

31 January 2023

Genex Power Limited (GNX)

BUY Share Price: A\$0.145

Volatile pricing positive for BBP

Target Price: A\$0.22

GNX's 2Q23 report reflected the fact that strong pricing seen earlier in 2022 was not sustained in the December quarter. Kidston Solar saw average pricing close to the contracted floor price while Jemalong Solar realised prices almost 40% below the first quarter. More positively, we note that intraday pricing volatility remains very high which bodes extremely well for the operating metrics of the Bouldercombe Battery Project (BBP) later this year. This represents a source of upside to our forecasts. We reiterate our BUY recommendation and \$0.22 TP.

Key points from quarterly

- Kidston Solar reported revenue of \$2.8m (slightly down from \$2.9m in pcp) having generated 30,791MWh of renewable energy in the quarter (down 2% on pcp).
- Jemalong Solar (JSP) reported revenue of \$3.4m (up 17% on pcp) comprising \$1.8m from electricity sales and \$1.6m from LGC sales from net generation of 30,975MWh (down 11% on pcp). While average pricing for JSP was ~30% above pcp, it was ~38% lower than 1Q23 illustrating the volatility in the market.
- Construction activity on the MAT at K2-Hydro resumed in early December following the delay from the substantial water ingress. Management continues to expect that the project will be completed on schedule for planned energisation in 2HCY24.
- The Bouldercombe Battery Project remains on track for energisation towards the middle of this calendar year. Intraday pricing volatility is at a high level suggesting to us that the investment case for the project is substantially better than at the time of the investment decision.

Investment case

- While the indicative proposal from the Skip/Stonepeak consortium failed to result in a binding offer, we believe the probability of further corporate interest is high.
- Despite downgrading our forecasts for the more muted solar pricing environment, our free cash flow to equity valuation at \$0.285 remains comfortably above the \$0.25 last offered by the consortium.

Financial Summary

- We have downgraded FY23 EBITDA by 37% to \$14.9m and FY24 by 19% to \$24.8m reflecting the significant decline in the pricing environment. This impacts underlying valuation by ~\$0.015 per share.
- We reiterate our Buy recommendation and \$0.22 target price which reflects the unsuccessful offer adjusted for the cost overruns from the water ingress issue.

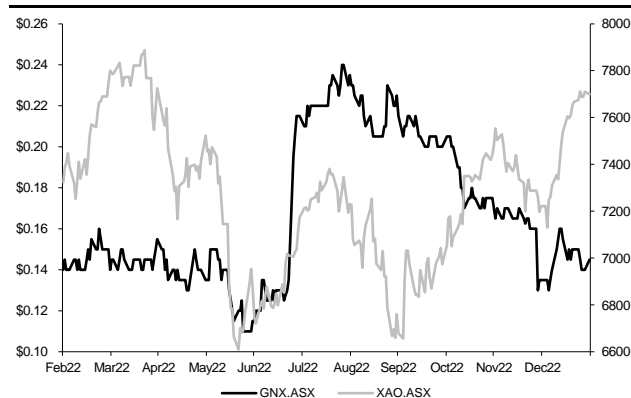
Company Data

Shares – ordinary (M)	1385.2
Dilution (M)	0.0
Total (fully diluted) (M)	1385.2
Market capitalisation (\$M)	200.9
12 month low/high (\$)	0.1/ 0.24
Average monthly turnover (\$M)	7.6
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	-5.8	-0.8	8.8	14.0
EPS (¢ps)	-0.3	-0.4	-0.1	0.6	1.0
EPS Growth (%)	na	na	na	>100%	59%
PER (x)	na	-34.8	-246.3	22.8	14.3
Free Cashflow (\$M)	-230.7	-372.0	-137.3	-49.8	37.8
FCFPS (¢ps)	-19.7	-26.9	-9.9	-3.6	2.7
P/FCFPS (x)	na	na	na	na	5.3
EV (\$M)	528.2	902.5	1043.1	1093.7	1072.9
EV / EBITDA (x)	38.2	60.6	42.1	24.7	16.5
Payout ratio (%)	0%	0%	0%	95%	99%
Dividends (¢ps)	0.0	0.0	0.0	0.6	1.0
Yield (%)	0.0%	0.0%	0.0%	4.1%	6.9%
Franking (%)	na	na	na	100%	100%

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	\$	0.145
Target price (12-month)	\$	0.22
52 week low / high	\$	0.105 / 0.24
Market capitalisation	\$m	200.9
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)	(5.8)	(0.8)	8.8	14.0
NPATA (underlying)	\$m (4.1)	(5.8)	(0.8)	8.8	14.0
EPS (Reported, undiluted)	¢ (0.3)	(0.4)	(0.1)	0.6	1.0
EPS (NPATA underlying, diluted)	¢ (0.3)	(0.4)	(0.1)	0.6	1.0
Growth	% na	na	na	>100	59%
PER normalised	x na	(34.8)	(246.3)	22.8	14.3
Operating cash flow per share	¢ 1.3	0.3	3.3	6.4	7.8
Free cash flow per share	¢ (19.7)	(26.9)	(9.9)	(3.6)	2.7
Price to free cash flow per share	x na	na	na	na	5.3
FCF yield	% na	na	na	na	18.8
Dividend	¢ 0.0	0.0	0.0	0.6	1.0
Payout	% 0.0	0.0	0.0	94.5	98.9
Yield	% na	na	na	4.1%	6.9%
Franking	% na	na	na	100	100
Enterprise value	\$m 528.2	902.5	1,043.1	1,093.7	1,072.9
EV/EBITDA	x 38.2	60.6	42.1	24.7	16.5
EV/EBIT	x 143.8	311.6	119.0	51.2	27.7
Price to book (NAV)	x 1.0	1.0	1.0	1.0	1.0
Price to NTA	x 1.0	1.0	1.0	1.0	1.0

KEY RATIOS

	FY22A	FY23F	FY24F	FY25F	FY26F
EBITDA margin	% 55.7	58.7	63.0	68.2	70.7
EBIT margin	% 14.8	11.4	22.3	32.8	42.1
NPAT margin	% (14.9)	(21.5)	(2.0)	13.2	15.0
ROE	% (2.0)	(3.0)	(0.4)	4.3	7.0
ROA	% (0.7)	(0.6)	(0.1)	0.8	1.2
Net debt / (cash)	\$m 327.3	701.6	842.3	892.9	872.1
Interest cover (EBIT / Net interest)	x 0.5	0.3	0.9	1.7	1.6
Leverage (Net debt / EBITDA)	x 23.7	47.1	34.0	20.1	13.4
Gearing (ND / (ND+E))	% 62%	78%	81%	82%	81%

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	(21.2)	202.7	143.6	81.5
NPATA	% na	na	na	>100	59.4
EPS (NPATA underlying, diluted)	% na	na	na	>100	59.4

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	12.0	16.0	23.0	26.3
EBIT	\$m 3.7	2.9	8.8	21.4	38.8
Net interest	\$m (7.7)	(8.7)	(9.6)	(12.6)	(24.8)
Associate income	\$m 0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m (4.1)	(5.8)	(0.8)	8.8	14.0
Tax expense	\$m 0.0	0.0	0.0	0.0	0.0
NPAT (underlying)	\$m (4.1)	(5.8)	(0.8)	8.8	14.0
Amorisation add-back	\$m 0.0	0.0	0.0	0.0	0.0
NPATA	\$m (4.1)	(5.8)	(0.8)	8.8	14.0
Significant items	\$m 0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m (4.1)	(5.8)	(0.8)	8.8	14.0

BALANCE SHEET

	FY22A	FY23F	FY24F	FY25F	FY26F
Cash	\$m 62.9	37.9	32.1	26.7	34.0
Receivables	\$m 3.3	4.1	7.5	15.0	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	45.3	42.7	45.1	59.3
Prop, plant & equip	\$m 452.0	813.3	947.7	999.9	973.6
Intangibles	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 95.6	98.3	102.1	102.9	104.4
Non current	\$m 547.6	911.6	1,049.8	1,102.8	1,078.0
Total assets	\$m 617.2	956.9	1,092.6	1,147.9	1,137.3
Accounts Payable	\$m 13.6	10.2	11.0	12.0	15.0
Borrowings	\$m 390.2	739.5	874.4	919.6	906.1
Other	\$m 13.0	12.8	13.5	13.9	15.0
Total liabilities	\$m 416.9	762.4	898.9	945.4	936.0
Shareholder's equity	\$m 200.3	194.5	193.7	202.5	201.3

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)	(4.2)	(2.7)	(6.7)	(3.4)
Net interest	\$m (6.2)	(8.7)	(9.6)	(12.6)	(24.8)
Tax paid	\$m 0.0	0.0	0.0	0.0	0.0
Other	\$m 1.0	(0.6)	0.6	0.3	0.9
Operating cash flow	\$m 4.0	1.3	13.1	25.4	37.8
Capex	\$m (234.7)	(373.3)	(150.4)	(75.2)	0.0
Acquisitions	\$m 0.0	0.0	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)	(376.0)	(150.4)	(75.2)	0.0
Equity issuance	\$m 45.8	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m 198.0	349.3	134.9	45.2	(13.5)
Dividends / other	\$m 4.4	(2.3)	(3.4)	(0.8)	(17.0)
Financing cash flow	\$m 243.8	349.6	131.5	44.4	(30.5)
Net cash flow	\$m 17.4	(25.0)	(5.8)	(5.4)	7.3
Free cash flow	\$m (230.7)	(372.0)	(137.3)	(49.8)	37.8

Source: Petra Capital

Key assumptions

Our latest capacity, generation, pricing, revenue and EBITDA assumptions are shown below (Figure 1) split by asset.

Figure 1: 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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