

Genex Power

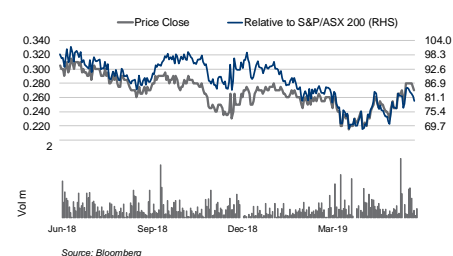
SPECULATIVE BUY

(previously ADD)

Current price:	A\$0.27
Target price:	A\$0.32
Previous target:	A\$0.35
Up/downside:	18.5%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$58.64m
	A\$84.36m
Average daily turnover:	US\$0.06m
	A\$0.08m
Current shares o/s	303.9m
Free float:	69.3%

Key changes in this note

Equity funding +\$14.2m



Price performance	1M	3M	12M
Absolute (%)	12.5	5.9	-12.9
Relative (%)	9.3	-1.7	-20

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– Genex Power

Funding picture clearer for Jemalong

- GNX are raising \$16m from sophisticated investors at 24cps with a potential further \$3m in a share placement to existing shareholders which with the JPower deal is a bigger equity raise than we were expecting.
- Funds raised will be used for the equity component of the Jemalong project and for working capital.
- GNX expects to refinance its KS1 debt into a new facility which will also fund the debt requirement for Jemalong.
- We revise GNX to a SPECULATIVE BUY and reduce our target price to 32cps with a potential 12-month TSR of 19%

A larger equity raise than we'd allowed for reduces potential return

If GNX raise the full \$19m that they're contemplating, on top of the \$25m from JPower should K2-H achieve financial close, then that is ~\$14m more coming from equity holders than we'd previously allowed for. This lowers our estimated return from both our DCF model and base case multiples-based valuation to give an average reduction in estimated value of -3cps (-9%).

Jemalong equity is funded with some working capital

We estimate that the Jemalong project will require an investment of \$90m. We don't yet have confirmation on the size of the debt available but we estimate that this raise would keep GNX's gearing on the project below 80%. The remaining funds are to be used for working capital. It may be that the larger equity raise is simply the company being conservative by ensuring it has a large enough cash buffer during construction to avoid trouble. It isn't possible to be sure of this though until we get confirmation of the cost of the EPC contract and GNX discloses the full cost to purchase the project.

KS1 will be refinanced with new debt

The existing project finance on KS1 will be refinanced and included in a new debt package along with the debt to fund Jemalong. This should produce some savings on interest costs although we expect that if the existing interest rate swap is finalised there could be some costs in the short term to close out the position. We have also allowed for some of the existing ARENA hybrid notes to be refinanced rather than them being converted to equity.

There's still upside there but it's smaller and also riskier

GNX has been a source of both positive and negative surprises over the last twelve months. The management team deserves a lot of credit for being able to progressively structure the funding stack at very competitive rates, e.g. the conditional approval with NAIF. On the other hand, the estimated capital requirements for K2-H have increased significantly since we commenced coverage. Given that the stock has a history of both defying and upsetting expectations we think it's prudent to consider it a speculative investment until the major value drivers are bedded down. We revise our rating to SPECULATIVE BUY and reduce our target price to 32cps.

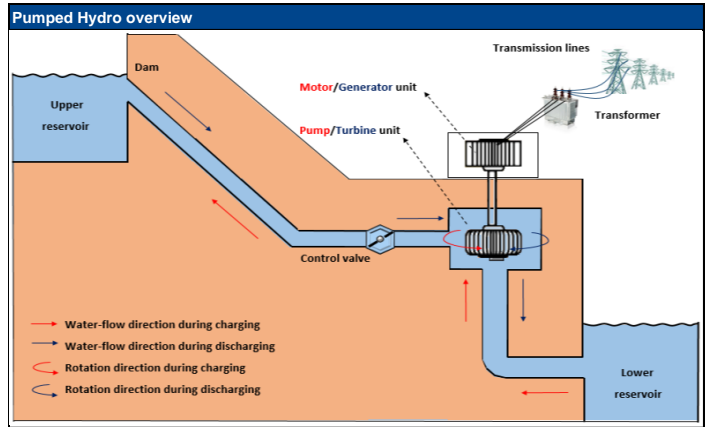
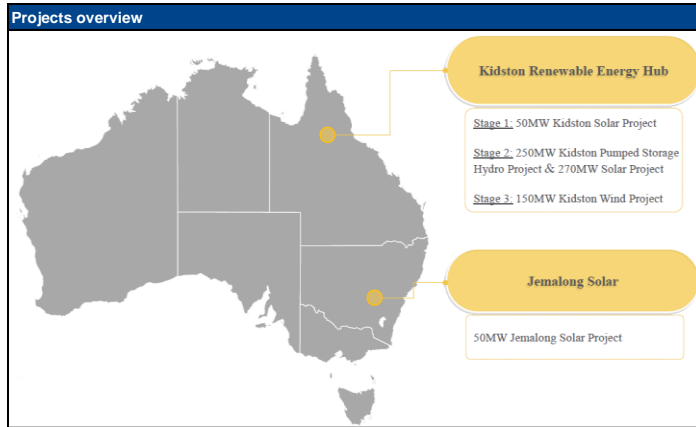
Financial Summary	Jun-17A	Jun-18A	Jun-19F	Jun-20F	Jun-21F
Revenue (A\$m)	0.00	8.27	12.52	20.29	25.80
Operating EBITDA (A\$m)	-7.12	-1.72	5.95	16.50	21.26
Net Profit (A\$m)	-8.61	-7.46	-3.73	14.08	4.89
Normalised EPS (A\$)	(0.037)	(0.025)	(0.012)	0.042	0.015
Normalised EPS Growth	(18.5%)	(33.3%)	(52.5%)		(65.3%)
FD Normalised P/E (x)	NA	NA	NA	6.38	18.37
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	25.75	18.40	13.88
P/FCFE (x)	NA	NA	0.93	NA	97.94
Net Gearing	35%	596%	84%	245%	218%
P/BV (x)	4.13	5.37	2.24	1.80	1.68
ROE	(64.5%)	(43.3%)	(12.7%)	31.2%	9.5%
% Change In Normalised EPS Estimates			(128%)	310%	12%
Normalised EPS/consensus EPS (x)			-3.95	-7.05	4.90

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Business snapshot

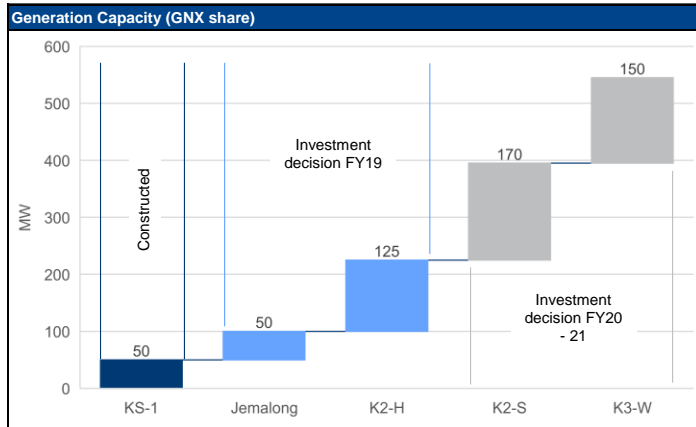
Genex Power (as at 25-06-19)		GNX AU / GNX.AX	Utilities
Market cap (A\$m):	82.1	Rating:	SPECULATIVE BUY
Shares outstanding (m):	303.9	Price (A\$):	0.27
Free float (%):	69%	Target price (A\$):	0.32
Company website:	https://www.genexpower.com.au/	Upside/downside to target price (%):	18.5%

Company description
 GNX is redeveloping an old gold mine in North Queensland into an energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has plans to expand its energy generation with a second stage solar farm up to 270MW and a potential 150MW wind farm, on or near the same site, and a 50MW solar farm in central NSW. The output of the 50MW solar farm is contracted to the Qld government for 20 years and the company is in discussions with Energy Australia to develop and sell the output of the energy storage (pumped hydro) project for a term of at least 25 years. GNX has also obtained conditional approval for up to \$516m of low cost debt finance from the Northern Australia Infrastructure Facility. GNX was founded in 2011 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

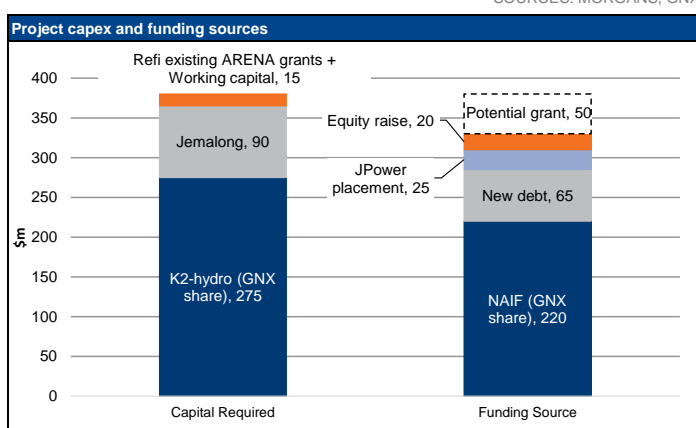
Value drivers:

- Solar output of Stage 1 as price is contracted and locked in.
- Price of the pumped hydro offtake agreement - not yet finalised.
- NSW spot price of electricity as Jemalong will likely be uncontracted.
- Spot price of LGCs as Jemalong will likely be uncontracted.
- If carbon reduction targets increase, the value of future renewables projects will also increase.

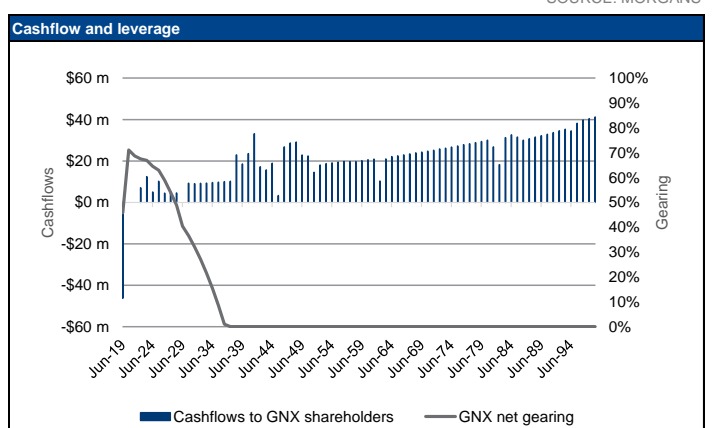
Risks:

- Securing the final offtake agreement for the pumped hydro project at an attractive price.
- Price of engineering contract to build K2-H pumped hydro project.
- Cost to access new transmission line for K2-H pumped hydro project.
- Construction risk during construction of the K2-H pumped hydro project.
- Access to concessional funding (e.g. NAIF, ARENA) to fund projects at low costs of capital.
- Electricity network congestion if too many other renewables projects nearby get constructed.
- Marginal Loss Factors (MLF) on all projects other than KS-1.
- Technological changes driving energy efficiency and alternative generation.
- Interest rates.
- Changes to tax regimes.

SOURCE: MORGANS



SOURCES: MORGANS, GNX



SOURCE: MORGANS

Figure 2: Financial summary

Key multiples & gearing	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EV/EBITDA (x)	N/A	25.8	18.4	13.9	13.8	13.5	14.0	12.3	12.7	10.9	11.1
Price-to-earnings (x)	N/A	N/A	N/A	N/A	4	2.5	2.9	2.5	2.7	2.2	2.3
Dividend yield (%)	-	-	-	-	5.5	9.7	3.9	7.9	3.5	3.9	3.5
Net Debt / ND+E (%)	85.6	45.6	71.0	68.6	67.4	66.9	64.4	62.8	58.8	53.9	48.8
Profit and loss (\$m)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Revenue	8.3	12.5	20.3	25.8	25.5	25.5	24.3	26.4	24.7	27.0	25.4
Other inc (K2H cost recovery)	1.7	2.7	5.4	5.5	5.7	5.8	5.9	6.1	6.2	6.3	6.4
Expenses	(11.7)	(9.2)	(9.2)	(10.1)	(10.3)	(10.5)	(10.8)	(11.0)	(11.2)	(11.5)	(11.7)
EBITDA	(1.7)	6.0	16.5	21.3	20.8	20.8	19.4	21.5	19.7	21.8	20.1
D&A	(3.0)	(6.0)	(6.8)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)
Operating EBIT	(4.7)	(0.1)	9.7	13.3	12.9	12.8	11.5	13.5	11.7	13.9	12.2
Net Interest Expense	(2.7)	(4.6)	(3.1)	(4.7)	(4.4)	(4.1)	(3.8)	(3.6)	(3.3)	(2.9)	(2.5)
K2H equity accounted profit	-	-	13.5	(1.6)	2.4	6.6	5.5	5.8	6.1	6.4	6.8
Profit Before Tax	(7.5)	(4.6)	20.1	7.0	10.9	15.3	13.1	15.7	14.6	17.4	16.4
Tax	-	0.9	(6.0)	(2.1)	(3.3)	(4.6)	(3.9)	(4.7)	(4.4)	(5.2)	(4.9)
Statutory Net Profit	(7.5)	(3.7)	14.1	4.9	7.6	10.7	9.2	11.0	10.2	12.2	11.5
Exceptional items (post tax)	-	-	(9.5)	-	-	-	-	-	-	-	-
Underlying Net Profit	(7.5)	(3.7)	4.6	4.9	7.6	10.7	9.2	11.0	10.2	12.2	11.5
Cashflows (\$m)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
EBITDA	(1.7)	6.0	16.5	21.3	20.8	20.8	19.4	21.5	19.7	21.8	20.1
K2H SPV distributions	-	-	-	-	-	7.2	-	5.1	4.8	4.7	4.6
Working capital	(9.7)	(0.5)	5.4	(6.0)	0.0	0.0	(0.4)	(0.1)	0.2	(0.2)	0.1
Gross operating cashflow	(11.4)	5.4	21.9	15.2	20.9	28.0	19.1	26.4	24.7	26.3	24.9
Net interest paid	(2.7)	(4.6)	(3.1)	(4.7)	(4.4)	(4.1)	(3.8)	(3.6)	(3.3)	(2.9)	(2.5)
Cash paid for Tax	-	-	(0.9)	(2.1)	(2.0)	(3.8)	(2.3)	(4.5)	(4.0)	(4.7)	(4.3)
Operating cashflow	(14.1)	0.8	17.9	8.5	14.5	20.1	12.9	18.3	17.4	18.7	18.1
Capex (GNX not K2H SPV)	(74.0)	(4.3)	(145.0)	-	-	-	-	-	-	-	-
Investing cashflow	(74.0)	(4.3)	(145.0)	-	-	-	-	-	-	-	-
Equity issuance/(returns)	-	46.3	-	-	-	-	-	-	-	-	-
Debt drawdown/(repaid)	-	116.4	(6.9)	(7.2)	(7.4)	(7.7)	(7.9)	(8.2)	(8.5)	(8.8)	(9.1)
Dividends paid	-	-	-	-	(7.1)	(12.4)	(5.0)	(10.2)	(4.5)	(5.0)	(4.5)
Financing cashflow	-	162.7	(6.9)	(7.2)	(14.5)	(20.1)	(12.9)	(18.3)	(12.9)	(13.8)	(13.6)
Net cashflow	(88.2)	159.2	(134.0)	1.3	-	-	-	-	4.5	5.0	4.5
Balance sheet (\$m)	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E
Cash	11	170	36	38	38	38	38	38	42	47	52
Receivables	1	1	1	1	1	1	3	3	3	3	3
Fixed Assets	118	114	197	189	181	173	165	157	149	141	133
SPV equity	-	-	69	67	69	69	74	75	76	78	80
Tax assets	-	1	-	-	-	-	-	-	-	-	-
Other	6	8	8	8	8	8	8	8	8	8	8
Total Assets	136	294	312	303	298	289	288	281	278	277	276
Debt	102	218	212	204	197	189	181	173	165	156	147
Deferred Tax from SPV)	-	-	4	4	5	6	8	8	8	9	10
Other liabilities	18	18	24	18	18	18	19	19	19	19	19
Total Liabilities	120	237	240	227	221	214	208	201	192	184	176
Net Assets	15	57	71	76	77	75	79	80	86	93	100
Ave shares on issue (m)	299	390	476	476	476	476	476	476	476	476	476

SOURCE: MORGANS RESEARCH, COMPANY

Base case valuation

Our base case valuation is a blend between a Free Cash Flow to Equity (FCFE) DCF and a multiples based valuation. Figure 3 summarises our sum-of-the-parts FCFE DCF which assumes a cost of equity of 8%.

Figure 4 summarises our multiples based valuation. Our key assumptions are:

- Jemalong and K2-H are completed by FY22.
- K2-S and K3-W have been progressed but not completed and are valued on a lower multiple compared to Jemalong and KS1.
- The FY22 equity value (\$196m) is discounted at 8% p.a. to a FY19 basis.
- A total of \$40m equity is raised to complete K2-H.

Our combined base case valuation is a 50/50 weighting of the DCF and multiples based valuation and is therefore ~32cps.

Figure 3: GNX DCF sum of the parts			Figure 4: Base case multiples-based valuation					
Component	Value (\$m)	Value (cps)	Asset	MW	Multiple (\$ / W)	EV (\$m)	Debt (\$m)	Equity (\$m)
KS1 & Jemalong	34.0	11	Jemalong + KS1	100	2.4	242.0	(168.5)	73.5
GNX share of K2-H	40.9	13	K2-H	125	2.1	262.5	(220.0)	42.5
K2-S & K3-W	12.9	4	K2-S + K3-W	320	0.3	80.0	-	80.0
Total	87.8	29	Total	545	1.1	584.5	(388.5)	196.0
Estimated future number of shares								454.5
Discounted equity value (cps)								34

SOURCE: MORGANS

Bull case valuation

Our key assumptions are:

- All projects are completed by FY22.
- The FY22 equity value (\$736m) is discounted at 8% p.a. to a FY19 basis.
- Multiples are based on the top quartile of comparable transactions.

Figure 5: Bull case summary					
Asset	MW	Multiple (\$ / W)	EV (\$m)	Debt (\$m)	Equity (\$m)
Jemalong + KS1	100	3.1	310.0	(168.5)	141.5
K2-H	125	2.1	262.5	(220.0)	42.5
K2-S + K3-W	320	3.1	992.0	(440.0)	552.0
Total	545	2.9	1,564.5	(828.5)	736.0
Estimated future number of shares (m)					984.8
Discounted equity value (cps)					64

SOURCE: MORGANS

Bear case valuation

Our key assumptions are:

- Jemalong is completed.
- K2-H, K2-S and K3-W do not proceed.

Figure 6: GNX valuation bear case		
Component	Value (\$m)	Value (cps)
KS1 & Jemalong	34.0	11

SOURCE: MORGANS

Queensland

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