

## Genex Power Ltd (GNX \$0.205) Buy

Analyst	Date	Price Target
Jon Bishop	01 <sup>st</sup> /07/20	\$0.30/sh

### Pumped Hydro Update

#### Key Points

- NAIFs commitment to fund up to \$610m in low cost and covenant project debt (@ the Australian Govt bond rate plus a management fee) remains in effect to Sep 30 and will be committed with finalisation of (particularly) the transmission line upgrade agreement and execution of remaining financing documentation;
- We expect finalisation of the agreement with the Qld Govt for upgrade of the existing transmission line shortly;
- We also anticipate ARENA grant of up to \$50m is likely to be received in the coming weeks;
- On that basis, 100% of the Project equity on a rental revenue agreement (post any operating costs) would likely be structured to achieve mid-single digits RoR before any buy-out fee;
- We anticipate that GNX will seek to farm-down its 100% Pump Hydro interest to c.50% ahead of completing FID;
- J-Power's pre-existing interest in the Project would suggest they are the likely JV Partner however we understand the current tender process has received strong additional 3<sup>rd</sup> party interest;
- Financial close is targeted for the Sep Q on that basis and given the advanced nature of the Project (in terms of engineering, planning and costing) for works to commence shortly thereafter;
- The Company has completed updated pricing and terms with its core EPC (McDowell & John Holland); Turbine (Andritz); Connection (Beon); Camp (ISS); and Owner's Engineer (Hydro Tasmania) contractors;
- The timeline for construction is 3.75yrs from end Sep Q at a total cost of \$600m;
- Our \$0.28/sh Valuation and \$0.30/sh Price Target remain awaiting final financial and equity structure of the Pumped Hydro development;
- The current live 89cps takeover offer for Infigen (IFN) – a wind renewable electricity provider – implies transaction multiples of 10x EV:EBITDA on consensus FY'21 forecasts;
- This is in-line with our forecasts for GNX with just Kidston Stage 1 Solar and Jemalong Solar fully developed, suggesting the Company will re-rate with the Pumped Hydro project fully financed;
- Further to which, the dispatchable nature of pumped hydro should command a premium – more in-line with infrastructure businesses – to the more intermittent renewables businesses;
- We cite Pacific Hydro and Duet Group transaction multiples of c.15x as more relevant benchmarks, noting our fully developed EV:EBITDA forecast inclusive of the Pumped Hydro is 5x.

#### Investment Case

The Jun H has seen GNX resurrect the Pumped Hydro Storage Project in an extremely difficult macro environment. This highlights the strategic significance of the Pumped Hydro development and reaffirms the core reason for originally initiating coverage the business. We believe that the creditworthiness of the counterparty in EA ensures that the Project will again attract lowest cost funding to bring the development into operation. As a consequence, GNX will effectively create a synthetic bond, with up to 30yr term and including an option to sell its interests at the end of the 30yrs. The corresponding Rate of Return on what will be effectively an escalating (CPI index or similar) EBITDA will attract long term 'patient' investment

money ultimately in our view. Financial Close (Sep Q) will be the first point where such interest may manifest corporately, and noting J-Power's appetite for such assets, they would appear a logical suitor for the balance of the Pumped Hydro but also the other GNX renewables businesses. As final agreements and frameworks for GNXs interest in the Pumped Hydro Project materialise in the coming months, we believe that the market should re-impute value for Kidston Stage 2. This will be ahead of the current share price and the fair value for the remaining assets. We retain our Buy recommendation as a consequence.

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**Genex Power Ltd (GNX)**

Share Price	0.205	A\$/sh
Price Target	0.30	A\$/sh
Valuation	0.28	A\$/sh
Shares on issue	402	m(dil)
Market Capitalisation	82	A\$m

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Enterprise Value	190	A\$m
Debt	130	A\$m
Cash	24	A\$m
Largest Shareholder	Zhefu	8.9%

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