

27 October 2023

Genex Power Limited

Utilities

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Rating
SPECULATIVE BUY
unchanged

Price Target
A\$0.26↓
from A\$0.27

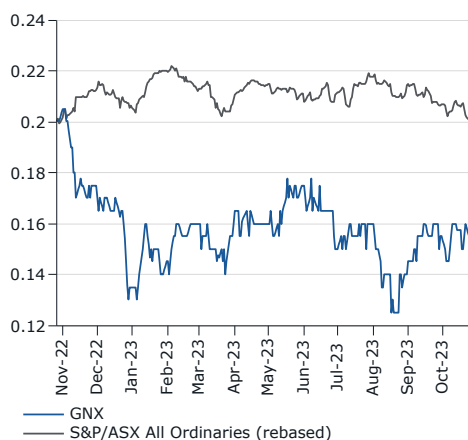
GNX-ASX

Price
A\$0.15

Market Data

52-Week Range (A\$) :	0.11 - 0.25
Avg Daily Vol (000s) :	4,233
Market Cap (A\$M) :	207.8
Shares Out. (M) :	1,385.2
Dividend /Shr (AUC) :	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	884.1

FYE Jun	2023A	2024E	2025E	2026E
Sales (A\$M)	23.8	28.8↓	62.2	87.6
Previous	-	32.3	-	-
EBITDA (A\$M)	12.5	16.1↓	40.6	65.4
Previous	-	19.6	-	-
Net Income (A\$M)	0.3	1.1↓	(11.8)	1.8↓
Previous	-	4.6	-	1.9



Priced as of close of business 26 October 2023

Genex Power Limited is a power generation development company, which focuses on the production and storage of renewable energy. Its projects includes Kidston Solar, Kidston Pumped Hydro and Jemalong Solar.

SepQ - big offtakes and small fires

GNX's SepQ was an eventful one; generation and revenue was broadly in line with our forecast, progress at K2H continued without any major hiccups, but the fire at Bouldercombe grabbed all the headlines. Encouragingly the company has now secured foundation customers for Kidston Stage 3 Wind and Bulli Solar.

GNX is building strategic infrastructure necessary for the energy transition, we retain our SPECULATIVE BUY rating but lower our sum-of-the-parts based price target to \$0.26 (from \$0.27) after allowing for a delay to first revenue from Bouldercombe.

Realised electricity prices soften

GNX's sales revenue fell 38% vs pcp to \$4.5mn despite generation being +10% as the company's average realisation fell to \$84.7/MWh (black + green). With a hot and dry El Niño summer in the offing we have retained our average realisation forecast of \$90/MWh for FY24E.

Pumped Hydro construction update

GNX now has over 300 people on site, and drilling rates at all three headings are in line with its forecast (realigned MAT now substantially complete). The company estimates that it will complete the powerhouse cavern by year-end and the majority of Andritz pump equipment is now on site. With regard to Wisles Dam, the 6km embankment is now completed and the placement of the HDP liner is 60% complete. The 275kV transmission line from Kidston to Guybal Munyan (Mt Fox) which is being constructed by Powerlink continues to progress with tower assembly and erection well advanced.

As noted in previous research GNX has indicated that the budget increase associated with the realignment of the MAP is \$10-15mn. To fund this overrun GNX has entered into a \$35mn corporate loan with J-Power (see [research](#)).

Bouldercombe Battery update

On 26 September GNX experienced a fire at its Bouldercombe Battery Project (BBP) which impacted one of the 40 Tesla megapacks. GNX has indicated that it has insurance and standard liquidated damages provisions in its contract with Tesla. We expect the company to be kept close to whole from a cost perspective with respect to this incident, but we have pushed out first revenue to late November.

FMG offtake for Bulli solar

GNX has secured a 25-year offtake for Bulli Creek Solar and Battery Project (BCP) with Fortescue Metals Group (FMG-ASX | Not Rated). The agreement provides for offtake of up to 337.5MW of solar energy and large-scale generation certificates from the BCS at a fixed nominal price over the 25-year period of the power purchase agreement (PPA). This is a large step forward for the up-to-2GW Bulli Creek Battery and Solar Project which GNX is seeking to develop in a JV with J-POWER (earning up to 50% of the project).

EnergyAustralia signs foundation offtake for Kidston Stage 3 Wind (K3W)

EA has agreed to a 10-year PPA for 30% of the 258MW project's generation capacity on a fixed price + CPI model.

GNX has indicated that it remains in discussions with other counterparties for the balance of the capacity of K3W to underpin the financing structure for the Project.

K3W is being developed by GNX in a 50:50 partnership with J-POWER. This project is not currently included in our valuation a situation we will review as it progresses.

Balance sheet

GNX ended the period with \$87.5mn in cash, debt of \$736mn and \$145.3mn in undrawn facilities.

Figure 1: Financial summary

FY Jun 30	2022	2023	2024E	2025E	2026E		2022	2023	2024E	2025E	2026E
PROFIT & LOSS (A\$mn)											
Revenue	24.8	23.8	28.8	62.2	87.6	KEY PRICING ASSUMPTIONS					
Operational Costs	-4.4	-3.8	-5.5	-14.2	-14.5	NSW Electricity Prices (\$/MWh)	89.5	87.5	70.4	72.7	74.0
Other income	2.4	0.9	2.0	2.1	2.1	SA Electricity Prices (\$/MWh)	75.9	77.5	71.3	73.6	75.0
Corporate & Other	-9.1	-8.4	-9.3	-9.5	-9.8	WA Electricity Prices (\$/MWh)	52.2	53.5	54.9	56.6	57.7
EBITDA	13.7	12.5	16.1	40.6	65.4	LGC Prices (\$/LGC)	32.5	22.5	12.1	7.6	6.1
DD&A	-10.1	-9.5	-13.0	-49.3	-61.3	REALISED PRICES					
Other	0.0	0.0	0.0	0.0	0.0	Bundled price (\$/MWh)	93.8	98.4	115.5	N/A	N/A
EBIT	3.6	3.0	3.1	-8.7	4.1	GENERATION FORECASTS*					
Financing Income	0.1	1.7	1.7	2.1	2.9	Australian Generation (GWh)	264	241	250	249	249
Financing Costs	-7.8	-4.4	-3.8	-5.2	-5.1	Total (GWh)	264	241	250	249	249
NPBT	-4.2	0.3	1.1	-11.8	1.8						
Tax	0.0	0.0	0.0	0.0	0.0						
Normalised NPAT	-4.2	0.3	1.1	-11.8	1.8						
Sig Items, Discon Ops & Mins	0.0	-1.3	0.0	0.0	0.0						
Reported NPAT	-4.2	-1.0	1.1	-11.8	1.8						
Effective income tax rate	0.0	0.0	0.0	0.0	0.0						
CASHFLOW (A\$mn)						PER SHARE DATA					
Cash receipts	27.2	28.5	28.8	62.2	87.6	Average Shares (Diluted, M)	1333	1385	1385	1385	1385
Payments to suppliers	-17.7	-17.9	-14.7	-23.7	-24.3	EOP Shares (Diluted, mn)	1385	1385	1385	1385	1385
Interest received	0.0	0.0	1.7	2.1	2.9	Normalised EPS (A¢/sh)	-0.3	0.0	0.1	-0.9	0.1
Interest paid	-6.3	-6.4	-3.8	-5.2	-5.1	CF PS (A¢/sh)	0.3	0.3	1.3	2.9	4.4
Other	0.7	0.0	6.4	5.4	0.2	FCF PS (A¢/sh)	-17.0	-17.3	-7.8	2.8	4.3
Operating Cashflow	4.0	4.3	18.5	40.8	61.3	RATIOS					
Payments for PP&E	-234.7	-240.8	-0.5	-0.5	-0.5	Dividend Yield	0%	0%	0%	0%	0%
Payments for Intangible Assets	0.0	0.0	0.0	0.0	0.0	PE	-48.1	762.9	192.6	-17.6	113.2
Payments for Growth Developments	0.0	0.0	-124.5	-0.3	-0.5	PCF (Debt Adj)	21	28	10	5	3
Asset Sales / (Purchases)	0.0	0.0	0.0	0.0	0.0	EV / EBITDA	39	62	55	21	12
Other	4.4	-3.2	-2.2	-1.1	-1.1	Gearing (ND / ND + E)	62%	74%	78%	78%	76%
Investing Cashflow	-230.4	-244.1	-127.2	-1.9	-2.1	Net Debt / EBITDA	23.5x	45.6x	42.0x	15.7x	8.8x
Share Issuance / (Buyback)	48.3	0.0	0.0	0.0	0.0	Interest Cover	0.5x	0.7x	0.8x	-1.7x	0.8x
Drawdown / (Repayment) of Debt	198.9	226.8	124.4	-18.8	-18.3	ROE (Reported Profit / Av Equity)	-2%	-1%	1%	-6%	1%
Dividends	0.0	0.0	0.0	0.0	0.0	ROIC	1%	1%	1%	-1%	1%
Other	-3.3	-0.3	0.0	0.0	0.0	ROACE	1%	0%	0%	0%	1%
Financing Cashflow	243.8	226.5	124.4	-18.8	-18.3	FCF Yield	-113%	-115%	-52%	19%	28%
Surplus / Defecit	17.4	-13.3	15.7	20.1	40.8						
BALANCE SHEET (A\$mn)						DIVIDEND AND FRANKING					
Current Assets	69.5	56.1	62.8	79.5	120.1	Dividend (A¢/sh)	0	0	0	0	0
Non-Current Assets	547.6	793.2	905.2	856.7	796.4	Payout ratio	0%	0%	0%	0%	0%
Total Assets	617.2	849.4	968.0	936.2	916.5	Franking Balance (A\$mn)	0	0	0	0	0
Current Liabilities	44.7	35.8	39.3	38.9	38.4						
Non-Current Liabilities	372.1	615.5	736.3	717.9	700.0						
Total Liabilities	416.9	651.2	775.6	756.8	738.5						
Net Assets	200.3	198.1	192.4	179.4	178.0	VALUATION					
Total Cash	62.9	49.6	65.3	85.4	126.2	Risked					
Total Debt	385.2	617.2	741.6	722.8	704.5	K1-Solar	0.02				
Net Debt	322.4	567.6	676.3	637.4	578.3	K2-Hydro	0.15				
						Jemalong	0.03				
						Bouldercombe Battery	0.05				
						EV adjustments	0.01				
						TOTAL	0.26				
						PREMIUM/(DISCOUNT)	0.0				
						PRICE TARGET	0.26				

* - excl storage

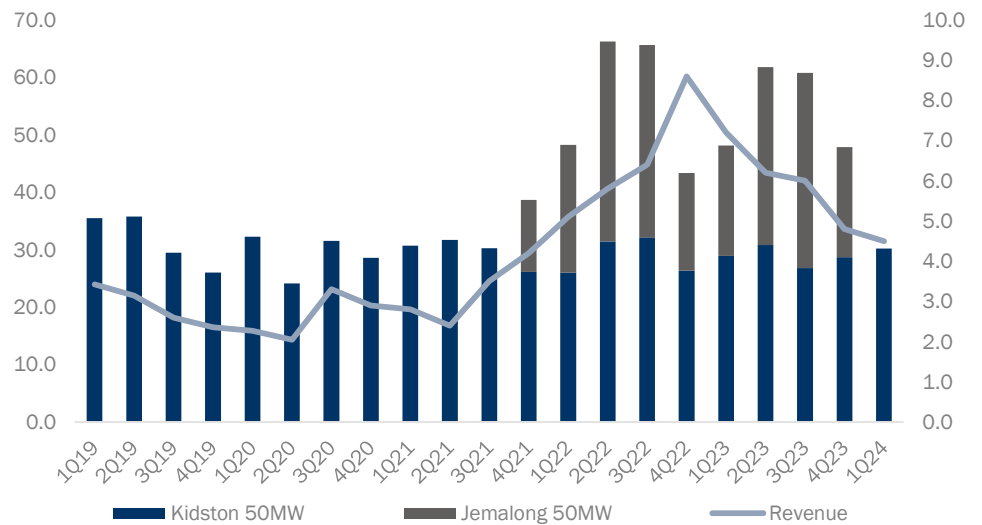
Source: Company reports, Canaccord Genuity estimates

Figure 2: Valuation build-up (free-cash-flow to equity based)

Asset	Equity %	Net Capacity MW	Risk %	Risked FCF to equity A\$mn	A\$ps
K1-Solar	100%	50	100%	31.9	0.02
Jemalong	100%	50	100%	40.1	0.03
GENERATION		50		72.0	0.05
K2-Hydro	100%	250	80%	209.5	0.15
K2-Solar	100%	270	0%	0.0	0.00
K2-Wind	100%	270	0%	0.0	0.00
Bouldercombe Battery	100%	50	100%	69.1	0.05
DEVELOPMENT ASSETS		520		278.6	0.20
EV adjustments					0.01
Premium / (Discount)					0.00
PRICE OBJECTIVE					0.26

Source: Canaccord Genuity estimates

Figure 3: Quarterly performance (GWh, A\$mn)



Source: Company reports

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Investment Recommendation

Date and time of first dissemination: October 26, 2023, 15:30 ET

Date and time of production: October 26, 2023, 02:59 ET

Target Price / Valuation Methodology:

Genex Power Limited - GNX

Our price target is based on a sum-of-the-parts analysis.

Risks to achieving Target Price / Valuation:

Genex Power Limited - GNX

Energy policy risk: Australian energy policy has been extremely politicized over the last decade. Policy changes (both at a federal and state level) have occurred on numerous occasions. While we are hopeful that the NEG can provide the certainty craved by industry this outcome is far from certain.

Regulatory approval risk: Kidston is subject to a number of regulatory approvals which could slow the pace of development.

Pricing risk: Electricity and green credit pricing are historically volatile. While this risk can be mitigated by securing long-term offtake agreements for relevant parts of the project, this could result in lower or higher ultimate returns.

Technology risk: Pumped hydro and solar PV are mature technologies. Future advances in other technologies used to generate, manage and store electricity (e.g., large-scale battery storage) may be more efficient and/or more cost-effective and could adversely impact GNX's finances.

Development risk: the construction of a large development in remote QLD carries both budget and schedule risks. We believe the company will seek to minimise these risks through appropriate contracting strategies.

Operational risk: GNX will be subject to operational risks which are beyond its control. Operations may be curtailed or cancelled as a result of adverse weather conditions, mechanical difficulties, shortages or cost increases of consumables, external services failure (including energy and water supply), IT system failures etc. This risk is partially mitigated by having an experienced management team and using experienced contractors to plan for and manage such events.

Key personnel risk: A number of staff in GNX's management team has significant energy and/or hydroelectric industry experience and expertise. If one or more of these key personnel were to depart, it may be difficult to replace them adequately, in which case there could be an adverse effect on GNX's ability to execute its strategic plans.

Financing risk: GNX will require future financing to pursue its development plans. There is no guarantee that funding will be available on satisfactory terms, which could result in the Kidston Project not proceeding.

Distribution of Ratings:

Global Stock Ratings (as of 10/26/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	607	67.00%	23.06%
Hold	118	13.02%	10.17%
Sell	13	1.43%	7.69%
Speculative Buy	158	17.44%	49.37%
	906*	100.0%	

*Total includes stocks that are Under Review

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