

Quick Comment

Genex Power Ltd (GNX \$0.18) Buy



Analyst	Date	Price Target
Jon Bishop	27 th April 2020	\$0.30/sh

Mar Q'ly FY'20 Report

Key Points

- The Mar Q saw a breakeven operating Q on account a 31% Q-on-Q improvement in generation at Kidston Stage 1 Solar Project;
- Additionally, excellent progress is being made with the 50MW solar development at Jemalong: practical completion and first generation remains on course for Dec Q of this CY;
- Cash of \$24.3m (vs \$21.8m at Dec 31) at Q end. Debt drawn of \$131.8m from \$200m of low cost, long term and low covenant Govt secured debt;

PUMPED HYDRO

- The critical development was the signing of a Binding Energy Storage Services Agreement ("ESSA") with Energy Australia ("EA") for the Kidston Pumped Hydro energy storage development;
- The ESSA is for up to 30yrs with a fixed annual rental rate escalated at an agreed rate. EA has an option to purchase GNX project equity interest at an agreed price after 30yrs.
- The new ESSA will result in a new agreement with Powerlink (Qld Govt electricity transmission subsidiary) for the upgrade of the transmission line to connect the hydro project to the FNQ grid;

Funding

- NAIF had previously pledged up to \$610m in low cost and covenant project debt at effectively the Australian Govt bond rate plus a management fee. We would presume similar terms in this instance noting the BBB+ credit rating of EA. Board approval is possible in May;
- An 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 3rd 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;
- Despite the State of Emergency regarding COVID19, we view that energy storage, reliable electricity transmission and grid stability will remain critical infrastructure and a matter of national security. Therefore unlikely to abnormally delay progress save for typical bureaucratic process;
- Our \$0.28/sh Valuation and \$0.30/sh Price Target remain awaiting final financial and equity structure of the Pumped Hydro development.

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Investment Thesis

The Mar Q was highly encouraging citing the Kidston Stage 1 Solar Project effectively underwriting the business before development capex was deployed at Jemalong for the new 50MW solar project. Of greater significance, the Q saw 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 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 GNX's 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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Share Price	0.18	A\$/sh	Enterprise Value	180	A\$m
Price Target	0.30	A\$/sh	Debt	130	A\$m
Valuation	0.28	A\$/sh	Cash	24	A\$m
Shares on issue	402	m(dil)	Largest Shareholder	Mgmt	c.17%
Market Capitalisation	74	A\$m			

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