

Genex Power (GNX)

eFlash | Hydro optimisation - Scope larger, construction easier

Rating: **BUY** Price Target: **\$0.26** Analyst: Luke Macnab
Risk: Speculative Share Price: \$0.25 +61 2 9250 8930
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- **Optimisation complete:** GNX has concluded the Optimisation process for the Stage 2 Pumped Storage Hydro project, following on from the Technical Feasibility Study which was completed in November 2016. Key changes are:
 - **Construction easier/cheaper/quicker:** The previously proposed Turkey's Nest design has been scrapped and the existing Wise's Pit will be used for the upper reservoir. This will be connected to the power generation facility (which remains in the same location) via a constructed channel. This is cheaper and easier than the Turkey's Nest design and total construction time is expected to be <3 years (previously 3.0-3.5 years);
 - **Greater capacity:** Upper reservoir volume has been expanded from 6 hours to 8+ hours' continuous generation capacity at the same 250MW configuration. This expands the potential single-session output from 1,500MWh to 2,000+MWh; and
 - **Greater flexibility:** Adoption of variable speed pump-generator turbines (previously fixed-speed) allows faster ramping of generation, better pumping efficiency and ability to better match the pumping profile to the K2-Solar generation profile.
- The enhanced flexibility and greater size of the project will increase its attractiveness to interested parties, ultimately resulting in greater value for GNX shareholders.
- **Negotiations on financing continue:** GNX continues to negotiate with a number of parties on potential a offtake/operational agreement, which will be the key to finalising the financing of the Stage 2 Project (both Solar and Hydro). Parties include the Northern Australia Infrastructure Facility, which would provide lower interest rates and further enhance the economics of the project for equity holders.
- **Investment view:** It is expected that financial close on Stage 2 will be reached in 1H CY18 and that GNX will do an equity raising at this point. We estimate that the project will be 75-80% geared, meaning around \$164-205m of equity would be required. A third party will be sought to co-invest alongside GNX, with their payment recognising value already created, reducing the dollar amount of GNX's contribution and enhancing their returns. We currently value GNX at \$0.26 based on Stage 1 operations (due to commence in November 2017) and believe that Stage 2 will add significant value to shareholders in the medium term. BUY maintained.

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