

Genex Power Ltd (GNX \$0.24) Buy

| Analyst | Date | Price Target |
|------------|-------------------------|--------------|
| Jon Bishop | 20 th /12/18 | \$0.80/sh |

Term Sheet with EnergyAustralia for Pumped Hydro

Key Points

- GNX has signed a long term offtake and equity investment Term Sheet with EnergyAustralia (EA) for the Kidston Stage 2 Pumped Hydro Storage development;
- Under the terms of the deal, EA and GNX will form a 50:50 Joint Venture for the development of the Pumped Hydro development;
- EA is one of Australia's leading energy retailers with around 2.3 million electricity and gas customers across eastern Australia.
- EA will have full dispatch rights which will underwrite all revenues and support a long-term concessional loan from NAIF;
- The guaranteed revenue figures remain confidential, however we assume – on account of the financial structure and negligible equity requirement – that GNX will realise IRRs of over 15% for its 50% share in the Pumped Hydro JV;
- We assume that the Pumped Hydro development will require ~\$400m in capex.
- Noting NAIF had previously committed up to \$516m for Stage 2 (inc. Solar expansion), we assume circa 80% of the Pumped Hydro cost will be funded by long term (~30yr) low cost (~3%/yr), concessional finance, with the balance to be provided by an ARENA grant (\$30-50m est) and equity;
- We anticipate the ARENA grant to be awarded early in the new year and documentation to be finalise with NAIF shortly thereafter;
- Finalisation of the terms to provide an upgraded 275kV transmission line should also occur shortly;
- Whilst the Stage 2 Solar financing will be completed post financing being completed for the Pumped Hydro;
- The agreement will enable construction to commence in H1 2019 for generation from 2022;
- Term Sheet provides a period of exclusivity to allow completion of final due diligence, long form documentation, final grid connection and final EA Board approval.

Investment Case

We remain convinced that the Pumped Hydro – as a renewable-energy storage solution – remains the key differentiator for the GNX story. Today's agreement with EnergyAustralia is an endorsement of this and moves the project towards imminent financial close. We view that the strategic benefit of this infrastructure in a market that is increasingly reliant upon intermittent renewable electricity generation makes GNX an obvious candidate for patient money looking for stable, defensible recurring earnings base with considerable upside potential. Longer term, with astute financial engineering, we view that GNX's Kidston portfolio will be of increasing attraction to infrastructure funds and/or large utilities. Simply the business offers +80yrs of despatchable renewable electricity with a financial structure that boasts long term low tenor. We believe that GNX can re-rate inline with utility style multiples per the major infrastructure and utility players in the market. BUY.

Genex Power Ltd (GNX)

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|-----------------------|-------|--------|
| Share Price | 0.24 | A\$/sh |
| Price Target | 0.80 | A\$/sh |
| Valuation | 0.77 | A\$/sh |
| Shares on issue | 303.9 | m(dil) |
| Market Capitalisation | 72.9 | A\$m |

| | | |
|---------------------|-------|-------|
| Enterprise Value | 163 | A\$/m |
| Debt | 100 | A\$/m |
| Cash | 10 | A\$/m |
| Largest Shareholder | Zhefu | 11% |

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