

# Genex Power <sup>GNX</sup>

## Recommendations

Rating	<b>BUY</b>
Risk	Speculative
Price Target	<b>\$0.37</b>
Share Price	\$0.25

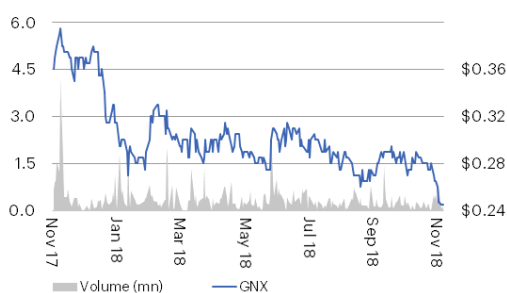
## Snapshot

Monthly Turnover	\$1.2mn
Market Cap	\$74mn
Shares Issued	303.9mn
52-Week High	\$0.43
52-Week Low	\$0.23
Sector	

## Business Description

GNX is building a renewable energy hub at Kidston in North Queensland, on the site of a disused gold mine. It consists of two solar projects (50MW and 270MW) and a pumped storage hydro project (250MW), which will all benefit from the dual long-term trends towards higher electricity prices and lower carbon emissions.

## 12 Month Price & Volume



## Research Analyst

Luke Macnab, CFA  
+ 612 9250 8930  
lmacnab@baillieu.com.au

Nicolas Burgess, CFA  
+ 613 9602 9379  
nburgess@baillieu.com.au

## Disclosure

The author owns no shares in GNX.

## Company Report

### Stage 2 nearing financial close

**Stage 2 the main game:** At its recent AGM, GNX provided updates on the status of its projects. Kidston Stage 2 (KS2; 270MW Solar and 250MW Hydro) remains the primary focus for management, with finalisation of the offtake agreement expected to occur in the next few weeks. This is the key component of the KS2 financing package, which will be finalised soon afterwards.

**Kidston Stage 1 (KS1):** KS1 is now fully operational and the Revenue Support Deed with the Queensland Government has commenced. This will underpin revenue of at least \$13m pa, with GNX keeping any upside above the floor price in the Deed, which is around \$90/MWh. With the project largely de-risked at this point, we believe there will be a debt refinancing which will potentially increase the gearing level and provide GNX with some additional cash.

**Kidston Stage 3 (KS3):** This wind farm project is in the very early stages, with GNX currently monitoring the wind conditions on the proposed site, near the KS1 and KS2 projects. The initial signs look positive and a formal feasibility study will be completed in CY19. If all goes to plan, the project could come on stream at the same time as the KS2-Hydro project in CY22.

**Jemalong acquisition:** GNX has also reached agreement to purchase the 50MW Jemalong Solar Project in NSW, with completion expected in mid-CY19. The project is shovel-ready, having received all necessary approvals, and grid connection negotiations are underway. Construction is targeted to start in July 2019 and expected to take 14-15 months at a cost of \$80-90m. This will be primarily funded via project finance debt (around \$60m), with all options on the table for the equity portion (including a partial sell-down at the project level).

**Investment view:** All attention is now on the financing of KS2, which in a best-case scenario would involve zero additional equity from GNX. This may be able to be achieved through cash raised from a refinancing of KS1 and a partial sell-down of the equity in KS2, although we believe a small equity raising is the more likely outcome. In any case, we believe there is significant potential upside from KS2 and additional option upside from KS3 and Jemalong in the medium term. BUY maintained.

## Investment Summary

Year End: 30 June		2017A	2018A	2019E	2020E	2021E
Revenue	\$mn	0.0	8.3	13.3	13.1	13.1
EBITDA	\$mn	-7.1	-1.7	4.9	4.7	4.7
EBIT	\$mn	-7.1	-4.7	0.6	0.4	0.4
Reported Profit	\$mn	-6.9	-7.5	-2.4	-2.5	-2.2
Adjusted Profit	\$mn	-6.9	-7.5	-2.4	-2.5	-2.2
EPS (Reported)	¢	-2.6	-2.3	-0.7	-0.8	-0.7
EPS (Adjusted)	¢	-2.6	-2.3	-0.7	-0.8	-0.7
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Adjusted)	x	N/A	N/A	N/A	N/A	N/A
EV/EBITDA	x	NM	NM	32.5	32.5	31.1
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	-	-	-	-	-

## Financial Summary

GENEX POWER	
<b>Code:</b>	<b>GNX</b>
<b>Analyst:</b>	Luke Macnab
<b>Date:</b>	28 November, 2018
<b>Share Price:</b>	\$0.245
<b>Market Capitalisation:</b>	\$71m
<b>Financial Year End:</b>	June

PROFIT & LOSS (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue	0.0	8.3	13.3	13.1	13.1
COGS	0.0	0.0	0.0	0.0	0.0
Gross profit	0.0	8.3	13.3	13.1	13.1
Expenses	-7.1	-10.0	-8.3	-8.3	-8.3
<b>EBITDA</b>	<b>-7.1</b>	<b>-1.7</b>	<b>4.9</b>	<b>4.7</b>	<b>4.7</b>
Depreciation	0.0	-3.0	-4.3	-4.3	-4.3
EBITA	-7.1	-4.7	0.6	0.4	0.4
Amortisation	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-7.1</b>	<b>-4.7</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>
Net Interest expense	0.2	-2.7	-4.0	-4.0	-3.6
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	-6.9	-7.5	-3.4	-3.6	-3.2
Tax	0.0	0.0	1.0	1.1	1.0
<b>Underlying NPAT</b>	<b>-6.9</b>	<b>-7.5</b>	<b>-2.4</b>	<b>-2.5</b>	<b>-2.2</b>
<b>Underlying NPATA</b>	<b>-6.9</b>	<b>-7.5</b>	<b>-2.4</b>	<b>-2.5</b>	<b>-2.2</b>
Significant items (net of tax)	0.0	0.0	0.0	0.0	0.0
Reported profit	-6.9	-7.5	-2.4	-2.5	-2.2

BALANCE SHEET (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
<b>Assets</b>					
Cash	11.1	11.0	9.4	13.3	17.6
Receivables	1.0	0.9	1.8	1.8	1.8
PPE	47.4	118.4	114.4	110.3	106.2
Goodwill & Intangibles	4.2	4.5	4.5	4.5	4.5
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	0.3	0.9	0.9	0.9	0.9
Total Assets	64.1	135.6	130.9	130.8	131.0
<b>Liabilities</b>					
Payables	10.8	1.5	1.7	1.7	1.7
Debt	16.3	100.2	98.9	96.3	93.8
Provisions	3.8	3.8	3.8	3.8	3.8
Tax payable	0.2	0.4	0.0	0.0	0.0
Deferred Revenue	3.8	3.8	3.8	3.8	3.8
Other liabilities	9.9	10.6	10.6	10.6	10.6
Total Liabilities	44.9	120.4	118.8	116.3	113.7
<b>Equity</b>					
Share capital	35.5	40.0	40.0	40.0	40.0
Retained earnings	-17.4	-24.8	-27.2	-29.7	-31.9
Other equity	1.1	0.1	0.1	0.1	0.1
Total shareholders equity	19.2	15.3	12.9	10.4	8.1
<b>BV per share (cps)</b>	<b>7.3</b>	<b>4.8</b>	<b>4.0</b>	<b>3.2</b>	<b>2.5</b>
NTA per share (cps)	5.7	3.4	2.6	1.8	1.1

CASH FLOW (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash at Start	4.2	11.1	11.0	9.4	13.3
Cash from operations	-8.4	-6.1	1.0	1.8	2.1
Capex	-30.3	-83.0	-0.3	-0.3	-0.3
Free cash flow	-38.6	-89.1	0.7	1.5	1.8
Cash flow from investing	11.3	0.6	0.0	0.0	0.0
Cash flow from financing	34.2	88.3	-2.3	2.4	2.4
Cash at end	11.1	11.0	9.4	13.3	17.6
Free cash flow per share (cps)	-14.7	-27.7	0.2	0.5	0.6
GOCF / EBITDA	117%	129%	106%	105%	105%
FCF / Underlying cash NPAT	557%	1194%	-31%	-61%	-81%

<b>Rating:</b>	<b>BUY</b>
<b>Price Target:</b>	<b>\$0.37</b>
<b>Upside/downside:</b>	51%
<b>Valuation:</b>	\$0.37
<b>Valuation method:</b>	DCF/Multiple
<b>Risk:</b>	Speculative

EARNINGS	FY17A	FY18A	FY19E	FY20E	FY21E
EPS - Underlying (cps)	-2.6	-2.3	-0.7	-0.8	-0.7
EPS Growth - Underlying	-33%	-12%	-68%	7%	-11%
EPS - Reported (cps)	-2.6	-2.3	-0.7	-0.8	-0.7
Diluted shares (m)	262.3	321.0	321.0	321.0	321.0
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio	0%	0%	0%	0%	0%
Franking	100%	100%	100%	100%	100%

VALUATION	FY17A	FY18A	FY19E	FY20E	FY21E
P/E - Underlying (x)	-9.3	-10.5	-33.2	-31.2	-35.0
EV/EBIT (x)	-10.6	-33.7	273.6	398.9	381.3
EV/EBITDA (x)	-10.6	-33.7	273.6	398.9	381.3
EV/EBITDA (x)	-10.6	-92.7	32.5	32.5	31.1
Price/Book (x)	3.4	5.1	6.1	7.6	9.7
Price/NTA (x)	4.3	7.3	9.3	13.3	21.6
Price/FCF	-1.7	-0.9	108.6	51.1	43.4

GROWTH	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue growth	na	na	nm	-2%	0%
COGS growth	na	na	nm	#DIV/0!	#DIV/0!
Expenses growth	1%	40%	-17%	0%	0%
EBITDA growth	1%	-76%	-386%	-4%	0%
PBT growth	-2%	8%	-55%	7%	-11%
Underlying NPAT growth	-2%	8%	-68%	7%	-11%
Reported NPAT growth	-2%	8%	-68%	7%	-11%

MARGINS & RETURNS	FY17A	FY18A	FY19E	FY20E	FY21E
EBITDA Margin	na	na	37.1%	36.2%	36.2%
EBITA Margin	na	na	4.4%	2.9%	2.9%
NPBT Margin	na	na	-25.5%	-27.6%	-24.6%
ROIC	-25.6%	-4.9%	0.4%	0.3%	0.3%
ROE	-52.0%	-43.3%	-16.8%	-21.7%	-24.3%
ROA	-17.9%	-4.7%	0.4%	0.3%	0.3%
Effective Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%

GEARING	FY17A	FY18A	FY19E	FY20E	FY21E
Net Debt	5.2	89.2	89.5	83.0	76.2
Enterprise value	75.8	159.7	160.0	153.5	146.7
Net Debt/EV (%)	6.9%	55.8%	55.9%	54.1%	51.9%
Net Debt/EBITDA (x)	-0.7	-51.8	18.2	17.6	16.1
EBITDA/Net Interest (x)	39.0	-0.6	1.2	1.2	1.3

SEGMENT REVENUES (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Solar Phase One	0.0	8.3	13.3	13.1	13.1

## Stage 2 nearing financial close

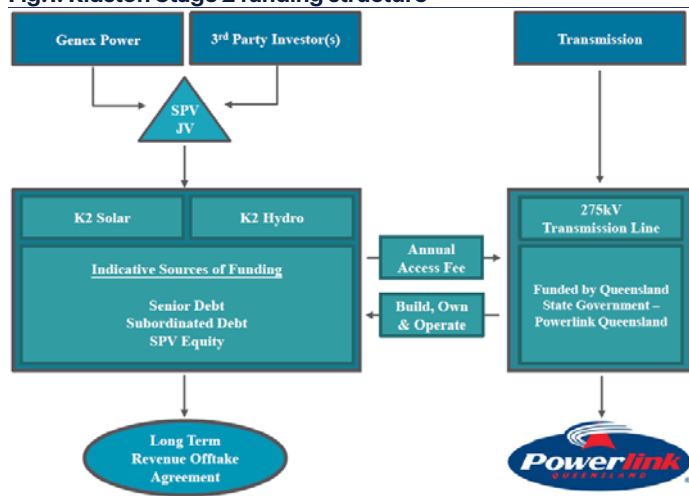
**Kidston Stage 2 update:** The KS2-Hydro project was recently declared a “coordinated project” by the Queensland Government, which allows for an expedited pathway to gain all remaining development approvals. This will reduce the risk of delays to the project and again highlights GNX’s strong relationships with various levels of government.

**Engineer appointed:** GNX has also recently appointed Entura as the owner’s engineer on both the KS2-Hydro and KS2-Solar projects. Entura is a specialist power and water consulting firm which managed the Feasibility Study for the KS2-Hydro project. They will be responsible for the design and engineering verification and providing advice during the construction and commissioning of the project

**Financial close is close:** The AGM commentary suggested that significant developments related to financial close on KS2 would occur “in the very near term”. We believe this is likely to relate to an offtake agreement, which is the key domino required to fall before finalising the project finance package. GNX is in ongoing discussions with all stakeholders and expects a positive outcome soon.

In a best-case scenario, GNX would be able to fund KS2 without recourse to an equity raising, through selling down a portion of the equity in the project and using surplus funds from the KS1 refinancing. However, we believe it is likely that a small equity raising will be required. In either case, we believe there is significant option value upside to the current share price from the KS2 project.

**Fig.1: Kidston Stage 2 funding structure**



Source: GNX

**Fig.2: Kidston Stage 1 quarterly revenue**

	Dec 2017	Mar 2018	Jun 2018	Sep 2018
<b>Generation (MWh)</b>	2,850	20,125	29,509	35,509
<b>Cumulative Generation (MWh)</b>	2,850	22,974	52,220	87,729
<b>Revenue (\$m)</b>	0.490	3.411	4.437	3.421
<b>Cumulative Revenue (\$m)</b>	0.490	3.902	8.339	11.760

**Notes:** Revenue to 31 July 2018 includes Energy and LGC sales. Post 31 July 2018 includes only Energy sales. December 2017 revenue from 5 December.

Source: GNX

## Stage 1 operational; Stage 3 in feasibility testing

- **Stage 1 now in steady state:** GNX’s KS1 50MW solar project is now fully operational, with the Revenue Support Deed with the Queensland Government commencing as of 31 July 2018. This Deed guarantees a floor price of c.\$90/MWh for the electricity generated over the next 20 years, equating to \$13m pa as a minimum. As part of the Deed, GNX will have to surrender LGCs to the government.
- **Refinancing of KS1:** Now that this project has been almost fully de-risked, a refinancing of the project debt is likely in the near future. We expect a lower interest rate and higher level of gearing will be able to be achieved, with the cash generated available for use in the financing of Kidston Stage 2 and/or the acquisition of Jemalong.

- **Kidston Stage 3 wind farm:** GNX currently has wind monitoring equipment on the proposed site, near the KS1 and KS2 projects. They are looking to prove up the project in CY19 with a feasibility study to be completed. If all goes to plan, the project could come on stream same time as the KS2-Hydro project in CY22.

**Fig.3: GNX project development timeline**



Source: GNX

### Jemalong acquisition

- **50MW solar project:** GNX has reached agreement with Vast Solar to purchase the 50MW Jemalong Solar Project, which is about 30km west of Forbes, NSW. The acquisition remains subject to a number of conditions precedent, which the vendor is responsible for meeting by 1 March 2019. The transaction is expected to be completed in 2HFY19.
- **All approvals received:** The project is shovel-ready, having received all necessary land and development approvals. Grid connection arrangements are currently being negotiated with Essential Energy and the Australian Energy Market Operator. Construction commencement is targeted for July 2019 and is expected to take 14-15 months. It will consist of approximately 170k modules, with a 66kV overhead power line to be constructed to connect it to the West Jemalong substation, 3.2km to the north.

**Fig.4: GNX project locations**



Source: GNX, Baillieu

**Fig.5: GNX project summary**

	Kidston Stage 1	Kidston Stage 2	Kidston Stage 3	Jemalong	
<b>Generation Type</b>	Solar	Pumped Hydro	Solar	Wind	Solar
<b>Capacity (MW)</b>	50	250	270	150	50
<b>Generation (MWh pa)</b>	145,000	730,000	783,000	TBD	125,600
<b>Construction timeframe</b>	Operating	2019-22	2019-2021	2020-2021	2019-2020
<b>Offtake Agreement</b>	100% QLD Govt	Under negotiation	Under negotiation	TBD	Merchant

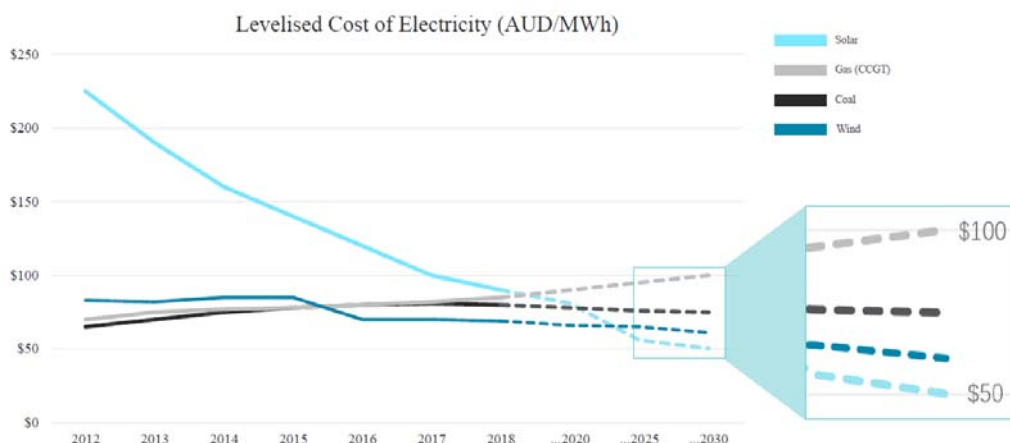
Source: GNX

- **Construction cost lower than KS1:** We estimate that the construction cost will be in the order of \$80-90m (significantly lower than Kidston Stage 1, as prices in the industry have fallen). This will be primarily funded via project finance debt (around \$60m), with all options on the table for the equity portion (including a sell-down at the project level).
- **Diversifies into NSW:** The Jemalong acquisition expands GNX's operations into a new geographic region and adds scale. This will reduce the risk of having all its operations in the Kidston area (and Queensland electricity market) and leverages the company's corporate costs and expertise into creating additional value.
- **Higher pool prices:** The NSW energy market has higher prices and less solar input than other markets; as such, it is likely to be less impacted by daytime price deflation than other states. A final decision on sale of the output from Jemalong (ie through merchant or offtake agreement) is yet to be made, although at this stage a merchant arrangement looks more likely.

**Medium term outlook positive**

- **Dividends unlikely in short term:** Commentary at the AGM suggested that any surplus cash from KS1 is unlikely to be paid out to shareholders in the short-to-medium term. Instead, these funds will be used to finance the other renewable opportunities which GNX has identified (KS2, KS3, Jemalong).
- **Medium term outlook to improve?** The market for renewables remains robust but we note that it could improve going forward. This would be dependent upon a change of government at the federal level, where Labor proposes a 50% renewable energy target by 2030 and an additional \$10bn for the Clean Energy Finance Corporation, which contributed low-cost debt in the development of KS1.

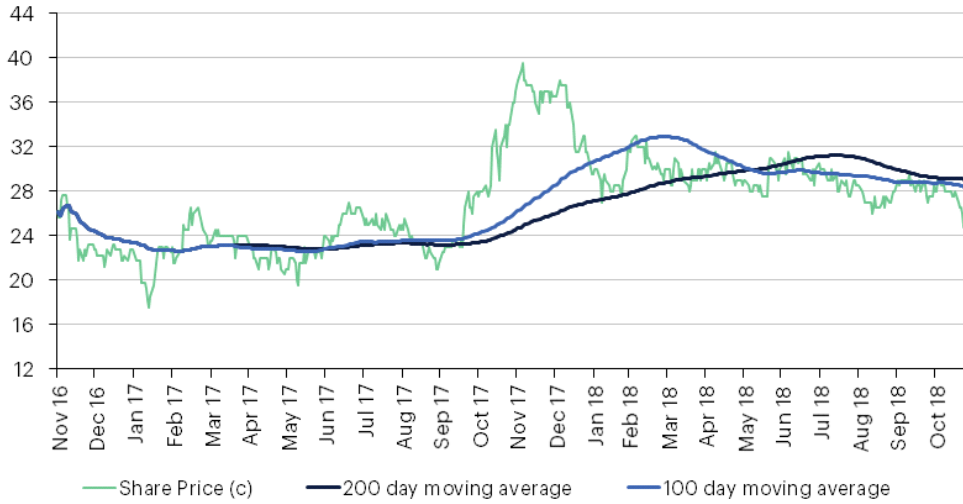
**Fig.6: Positive outlook for renewable energy**



Source: Clean Energy Council, AI Group

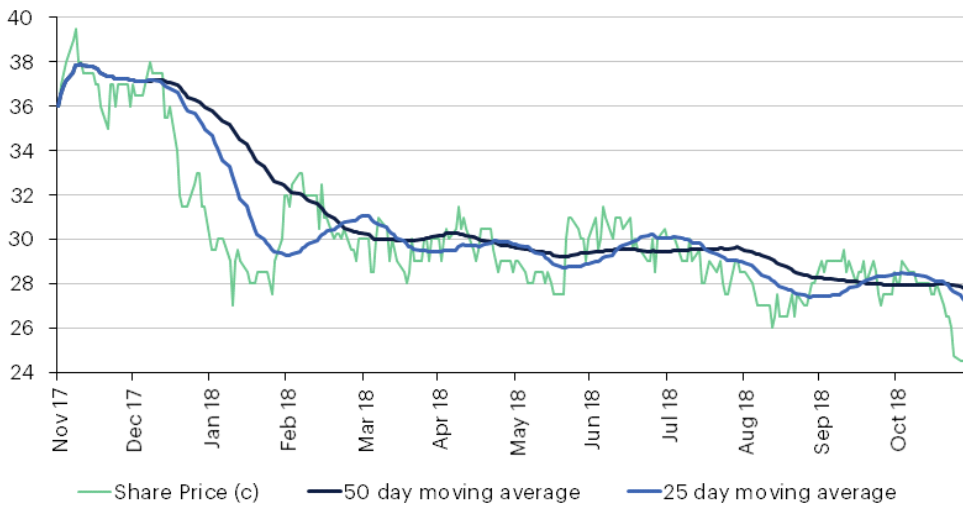
## Appendix

**Fig.7: Long term momentum indicators**



Source: Iress

**Fig.8: Short term momentum indicators**



Source: Iress



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**Buy:** The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

**Hold:** The stock's total return is expected to trade within a range of  $\pm$ 10-15 percent from the current share price over the next 12 months.

**Sell:** The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

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**Buy:** 60%

**Hold:** 39%

**Sell:** 1%

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**Baillieu Limited**

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

[www.baillieu.com.au](http://www.baillieu.com.au)

**Melbourne (Head Office)**

**Address** Level 26, 360 Collins Street

Melbourne, VIC 3000 Australia

**Postal** PO Box 48, Collins Street West

Melbourne, VIC 8007 Australia

**Phone** +61 3 9602 9222

**Facsimile** +61 3 9602 2350

**Email** melbourne@baillieu.com.au

**Adelaide Office**

**Address** Ground Floor, 226 Greenhill Road,

Eastwood SA 5063

**Postal** PO Box 171

Fullarton SA 5063

**Phone** +61 8 7074 8400

**Facsimile** +61 8 8362 3942

**Email** adelaide@baillieu.com.au

**Bendigo Office**

**Address** Level 1, 10-16 Forest Street

Bendigo, VIC 3550

**Postal** PO Box 84

Bendigo, VIC 3552

**Phone** +61 3 4433 3400

**Facsimile** +61 3 4433 3430

**Email** bendigo@baillieu.com.au

**Geelong Office**

**Address** 16 Aberdeen Street

Geelong West Vic 3218

**Postal** PO Box 364

Geelong Vic 3220 Australia

**Phone** +61 3 5229 4637

**Facsimile** +61 3 4229 4142

**Email** geelong@baillieu.com.au

**Gold Coast Office**

**Address** Suite 202 Level 2, Eastside Building

6 Waterfront Place, Robina QLD 4226

**Phone** +61 7 5628 2670

**Facsimile** +61 7 5677 0258

**Email** goldcoast@baillieu.com.au

**Newcastle Office**

**Address** Level 1, 120 Darby Street

Cooks Hill, NSW 2300 Australia

**Postal** PO Box 111

The Junction, NSW 2291 Australia

**Phone** +61 2 4037 3500

**Facsimile** +61 2 4037 3511

**Email** newcastle@baillieu.com.au

**Perth Office**

**Address** Level 9, 216 St Georges Terrace

Perth WA 6000 Australia

**Postal** PO Box 7662, Cloisters Square

Perth, WA 6850 Australia

**Phone** +61 8 6141 9450

**Facsimile** +61 8 6141 9499

**Email** perth@baillieu.com.au

**Sydney Office**

**Address** Level 40, 259 George Street

Sydney, NSW 2000 Australia

**Postal** PO Box R1797

Royal Exchange, NSW 1225 Australia

**Phone** +61 2 9250 8900

**Facsimile** +61 2 9247 4092

**Email** sydney@baillieu.com.au