

Genex Power ^{GNX}

Recommendations

Rating	BUY
Risk	Speculative
Price Target	\$0.45
Share Price	\$0.25

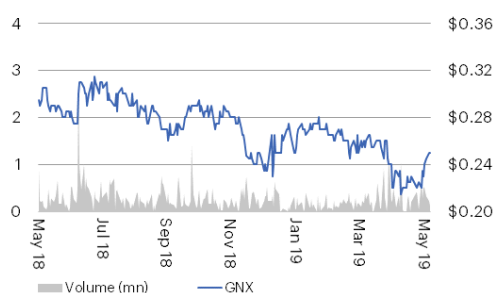
Snapshot

Monthly Turnover	\$1.3mn
Market Cap	\$78mn
Shares Issued	312.4mn
52-Week High	\$0.32
52-Week Low	\$0.22
Sector	Utilities

Business Description

GNX is a renewable energy developer, with its flagship location in Kidston, North Queensland. This consists of: a 50MW solar farm (operational), a 270MW solar farm (pre-financial close), a 250MW pumped storage hydro project (near financial close) and a 150MW wind farm (pre-feasibility study). They are also developing a 50MW solar project (near financial close) in Jemalong, NSW.

12 Month Price & Volume



Research Analyst

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Disclosure

The author owns no shares in GNX.

Baillieu Limited has acted in a corporate advisory role and raised capital in a placement for GNX, and earned fees in relation to that activity in the past 12 months.

Company Report

Crystallising the value

Upside to be crystallised: In recent presentations GNX has provided some additional details on the projects which are approaching financial close (Kidston Stage 2 – Hydro and Jemalong). We have used these as a basis for estimating the additional value created when the projects have been finalised and funded. Assuming an equity raise of \$20m at 20c per share, we estimate a valuation of \$0.45 per GNX share, some 80% above the current share price.

Hydro financial close approaching: We expect financial close on the Kidston Stage 2 – Hydro (K2H) project to be reached in the next 1-2 months. We anticipate a new equity requirement for GNX of \$10-25m, depending on other variables (eg. ARENA contribution, reimbursement for accrued costs). Once closed, we estimate a base case valuation of \$54m.

Jemalong also progressing: We also expect financial close on the Jemalong Solar Project (JSP) to occur soon, at which time we estimate an equity valuation of \$50m. We expect a low amount of new equity to be required from GNX (\$1-5m), which could be funded from a debt facility at the corporate level. The majority of the equity contribution will be funded from existing cash and cash released from a regearing of the Kidston Stage 1 Solar project.

Forecast changes: No changes to forecasts as details are still to be finalised. On the valuation side, we previously included an option value of \$25m as a placeholder for the K2H project. After more detailed modelling, we estimate \$104m worth of upside from K2H and Jemalong. This is partially offset by \$15m of capitalised additional corporate costs and \$5m of corporate debt, along with dilution of 100m additional shares issued at 20c to fund these projects. Our new SOTP valuation and 12-month price target is \$0.45 (from \$0.37).

Investment view: GNX is close to reaching financial close on the K2H and Jemalong projects, which will reduce uncertainty and crystallise value for shareholders. We believe GNX is well positioned to capitalise on the transition to renewable power generation and the increasing demand for large-scale energy storage. The stock is currently trading at a significant discount to our valuation and as such, we maintain a BUY rating.

Investment Summary

Year End: 30 June		2017A	2018A	2019E	2020E	2021E
Revenue	\$mn	0.0	8.3	12.6	13.1	13.1
EBITDA	\$mn	-7.1	-1.7	4.0	6.8	6.8
EBIT	\$mn	-7.1	-4.7	-2.2	0.6	0.6
Reported Profit	\$mn	-6.9	-7.5	-4.6	-2.8	-2.8
Adjusted Profit	\$mn	-6.9	-7.5	-4.6	-2.8	-2.8
EPS (Reported)	¢	-2.6	-2.3	-1.4	-0.8	-0.8
EPS (Adjusted)	¢	-2.6	-2.3	-1.4	-0.8	-0.8
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	-11.7	-97.1	44.9	26.0	25.7
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	
Code:	GNX
Analyst:	Luke Macnab
Date:	14 May, 2019
Share Price:	\$0.250
Market Capitalisation:	\$78m
Financial Year End:	June

PROFIT & LOSS (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Operating revenue	0.0	8.3	12.6	13.1	13.1
COGS	0.0	0.0	0.0	0.0	0.0
Gross profit	0.0	8.3	12.6	13.1	13.1
Expenses	-7.1	-10.0	-8.7	-6.3	-6.3
EBITDA	-7.1	-1.7	4.0	6.8	6.8
Depreciation	0.0	-3.0	-6.2	-6.2	-6.2
EBITA	-7.1	-4.7	-2.2	0.6	0.6
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-7.1	-4.7	-2.2	0.6	0.6
Net Interest expense	0.2	-2.7	-4.3	-4.6	-4.5
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	-6.9	-7.5	-6.6	-4.0	-4.0
Tax	0.0	0.0	2.0	1.2	1.2
Underlying NPAT	-6.9	-7.5	-4.6	-2.8	-2.8
Underlying NPATA	-6.9	-7.5	-4.6	-2.8	-2.8
Significant items (net of tax)	0.0	0.0	0.0	0.0	0.0
Reported profit	-6.9	-7.5	-4.6	-2.8	-2.8

BALANCE SHEET (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Assets					
Cash	11.1	11.0	3.4	1.2	-1.0
Receivables	1.0	0.9	1.8	1.8	1.8
PPE	47.4	118.4	116.8	110.8	104.9
Goodwill & Intangibles	4.2	4.5	4.6	4.6	4.6
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	0.3	0.9	0.7	0.7	0.7
Total Assets	64.1	135.6	127.3	119.1	111.1
Liabilities					
Payables	10.8	1.5	1.7	1.3	1.3
Debt	16.3	100.2	102.9	98.8	94.6
Provisions	3.8	3.8	3.8	3.8	3.8
Tax payable	0.2	0.4	0.4	0.4	0.4
Deferred Revenue	3.8	3.8	3.8	3.8	3.8
Other liabilities	9.9	10.6	12.3	12.3	12.3
Total Liabilities	44.9	120.4	125.0	120.4	116.3
Equity					
Share capital	35.5	40.0	40.0	40.0	40.0
Retained earnings	-17.4	-24.8	-29.9	-32.7	-35.5
Other equity	1.1	0.1	-0.4	-0.4	-0.4
Total shareholders equity	19.2	15.3	9.6	6.8	4.1
BV per share (cps)	7.3	4.7	2.8	2.0	1.2
NTA per share (cps)	5.7	3.3	1.5	0.7	-0.1

CASH FLOW (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Cash at Start	4.2	11.1	11.0	3.4	1.2
Cash from operations	-8.4	-6.1	-0.7	2.2	2.2
Capex	-30.3	-83.0	-4.8	-0.3	-0.3
Free cash flow	-38.6	-89.1	-5.6	1.9	2.0
Cash flow from investing	11.3	0.6	0.0	0.0	0.0
Cash flow from financing	34.2	88.3	-2.1	-4.1	-4.1
Cash at end	11.1	11.0	3.4	1.2	-1.0
Free cash flow per share (cps)	-14.7	-27.3	-1.6	0.6	0.6
GOCF / EBITDA	117%	129%	147%	117%	117%
FCF / Underlying cash NPAT	557%	1194%	121%	-69%	-71%

Rating:	BUY
Price Target:	\$0.45
Upside/downside:	80%
Valuation:	\$0.45
Valuation method:	DCF/Multiple
Risk:	Speculative

EARNINGS	FY17A	FY18A	FY19E	FY20E	FY21E
EPS - Underlying (cps)	-2.6	-2.3	-1.4	-0.8	-0.8
EPS Growth - Underlying	-33%	-13%	-41%	-40%	-1%
EPS - Reported (cps)	-2.6	-2.3	-1.4	-0.8	-0.8
Diluted shares (m)	262.3	325.8	339.2	345.6	345.6
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)	-9.5	-10.9	-18.4	-30.8	-31.1
EV/EBIT (x)	-11.7	-35.3	-79.2	308.8	305.4
EV/EBITA (x)	-11.7	-35.3	-79.2	308.8	305.4
EV/EBITDA (x)	-11.7	-97.1	44.9	26.0	25.7
Price/Book (x)	3.4	5.3	8.8	12.6	21.3
Price/NTA (x)	4.4	7.6	16.6	37.8	-176.2
Price/FCF	-1.7	-0.9	-15.2	44.9	43.8

GROWTH	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue growth	na	na	nm	3%	0%
COGS growth	na	na	nm	#DIV/0!	#DIV/0!
Expenses growth	1%	40%	-13%	-28%	0%
EBITDA growth	1%	-76%	-330%	71%	0%
PBT growth	-2%	8%	-12%	-39%	-1%
Underlying NPAT growth	-2%	8%	-38%	-39%	-1%
Reported NPAT growth	-2%	8%	-38%	-39%	-1%

MARGINS & RETURNS	FY17A	FY18A	FY19E	FY20E	FY21E
EBITDA Margin	na	na	31.3%	51.9%	51.9%
EBITA Margin	na	na	-17.7%	4.4%	4.4%
NPBT Margin	na	na	-52.1%	-30.7%	-30.4%
ROIC	-25.6%	-4.9%	-1.4%	0.4%	0.4%
ROE	-52.0%	-43.3%	-37.0%	-34.1%	-50.9%
ROA	-17.9%	-4.7%	-1.7%	0.5%	0.5%
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	99.5	97.6	95.6
Enterprise value	83.3	167.3	177.6	175.7	173.7
Net Debt/EV (%)	6.3%	53.3%	56.0%	55.5%	55.0%
Net Debt/EBITDA (x)	-0.7	-51.8	25.1	14.4	14.1
EBITDA/Net Interest (x)	39.0	-0.6	0.9	1.5	1.5

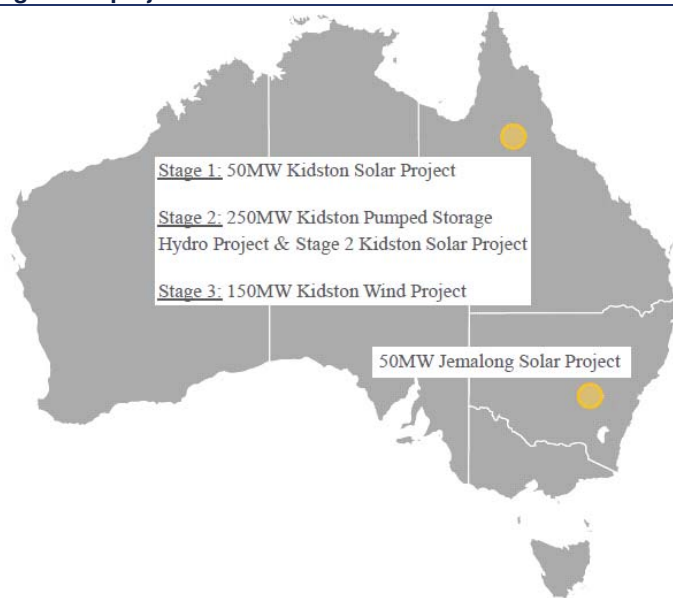
SEGMENT REVENUES (A\$m)	FY17A	FY18A	FY19E	FY20E	FY21E
Kidston Stage 1 Solar	0.0	8.3	12.6	13.1	13.1

Crystallising the value

Kidston Stage 1 Solar (K1S) update

- **PPA commenced:** The 50MW K1S project commenced the 20-year Revenue Support Deed with the Queensland Government in July 2018. This provides GNX with a revenue floor of \$13m pa (which equates to c.\$90/MWh) and potential upside from pool prices above this level, which typically occurs for 1-2 months during summer.
- **1H19 revenue mix:** GNX recorded 1H19 revenue of \$5.2m under the Deed, with \$0.2m of pre-Deed revenue and \$0.7m of LGC revenue. Future LGCs will be surrendered to the Queensland Government for the 30-year duration of the agreement. GNX also received \$2.6m in liquidated damages from UGL to compensate for the delay in reaching practical completion on the project.
- **Refinancing expected soon:** Now that the K1S project has been largely de-risked, a refinancing is expected before 30 June. This will most likely lower the interest rate and increase the size of the debt facility. Any additional debt capacity will be drawn and put towards funding the Jemalong Solar Project.

Fig.1: GNX project locations



Source: GNX

Fig.2: GNX portfolio overview

Project	Status	Counterparty	Revenue contract term	Indicative revenue
Kidston Stage 1 – Solar	In production	Queensland Government	20 years	\$13m pa Start: 2018
Kidston Stage 2 – Hydro	Financing activities commenced	Energy Australia	Long term (Term sheet signed)	\$40-50m pa* Start: 2022
Kidston Stage 2 – Solar	Advanced development	TBC	TBC	
Kidston Stage 3 – Wind	Feasibility study commenced	TBC	TBC	TBC
Jemalong Solar Project	Financing activities commenced	AEMO	Merchant/Spot Market	\$15m pa Start: 2020

* Represents GNX share of revenue (50% K2H, 100% K2S) Source: GNX

Kidston Stage 2 – Hydro (K2H) update

- **Energy Australia partnership:** In December 2018, GNX signed a Term Sheet with Energy Australia (EA) to be a 50% partner in the K2H project. This covers the future provision of energy storage services and an equity investment in the Special Purpose Vehicle (SPV) at the project level.
- 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 energy storage agreement will give EA full dispatch and market rights over the 250MW Pumped Storage Hydro project. Details are yet to be finalised, but we believe it will involve a term of 20-30 years, based on the working life of the project and the potential tenor of NAIF funding.

- EA will pay the SPV an annual fee to operate the K2H facility, indexed to increase annually by 0.75% of CPI. This effectively means that GNX is taking no market risk on the project and will have a very low risk income stream for the next 20-30 years. We estimate GNX's income to be \$20-25m, based on stated revenue expectations of \$40-50m from the K2H and K2S projects combined.
- **Low interest rate...:** We estimate the overall cost of the project at \$550m, with a high level of gearing (80%) and low cost debt from the NAIF. Whilst not a direct comparison, we note that the interest rate on concessional loans to farm businesses from the Federal Government is set at 3.58% and that the longest tenor of Federal Government debt is 30 years.
- Final terms have not been agreed, but we believe the interest rate will be well under 4% (we assume 3.5%) and that the tenor is likely to be more than 10 years (we assume 30 years). The NAIF mandate stipulates the 10-year bond rate (plus an administration fee) as the minimum cost of lending and we note that bond rates have fallen by 100bp in the past six months (to just 1.7%), so our assumption is likely to be conservative.
- **...Drives high rate of equity return:** The equity portion of \$110m will most likely be offset by an ARENA grant (which we estimate at \$30-50m), leaving GNX with \$30-40m to fund for its share. However, EA will also have to pay for its share of costs incurred to date (plus a margin), which we estimate will mean a payment of \$15-20m to GNX.
- This leaves an amount of \$10-25m for GNX to fund, most likely through an equity raise. Our base case assumes a GNX contribution of \$18m, which would generate an estimated pre-tax IRR of 19% on the new equity.
- Discounting the estimated cashflows at 8.0% (c.6% risk premium above current 10-year bond rates, reflecting a typical rate of return for such projects) gives a total project equity value to GNX of \$54m (post-tax), an immediate \$19m uplift on its total equity contribution.

Fig.3: K2 – Hydro key financial metrics

Item (amounts in \$m)	Project level	GNX level
Total project financing	550	
Total project finance debt	440	
Total new equity	110	17.5
Inflation (pa)	2.0%	
Year 1 revenue (100%)	41	
Gross margin	90%	
Other operating costs	1	
Debt cost	3.5%	
Project IRR (pre-tax)	5.4%	
Equity IRR (pre-tax)	9.1%	19.1%
Equity value (pre-tax @ 8%)		64
Equity value (post-tax)		54

Source: GNX, Baillieu estimates

Fig.4: Jemalong key financial metrics

Item (amounts in \$m)	Project level	GNX level
Total project financing	82	88
Total project financing debt	65	
Total new equity	17	23
Yearly generation (MWh)	125	
Average price (\$/MWh)	95	
Gross margin	90%	
Other operating costs	0	
Debt cost	4.5%	
Project IRR (pre-tax)	11.8%	
Equity IRR (pre-tax)		26.0%
Equity value (pre-tax @ 10.5%)		59
Equity value (post-tax)		50

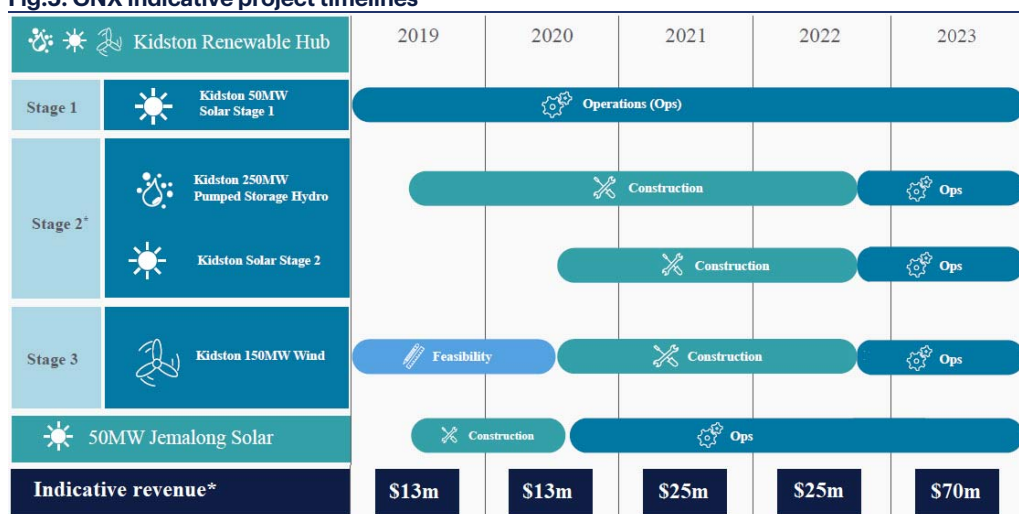
Source: GNX, Baillieu estimates

Kidston Stage 2 – Solar (K2S)

- The 270MW K2S project has been hived off from the K2H 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.

- The project is now envisaged to be developed in stages, with the initial capacity for the project to be 165MW at the time of opening. The project is likely to have a negotiated PPA as opposed to being merchant-based. We understand that some of the power from this project will be used for the pumping phase of the K2H project, which would boost its Marginal Load Factor.
- Financial close is anticipated in CY20 and we estimate that the construction cost of the initial 165MW stage will be around \$200m, with a total financing requirement of \$220-230m, requiring equity of around \$40m. GNX has indicated that the combined revenue to GNX from the K2H and K2S projects will be in the order of \$40-50m pa in the initial years of operation.

Fig.5: GNX indicative project timelines



* Revenue from K1S, K2H, K2S and JSP only.

Source: GNX, Baillieu estimates

Jemalong Solar Project (JSP)

- **Acquisition completed in March:** The 50MW JSP is located in Forbes, NSW, and is shovel-ready, with all land and planning approvals in place. Jemalong is well placed to take advantage of higher NEM prices in NSW, which could receive a boost if higher renewable targets are set following a change of Federal Government.
- **Construction start mid-2019:** Approval from the AEMO has been received and a grid connection agreement with Essential Energy was finalised in April. The final development stages and financing of the project are expected to be completed in the next few months, after which construction will start.
- **JSP financing tied to K1S:** The JSP is estimated to involve capex of around \$75m and a 12-month construction timetable, with first generation slated for mid-2020. We have estimated a total remaining funding requirement of \$86m, comprising \$82m project finance and \$4m still to be paid for acquiring the development rights (we understand \$1.8m has already been paid).
- The funding package is likely to include c.\$65m of debt, which will be cross-collateralised with the K1S project. We base our estimate on a conservative 4.5% interest rate assumption. The remaining \$21m of equity required will be partly funded from cash released from the refinancing of K1S (we estimate \$6-8m) and existing cash (we estimate \$10-12m), with an amount of \$1-5m outstanding.

- This shortfall could potentially be funded via a small debt facility at the corporate level, which would be refinanced once the JSP and K2H projects have been substantially de-risked, like what is happening with K1S. Alternatively, this could be funded as part of an equity raising for K2H.
- Based on our conservative estimate of \$12m pa revenue for JSP on a merchant basis (GNX is forecasting \$15m pa), we estimate an equity IRR of 26%. Applying a discount rate of 10.5% to these cashflows gives us a value of \$50m (post-tax) for GNX shareholders.

Fig.6: GNX valuation breakdown

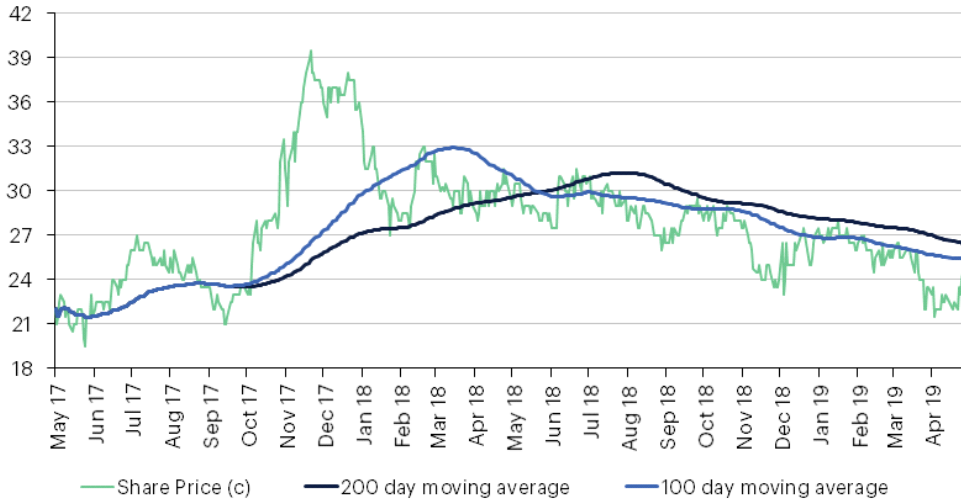
Old valuation			
Shares on issue			312.4m
Project	Equity discount rate	Valuation (\$m)	Per share (\$)
Kidston Stage 1 - Solar	9.5%	90	0.29
Option upside	-	25	0.08
Total		125	0.37

New valuation (post-financing of K2H and JSP)			
Shares on issue (assumes raise of \$20m @ 20c)			412.4m
Project	Equity discount rate	Valuation (\$m)	Per share (\$)
Kidston Stage 1 - Solar	8.0%	99	0.24
Kidston Stage 2 - Hydro	8.0%	54	0.13
Jemalong Solar	10.5%	50	0.12
Additional corporate costs	10.0%	-15	-0.04
Corporate debt	-	-5	-0.01
Total		183	0.45

Source: Baillieu estimates

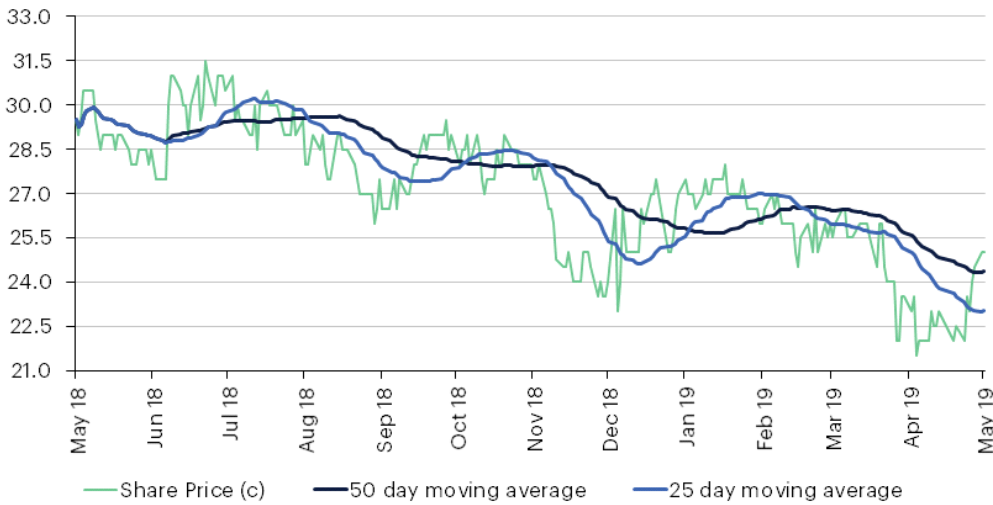
Appendix

Fig.7: Long term momentum indicators



Source: Iress

Fig.8: Short term momentum indicators



Source: Iress

This document has been prepared and issued by:

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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 ± 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.

Baillieu Analysts' stock ratings distribution as of 14 May 2019:

Buy: 59%

Hold: 37%

Sell: 4%

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