

# Genex Power (ASX:GNX)

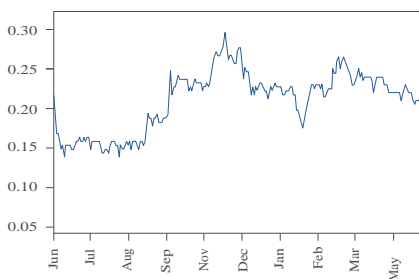
Government boosts the case for green energy hub in North QLD.

Key Facts	
Company Code	GNX
Closing Price (06/6/17)	0.22
Price Target	0.61
Date of Report	07/6/17
Company Website	<a href="http://www.genexpower.com.au">www.genexpower.com.au</a>
Analyst	Johan Hedstrom

Company Statistics	
12-Month Range	A\$0.11 - A\$0.31
Market Cap (A\$Mil)	A\$61m
Issued Shares	284
Issued Options	47
Cash (A\$Mil)	A\$16m

Major Shareholders	
Zhefu Hydropower (China)	11.0%
Rivonia Pty Ltd	9.9%
Acorn Capital	8.7%
KFT Capital	7.3%

#### Share Price Performance



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Canaccord Genuity (Australia) Limited has received a fee as a Joint Lead Manager and Underwriter to the Genex Power Limited capital raising announced on 3 February 2017.

## \$150m investment in strategic transmission infrastructure in FNQ

The Queensland Government has launched a \$386m plan called “Powering North Queensland”, with \$150m specifically targeting transmission infrastructure, to boost the prospects of Genex’s Kidston pumped hydro and solar project, and other similar projects in the region. We maintain a Buy recommendation on Genex.

## GNX valuation increased 27% to \$0.61 as de-risking continues

We consider this financial commitment by the State Government an important step along the process of getting the Kidston pumped hydro and expanded solar project approved. Our DCF valuation for Genex has a 50% risking for the pumped hydro part, and had a low 10% risking for the expanded solar project. As costs for solar PV continues to decline, we consider the 10% risking for the solar expansion much too conservative, and we now apply a 50% risking to both. This raises our DCF valuation from \$0.48 to \$0.61/share, with the unrisksed valuation remaining at \$1.01.

## Key objectives yet to be achieved

Genex has already got all the regulatory approvals in place, and demonstrated the technical viability of the project at the end of last year. The company is now working on the PPA’s (Power Purchasing Agreements) and funding options. The Government funding support for the transmission is a very positive step, and will reduce the overall costs of the project. Genex’s discussions with utilities and infrastructure developers such as Ergon Energy and Ausgrid will now have an added incentive to make progress on the development. Federal Government support for pumped hydro is also evident, and we would expect low cost funding from CEFC and the \$5B Northern Australian Infrastructure Facility to be forthcoming, as well as funding from infrastructure funds and conventional banks. Agreements could be reached before the end of this year, but the timing is not certain.

## First 50MW solar farm progressing as planned

Genex is providing monthly reports on progress of the Stage 1 Solar project, and it appears to be on track for first power generation in the December Quarter this year, and fully operational in the March Quarter 2018. Annual revenues of +\$13m are expected, and EBITDA of +\$12m as costs will be very low.

# Financial Summary

## Genex Power

### PROFIT AND LOSS

Year ending June	Unit	2016A	2017E	2018E	2019E	2020E
Revenue	\$m	0.7	-	13.4	14.1	102.8
Operating Expenses	\$m	-	-	(1.6)	(1.6)	(37.3)
Admin and Other Expenses	\$m	(7.7)	(5.1)	(4.1)	(4.2)	(4.3)
EBITDA	\$m	(7.0)	(5.1)	7.7	8.3	61.2
Depreciation	\$m	-	-	(10.0)	(10.0)	(35.0)
EBIT	\$m	(7.0)	(5.1)	(2.3)	(1.7)	26.2
Net interest (expense)	\$m	(0.1)	0.2	-	(5.0)	(5.0)
PBT	\$m	(7.1)	(4.9)	(2.3)	(6.7)	21.2
Tax expense	\$m	-	-	0.6	1.7	(5.3)
NPAT (pre-abnormal)	\$m	(7.1)	(4.9)	(1.7)	(5.0)	15.9
Abnormal items	\$m	-	-	-	-	-
NPAT (reported)	\$m	(7.1)	(4.9)	(1.7)	(5.0)	15.9

### CASH FLOW

Year ending June	Unit	2016A	2017E	2018E	2019E	2020E
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#### OPERATING CASHFLOW

NPAT	\$m	(7.1)	(4.9)	(1.7)	(5.0)	15.9
Add: non-cash items	\$m	4.7	2.0	11.0	11.0	36.0
Change in working capital	\$m	(7.3)	2.7	(2.0)	(0.1)	(13.3)
Operating cash flow	\$m	(9.7)	(0.2)	7.3	5.9	38.6

#### INVESTING CASHFLOW

Net PP&E	\$m	(0.4)	(11.2)	(120.0)	(120.0)	(60.0)
Evaluation	\$m	(0.2)	(4.0)	(2.0)	(2.0)	(2.0)
Other	\$m	(3.8)	-	-	-	-
Investing cash flow	\$m	(4.4)	(15.2)	(122.0)	(122.0)	(62.0)

#### FINANCING CASHFLOW

Share capital	\$m	3.3	18.5	-	-	-
Interest bearing debt	\$m	4.3	-	105.0	116.2	32.3
Financing cash flow	\$m	7.7	18.5	105.0	116.2	32.3
Change in cash	\$m	(6.5)	3.1	(9.8)	0.1	8.9

### BALANCE SHEET

Year ending June	Unit	2016A	2017E	2018E	2019E	2020E
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#### ASSETS

Cash	\$m	8.0	11.1	1.3	1.4	10.3
Accounts receivable	\$m	3.1	-	3.4	3.5	25.7
Property Plant & Equipment	\$m	0.6	11.8	121.8	231.8	256.8
Inventory	\$m	-	2.0	3.0	4.0	5.0
Other	\$m	3.8	3.8	3.8	3.8	3.8
Total assets	\$m	15.5	28.7	133.3	244.6	301.6

#### LIABILITIES

Accounts payable	\$m	0.4	-	1.3	1.4	10.3
Deferred tax liabilities	\$m	-	-	-	-	-
Borrowings	\$m	3.4	3.4	108.3	224.5	256.8
Provisions	\$m	4.2	4.2	4.2	4.2	4.2
Total liabilities	\$m	8.0	7.6	113.9	230.2	271.3

#### SHAREHOLDER'S EQUITY

Share capital	\$m	15.8	34.3	34.3	34.3	34.3
Retained earnings	\$m	(10.5)	(15.4)	(17.1)	(22.1)	(6.2)
Reserves & outside equity	\$m	2.2	2.2	2.2	2.2	2.2
Total equity	\$m	7.5	21.1	19.4	14.4	30.3
Weighted average NoSh	m	169.3	228.8	277.4	277.4	277.4

### FINANCIAL RATIOS

Year ending June	Unit	2016A	2017E	2018E	2019E	2020E
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#### VALUATION

NPAT (adjusted)	\$m	(7.1)	(4.9)	(1.7)	(5.0)	15.9
EPS (adjusted)	c/sh	(4.2)	(2.1)	(0.6)	(1.8)	5.7
EPS growth	%		-49%	-71%	193%	-416%
PER	x	-5.2x	-10.3x	-35.5x	-12.1x	3.8x
DPS	c/sh	-	-	-	-	-
Yield	%					
EV/EBITDA	x	-8.1x	-10.5x	21.8x	34.3x	5.0x

#### PROFITABILITY RATIOS

EBITDA margin	%			57%	59%	60%
EBIT margin	%			-17%	-12%	25%
Return on assets	%	-32%	-22%	-2%	-3%	6%
Return on equity	%	-50%	-34%	-8%	-30%	71%

#### LIQUIDITY & LEVERAGE

(Net debt) / cash	\$m	5	8	(107)	(223)	(247)
ND / E	%	45%	16%	558%	1561%	848%
ND / (ND + E)	%	31%	14%	85%	94%	89%

### ASSUMPTIONS

Year ending June	Unit	2016A	2017E	2018E	2019E	2020E
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#### PRICES

PPA for Solar Stage 1	\$/MW		88.0	88.0	88.0	88.0
Off Peak Power Cost	\$/MW	10.0	15.0	30.0	30.8	31.5
Peak Power Price	\$/MW	150.0	130.0	133.3	136.6	140.0
LGC's (only on Solar)	\$/MW	75.0	75.0	75.0	80.0	75.0

#### CURRENCY

USD/AUD		0.75	0.74	0.73	0.72	0.72
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### POWER GENERATION F'CAST

	Unit	2016A	2017E	2018E	2019E	2020E
Solar Stage 1 (50MW)	MWh	-	-	144,540	144,251	143,962
Solar Stage 2 (250MW)	MWh	-	-	-	-	-
Pumped Hydro (250MW)	MWh	-	-	-	-	638,750
Total	MWh			144,540	144,251	782,712

### SOTP VALUATION AT WACC

	8.1%	Risked		Unrisked		
		Net MWNPV (\$m)	\$/sh	Risking NPV(\$m)	\$/sh	
Solar Stage 1 (50MW)	50	42	0.15	100%	42	0.15
Solar Stage 2 (270MW)	270	45	0.16	50%	90	0.32
Pumped Hydro (250MW)	250	66	0.24	50%	133	0.48
Net asset value	570	153	0.55		265	0.95
(Net debt) / cash		16			16	0.06
Equity value		169			280	
No Sh diluted for placement + SPP		277			277	
Value per share (\$/sh)		0.61			1.01	

## Appendix: Important Disclosures

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