

Genex Power Ltd (GNX \$0.28) Buy

| Analyst | Date | Price Target |
|------------|-------------------------|--------------|
| Jon Bishop | 05 th /02/21 | \$0.35/sh |

Inc Govt Contribution to Kidston Stage 2

Key Points

- Powerlink (Qld Govt subsidiary energy network provider) has committed additional funding (now \$147m from \$132m originally) to upgrade the transmission line, supporting Stage 2 Pumped Hydro (and subsequent Stage 3 Wind and Solar expansion) development;
- We see this as another positive leading indicator ahead of financial close to the Pumped Hydro development expected later this Q;
- We remind that GNX commenced early works on the 250MW Pumped Hydro Project last Q
- That followed the announcement that GNX Board have taken FID on the Project pending Financial Close (expect this Q);
- The early works represents the culmination of a number of work streams that finally bring the Project together; notably the conclusion of the O&M agreement with Powerlink that will see upgrade of the current transmission line to 275kV rating as key focus for the early works;
- Final negotiations with the preferred equity partner are due to conclude ahead of FID;
- NAIF has reaffirmed its \$610m of concessional financial support of the Pumped Hydro Project, and its Investment Decision is subject only to Financial Close (and any associated CPs relating to Financial Close and the commitment of the Qld Govt consideration);
- We expect ARENA to follow suit particularly following the increased Powerlink commitment today;
- EnergyAustralia has agreed to amend the Energy Storage Services Agreement (ESSA) to 28 Feb 2021 to align with Financial Close;
- J-Power's recent commitment to Phase 3 Wind power generation suggests that it remains comfortable the FID will be taken noting that the Wind Project requires the upgraded transmission line (supporting the Hydro development) to be operational;
- It has consequently aligned execution of the Share Subscription Agreement (to earn up to 19.99% interest in GNX) and Technical Services Agreement to the end Feb sunset date for Financial Close;
- The market continues to discount the battery storage projects on our analysis ie Valuation is 19cps ex both battery projects at current Balance Sheet (net debt \$130m or -20cps):

ASSET VALUATION

| | A\$m | A\$/sh |
|---|------------|-------------|
| Kidston Solar PV (50MW) | 133 | 0.21 |
| Jemalong Solar PV (50MW) | 80 | 0.13 |
| Pumped Storage Hydro (250MW) risked 50% | 35 | 0.06 |
| Kidston Solar PV (270MW) - risked 50% | - | - |
| Como Battery & Kidston Wind | 15 | 0.02 |
| Corporate | (28) | (0.04) |
| Tax Credit | 40 | 0.06 |
| Debt** | (200) | (0.32) |
| Cash** | 120 | 0.19 |
| **assumes Jemalong fully developed | | |
| Total | 195 | 0.31 |

- There remains a considerable arbitrage to fair value on our analysis on that basis, noting the strategic value of the Pumped Hydro Project once 'banked';
- Consequently our Buy recommendation, 31cps Valuation and 35cps Price Target remain unchanged.

Investment Case

Recent announcements regarding the key Pumped Hydro Project indicate that the project is going ahead, with Financial Close a formality regarding final documentation and completion of the equity partnership agreements. We see no impediment to completion now, with the only risk at the margin concerning the final equity terms with the preferred partner. The Project is a key initiative for the State in terms of meeting renewables targets; improving grid stability; and in a COVID impacted world, providing major infrastructure related employment opportunities. The current share price is underwritten by the two solar projects in operation and the broader portfolio continues to mature with battery based grid stability and market arbitrage opportunities. Buy and 35cps Price Target remain.

Genex Power Ltd (GNX)

| | | | | | |
|-----------------------|------|--------|---------------------|------------|------|
| Share Price | 0.28 | A\$/sh | Enterprise Value | 303 | A\$m |
| Price Target | 0.31 | A\$/sh | Debt | 199 | A\$m |
| Valuation | 0.35 | A\$/sh | Cash | 41 | A\$m |
| Shares on issue | 512 | m(dil) | Largest Shareholder | Board&Mgmt | 14% |
| Market Capitalisation | 145 | A\$m | | | |

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