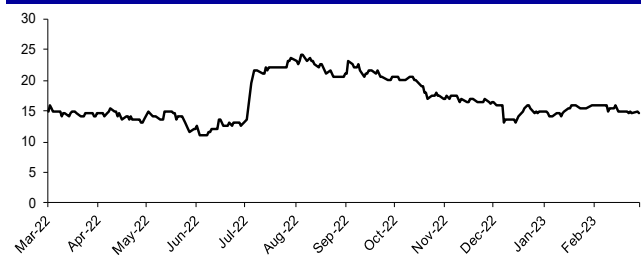
Genex Power Limited

Year end Jun

MARKET DATA

| | | |
|---------------------------|-----|--------------|
| Recommendation | | Buy |
| Price | \$ | 0.14 |
| Target price (12-month) | \$ | 0.22 |
| 52 week low / high | \$ | 0.105 / 0.24 |
| Market capitalisation | \$m | 193.9 |
| Shares on issue (basic) | no. | 1385.2 |
| Options / rights | no. | 0.0 |
| Other equity | no. | 0.0 |
| Shares on issue (diluted) | no. | 1385.2 |

12-MONTH SHARE PRICE PERFORMANCE



INVESTMENT FUNDAMENTALS

| | FY22A | FY23F | FY24F | FY25F | FY26F |
|-----------------------------------|-----------|--------|-------|-------|-------|
| NPAT (reported) | \$m (4.1) | 0.1 | 6.6 | 20.2 | 15.1 |
| NPATA (underlying) | \$m (4.1) | 0.1 | 6.6 | 20.2 | 15.1 |
| EPS (Reported, undiluted) | ¢ (0.3) | 0.0 | 0.5 | 1.5 | 1.1 |
| EPS (NPATA underlying, diluted) | ¢ (0.3) | 0.0 | 0.5 | 1.5 | 1.1 |
| Growth | % na | na | >100 | 206% | -25% |
| PER normalised | x na | na | 29.4 | 9.6 | 12.8 |
| Operating cash flow per share | ¢ 1.3 | 1.6 | 4.8 | 6.8 | 7.6 |
| Free cash flow per share | ¢ (19.7) | (18.4) | (9.8) | (1.7) | 2.7 |
| Price to free cash flow per share | x na | na | na | na | 5.3 |
| FCF yield | % na | na | na | na | 18.9 |
| Dividend | ¢ 0.0 | 0.0 | 0.0 | 0.8 | 1.1 |
| Payout | % 0.0 | 0.0 | 0.0 | 55.0 | 100.7 |
| Yield | % na | na | na | 5.7% | 7.9% |
| Franking | % na | na | na | 0 | 0 |
| Enterprise value | \$m 521.3 | 781.7 | 915.7 | 938.5 | 920.2 |
| EV/EBITDA | x 37.7 | 52.5 | 37.0 | 21.2 | 14.1 |
| EV/EBIT | x 141.9 | 159.7 | 71.7 | 29.0 | 25.8 |
| Price to book (NAV) | x 1.0 | 1.0 | 0.9 | 0.8 | 0.8 |
| Price to NTA | x 1.0 | 1.0 | 0.9 | 0.8 | 0.8 |

KEY RATIOS

| | FY22A | FY23F | FY24F | FY25F | FY26F |
|--------------------------------------|-----------|-------|-------|-------|-------|
| EBITDA margin | % 55.7 | 58.7 | 63.0 | 68.2 | 70.7 |
| EBIT margin | % 14.8 | 19.3 | 32.5 | 49.7 | 38.8 |
| NPAT margin | % (14.9) | 0.5 | 16.2 | 30.3 | 16.2 |
| ROE | % (2.0) | 0.1 | 3.1 | 8.7 | 6.6 |
| ROA | % (0.7) | 0.0 | 0.7 | 2.0 | 1.5 |
| Net debt / (cash) | \$m 327.3 | 587.8 | 721.8 | 744.5 | 726.2 |
| Interest cover (EBIT / Net interest) | x 0.5 | 1.0 | 2.1 | 2.7 | 1.7 |
| Leverage (Net debt / EBITDA) | x 23.7 | 39.5 | 29.1 | 16.8 | 11.2 |
| Gearing (ND / (ND+E)) | % 62% | 74% | 77% | 76% | 76% |

EBITDA SPLIT BY ASSET

| | FY22A | FY23F | FY24F | FY25F | FY26F |
|-------------------------------|-----------|-------|-------|-------|-------|
| Kidston Solar | \$m 10.0 | 8.7 | 7.4 | 7.3 | 7.6 |
| Jemalong Solar | \$m 10.6 | 12.6 | 12.7 | 11.8 | 11.3 |
| Bouldercombe Battery | \$m | | 11.3 | 11.3 | 11.3 |
| Kidston Hydro | \$m | | | 20.7 | 41.7 |
| Other revenue less corp costs | \$m (6.7) | (6.4) | (6.6) | (6.7) | (6.8) |

GROWTH PROFILE

| | FY22A | FY23F | FY24F | FY25F | FY26F |
|---------------------------------|---------|-------|-------|-------|--------|
| Revenue | % 30.8 | 2.4 | 54.8 | 65.4 | 41.4 |
| EBITDA | % 617.7 | 7.8 | 66.3 | 79.1 | 46.7 |
| EBIT | % na | 33.3 | 160.7 | 153.4 | 10.4 |
| NPATA | % na | na | >100 | 205.7 | (24.9) |
| EPS (NPATA underlying, diluted) | % na | na | >100 | 205.7 | (24.9) |

PROFIT AND LOSS (PF)

| | FY22A | FY23F | FY24F | FY25F | FY26F |
|-----------------------------|-----------|-------|-------|--------|--------|
| Revenue | \$m 27.2 | 26.9 | 40.8 | 66.5 | 93.5 |
| EBITDA | \$m 13.8 | 14.9 | 24.8 | 44.4 | 65.1 |
| Depreciation & amortisation | \$m 10.1 | 10.0 | 12.0 | 12.0 | 29.3 |
| EBIT | \$m 3.7 | 4.9 | 12.8 | 32.4 | 35.7 |
| Net interest | \$m (7.7) | (4.8) | (6.2) | (12.2) | (20.6) |
| Associate income | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax Profit | \$m (4.1) | 0.1 | 6.6 | 20.2 | 15.1 |
| Tax expense | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT (underlying) | \$m (4.1) | 0.1 | 6.6 | 20.2 | 15.1 |
| Amortisation add-back | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| NPATA | \$m (4.1) | 0.1 | 6.6 | 20.2 | 15.1 |
| Significant items | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reported NPAT | \$m (4.1) | 0.1 | 6.6 | 20.2 | 15.1 |

BALANCE SHEET

| | FY22A | FY23F | FY24F | FY25F | FY26F |
|----------------------|-----------|-------|-------|---------|---------|
| Cash | \$m 62.9 | 37.9 | 32.1 | 26.7 | 34.0 |
| Receivables | \$m 3.3 | 3.5 | 6.0 | 12.0 | 21.2 |
| Inventory | \$m 0.2 | 0.2 | 0.3 | 0.5 | 0.6 |
| Other | \$m 3.2 | 3.2 | 2.9 | 3.0 | 3.5 |
| Current | \$m 69.5 | 44.7 | 41.3 | 42.2 | 59.3 |
| Prop, plant & equip | \$m 452.0 | 648.7 | 791.7 | 829.7 | 800.3 |
| Intangibles | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | \$m 95.6 | 159.1 | 157.8 | 157.8 | 159.3 |
| Non current | \$m 547.6 | 807.8 | 949.5 | 987.5 | 959.6 |
| Total assets | \$m 617.2 | 852.5 | 990.7 | 1,029.6 | 1,018.9 |
| Accounts Payable | \$m 13.6 | 12.0 | 13.5 | 14.3 | 15.0 |
| Borrowings | \$m 390.2 | 625.6 | 753.9 | 771.2 | 760.2 |
| Other | \$m 13.0 | 11.3 | 13.1 | 13.7 | 14.8 |
| Total liabilities | \$m 416.9 | 648.9 | 780.5 | 799.2 | 790.0 |
| Shareholder's equity | \$m 200.3 | 203.6 | 210.2 | 230.4 | 228.9 |

CASH FLOW

| | FY22A | FY23F | FY24F | FY25F | FY26F |
|-----------------------------|-------------|---------|---------|--------|--------|
| EBITDA | \$m 13.8 | 14.9 | 24.8 | 44.4 | 65.1 |
| Change in working capital | \$m (4.7) | (1.8) | (1.1) | (5.4) | (8.6) |
| Net interest | \$m (6.2) | (6.2) | (6.2) | (12.2) | (20.6) |
| Tax paid | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | \$m 1.0 | (0.4) | 1.6 | 0.3 | 0.9 |
| Operating cash flow | \$m 4.0 | 6.4 | 19.1 | 27.1 | 36.7 |
| Capex | \$m (234.7) | (261.5) | (155.0) | (50.0) | 0.0 |
| Acquisitions | \$m 0.0 | (2.7) | 0.0 | 0.0 | 0.0 |
| Purchase of intangibles | \$m 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Investing cash flow | \$m (230.4) | (264.1) | (155.0) | (50.0) | 0.0 |
| Equity issuance | \$m 45.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Incr / (decr) in borrowings | \$m 198.0 | 232.6 | 128.3 | 17.3 | (11.0) |
| Dividends / other | \$m 4.4 | 0.1 | 1.8 | 0.2 | (18.4) |
| Financing cash flow | \$m 243.8 | 232.7 | 130.1 | 17.5 | (29.4) |
| Net cash flow | \$m 17.4 | (25.0) | (5.8) | (5.4) | 7.3 |
| Free cash flow | \$m (230.7) | (255.0) | (135.9) | (22.9) | 36.7 |

Source: Petra Capital

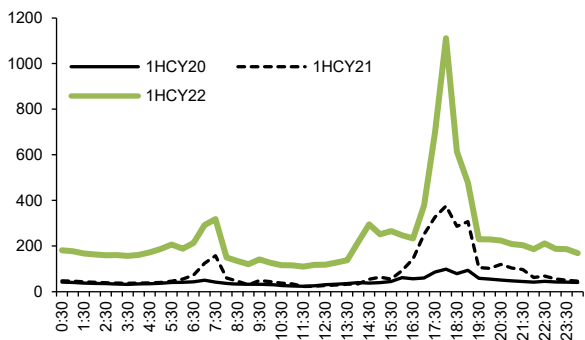
Electricity pricing trends

To give investors an indication of the extent of the changes in the pricing environment over the last three years, we have plotted the average price over the course of a day for the first half of the calendar year for each of CY20, CY21 and CY22 (Figure 1) and for the second half of those years (Figure 2).

While 1H21 showed some differentiation compared with 1H20 at peak times, this became more pronounced in 2H21 over 2H20. This reflected the fire at Callide Power Station late in the first half which caused significant fluctuations and instability that lasted well into the second half of CY21.

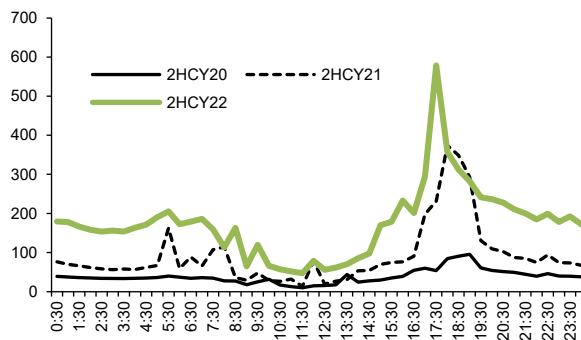
However, this paled in comparison with CY22 when higher coal and gas prices led to significantly higher marginal pricing in peak periods and greater spreads between troughs and peaks. The implications for the BBP are meaningful, in that the spread between the price paid when the battery is charging and the price received when discharging has increased substantially. While these trends have moderated somewhat in CY23 to date, the spread remains elevated compared with the time leading in to the BBP investment decision. As such, we believe the revenue and EBITDA from the BBP, once operational later this calendar year, could be substantially higher than our current forecasts (which are \$15m of revenue pa and \$11.3m of EBITDA).

Figure 1: Qld average daily pricing (\$/MWh) – 1HCY



Source: AEMO, Petra Capital

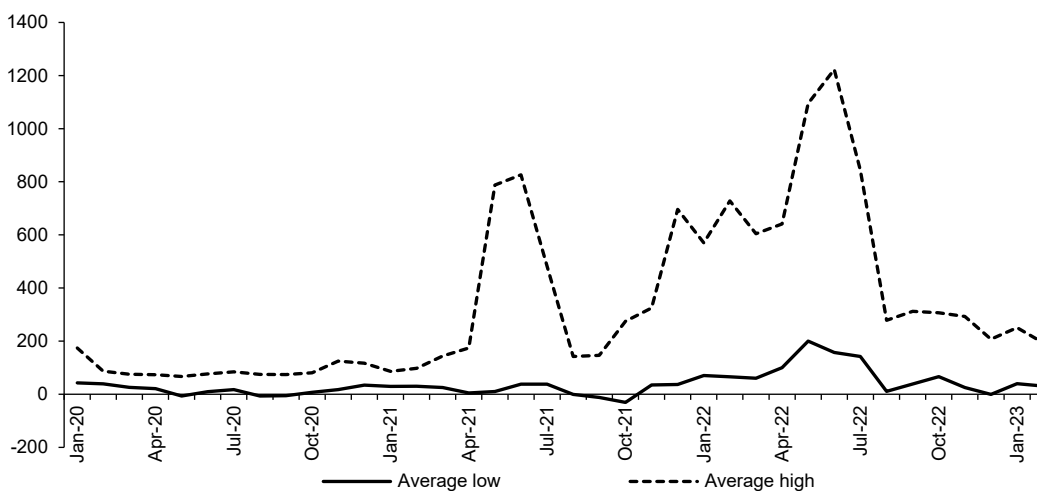
Figure 2: Qld average daily pricing (\$/MWh) – 2HCY



Source: AEMO, Petra Capital

To illustrate this further, we have also plotted an estimate of the charge price and discharge price over the last three years. We stress this an estimate only which we have obtained by averaging the lowest prices over a 2-hour period for the average charge price and the highest prices over a 2-hour period for the average discharge price. Again, the volatility in pricing has moderated in CY23 but remains well above pre-investment decision levels.

Figure 3: Estimated charge and discharge price – last 3 years (\$/MWh)



Source: AEMO, Petra Capital

Key assumptions

Our capacity, generation, pricing, revenue and EBITDA assumptions are shown in Figure 4 split by asset.

Figure 4: Genex Power Asset Summary

| Installed capacity (MW) | FY19A | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F | FY26F |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Kidston Solar | 50 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| Jemalong Solar | | | | 50 | 50 | 50 | 50 | 50 |
| Bouldercombe Battery | | | | | | 50 | 50 | 50 |
| Kidston Hydro | | | | | | | 250 | 250 |
| Total | 50 | 50 | 50 | 100 | 100 | 150 | 400 | 400 |
| Generation (GWh) | FY19A | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F | FY26F |
| Kidston Solar | 126.8 | 116.5 | 118.8 | 116.0 | 118.0 | 117.9 | 117.6 | 121.9 |
| Jemalong Solar | | | | 107.6 | 100.7 | 106.1 | 106.1 | 105.6 |
| Bouldercombe Battery | | | | | | 36.5 | 36.5 | 36.5 |
| Kidston Hydro | | | | | | | 365.0 | 730.0 |
| Total | 126.8 | 116.5 | 118.8 | 223.5 | 218.7 | 260.4 | 625.1 | 994.0 |
| Price (\$/MWh) | FY19A | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F | FY26F |
| Kidston Solar | 85.35 | 88.00 | 89.45 | 110.65 | 98.56 | 88.00 | 88.00 | 88.00 |
| Jemalong Solar | | | | 112.26 | 136.65 | 131.45 | 124.42 | 121.82 |
| Bouldercombe Battery | | | | | | N/A | N/A | N/A |
| Kidston Hydro | | | | | | | N/A | N/A |
| Revenue (\$m) | FY19A | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F | FY26F |
| Kidston Solar | 10.8 | 10.3 | 10.6 | 12.8 | 11.6 | 10.4 | 10.3 | 10.7 |
| Jemalong Solar | | | | 12.1 | 13.8 | 13.9 | 13.2 | 12.9 |
| Bouldercombe Battery | | | | | | 15.0 | 15.0 | 15.0 |
| Kidston Hydro - Rental | | | | | | | 26.5 | 53.4 |
| Total | 10.8 | 10.3 | 10.6 | 24.9 | 25.4 | 39.3 | 65.0 | 92.0 |
| EBITDA (\$m) | FY19A | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F | FY26F |
| Kidston Solar | 9.2 | 8.7 | 9.0 | 10.0 | 8.7 | 7.4 | 7.3 | 7.6 |
| Jemalong Solar | | | | 10.6 | 12.6 | 12.7 | 11.8 | 11.3 |
| Bouldercombe Battery | | | | | | 11.3 | 11.3 | 11.3 |
| Kidston Hydro | | | | | | | 20.7 | 41.7 |
| Other revenue | 4.8 | 2.0 | 3.1 | 2.4 | 1.5 | 1.5 | 1.5 | 1.5 |
| Corporate costs | -8.4 | -8.9 | -10.4 | -9.1 | -7.9 | -8.1 | -8.2 | -8.3 |
| Total | 5.6 | 1.8 | 1.8 | 13.8 | 14.9 | 24.8 | 44.4 | 65.1 |

Source: Genex Power, Petra Capital estimates



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