

Genex Power ^{GNX}

Preliminary agreement with Energy Australia on K2-Hydro

Rating*:	BUY	Price Target*:	\$0.37	Analyst:	Luke Macnab +61 2 9250 8930
Risk:	Speculative	Share Price:	\$0.27		lmacnab@baillieu.com.au

*Note: Rating and Price Target recorded at pre-announcement levels as detailed in our research report dated 29 November 2018.

- **Non-binding term sheet signed:** GNX has entered into an agreement with Energy Australia (EA), covering energy storage services and an equity investment in the K2-Hydro project. The agreement is subject to completion of due diligence by EA and finalisation of other key financial (eg debt funding) and operational (eg grid connection) factors. GNX will negotiate exclusively with EA to finalise the deal, with an extension of exclusivity and a break clause in place in case of a takeover of GNX.
- **Long term operational agreement:** The long term storage services agreement will give EA full dispatch and market rights over the 250MW Pumped Storage Hydro project. We believe it will involve a term of over 20 years after taking into account the length of the potential NAIF debt funding and the life of the project. The details are yet to be finalised and will be incorporated into a long form agreement.
- **Equity investment in K2-Hydro:** The Term Sheet also includes provision for an equity investment from EA in the PSH project. We estimate the overall cost of the project will be in the order of \$400m, with a high level of gearing available given the low-risk nature of the offtake agreement, which we believe is in the nature of an availability payment. Our back-of-envelope calculations continue to suggest that GNX will need to raise a small amount of equity to satisfy its portion of the project's equity. Financial close is anticipated in 1H CY19.
- **K2-Solar update:** The 270MW K2-Solar project has been hived off from the K2-Hydro project and given its shorter development timeframe, is now likely to commence operations at the same time as the K2-Hydro project in 2022. This will simplify the funding and development arrangements and allow for optimisation of the 275kV transmission line to the Kidston site. Financial close is anticipated in mid-late CY19 after the K2-Hydro financial close is completed.
- **Investment view:** The market for renewables remains robust and may 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. We believe there is significant potential upside from KS2 and additional option upside from KS3 and Jemalong in the medium term. BUY maintained.

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