

RECOMMENDATIONS

Rating	BUY ▲
Risk	Speculative
Price Target	\$0.37
Share Price	\$0.30

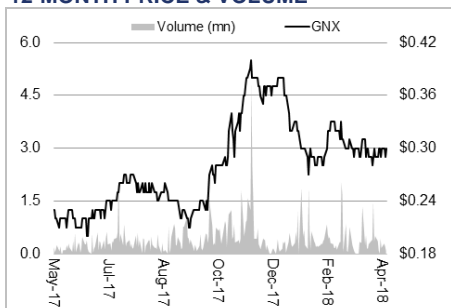
SNAPSHOT

Monthly Turnover	\$2.4mn
Market Cap	\$88mn
Shares Issued	303.9mn
52-Week High	\$0.43
52-Week Low	\$0.19
Sector	Utilities

BUSINESS DESCRIPTION

GNX is building a renewable energy hub at Kidston in North Queensland, on the site of a disused gold mine. It consists of two solar projects (50MW and 270MW) and a pumped storage hydro project (250MW), which will all benefit from the dual long-term trends towards higher electricity prices and lower carbon emissions.

12-MONTH PRICE & VOLUME



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Disclosure

The author owns no shares in GNX.

Genex Power (GNX)

COMPANY REPORT

Sun, surf and wind

- Stage 1 approaching completion:** GNX continues to work towards Practical Completion of its 50MW K1-Solar project, which is currently expected in July. At that point, the Power Purchasing Agreement with the Queensland Government will commence. Until then, GNX will continue to receive revenue from power sales directly into the National Electricity Market (NEM) and from Large-scale Generation Certificates (LGCs). Current maximum generation capacity is around 45MW and generation in April was 11,288MWh, earning estimated (unaudited) revenue of \$1.6m. This brings the total revenue since start-up to an estimated \$5.5m.
- Stage 2 progressing steadily:** Design works on the 270MW K2-Solar project are advancing on schedule with UGL and GNX received Development Approval from Etheridge Shire Council in early April. The 250MW K2-Hydro project is also on track, as Early Contractor Involvement with the McConnell Dowell/John Holland JV is underway. GNX recently selected ANDRITZ as their preferred supplier of electromechanical equipment and expects to reach agreement on full fixed-price Engineering, Procurement and Construction (EPC) contracts on both K2 projects by 30 June 2018. Financial close is expected by the end of CY18.
- Stage 3 blowing in the wind:** GNX also recently signed a binding heads of agreement with landholders in the Kidston area for an exclusive option to develop a wind farm project. There are two landholders involved, with the proposed site being an escarpment around 21km long and 300m above the wider landscape. We understand the option involves a nominal upfront payment but will provide regular cashflows to the landholders once the project is complete. K3-Wind will now proceed to a full feasibility study, but based on anecdotal evidence and previously recorded weather data, GNX estimates that the project could have a capacity of up to 150MW. The study is likely to take up to 18 months and will be funded internally.
- Round-the-clock renewables:** The wind resource on site is primarily available at night and when combined with the existing Solar and Pumped Hydro capacity, the Kidston site will be able to generate renewable energy 24 hours a day. This is likely to be a highly valuable attribute under the proposed National Energy Guarantee scheme.
- Investment view:** We believe GNX will undergo a significant upwards re-rating over the next 12 months as Stage 1 begins operations and Stage 2 reaches financial close, reducing risk on both projects. The option value on Stage 3 adds further upside in the longer term. BUY maintained.

INVESTMENT SUMMARY

Year End: 30 June		2016A	2017A	2018E	2019E	2020E
Revenue	\$mn	0.0	0.0	6.5	13.1	13.1
EBITDA	\$mn	-7.1	-6.3	-2.2	4.7	4.7
EBIT	\$mn	-7.1	-6.3	-6.5	0.4	0.4
Reported Profit	\$mn	-7.1	-6.5	-5.9	-1.9	-1.5
Adjusted Profit	\$mn	-7.1	-6.5	-5.9	-1.9	-1.5
EPS (Reported)	¢	-3.9	-2.5	-1.8	-0.6	-0.5
EPS (Adjusted)	¢	-3.9	-2.5	-1.8	-0.6	-0.5
EPS Growth	%	-	-	-	-	-
PER (Reported)	x	-	-	-	-	-
PER (Adjusted)	x	-	-	-	-	-
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	-	-	-	-	-

Financial summary

GENEX POWER

Code: GNX
Analyst: Luke Macnab
Date: 2 May, 2018
Share Price: \$0.30
Market Capitalisation: \$86m
Financial Year End: June

Rating: **BUY**
Price Target: **\$0.37**
Upside/downside: 23%
Valuation: \$0.37
Valuation method: DCF/Multiple
Risk: Speculative

PROFIT & LOSS (A\$m)	FY16A	FY17A	FY18E	FY19E	FY20E
Operating revenue	0.0	0.0	6.5	13.1	13.1
COGS	0.0	0.0	-0.8	-1.6	-1.6
Gross profit	0.0	0.0	5.7	11.5	11.5
Expenses	-7.1	-6.3	-7.9	-6.8	-6.8
EBITDA	-7.1	-6.3	-2.2	4.7	4.7
Depreciation	0.0	0.0	-4.3	-4.3	-4.3
EBITA	-7.1	-6.3	-6.5	0.4	0.4
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-7.1	-6.3	-6.5	0.4	0.4
Net Interest expense	0.0	-0.2	-1.9	-3.1	-2.5
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	-7.1	-6.5	-8.4	-2.7	-2.1
Tax	0.0	0.0	2.5	0.8	0.6
Underlying NPAT	-7.1	-6.5	-5.9	-1.9	-1.5
Underlying NPATA	-7.1	-6.5	-5.9	-1.9	-1.5
Significant items (net of tax)	0.0	0.0	0.0	0.0	0.0
Reported profit	-7.1	-6.5	-5.9	-1.9	-1.5

BALANCE SHEET (A\$m)	FY16A	FY17A	FY18E	FY19E	FY20E
Assets					
Cash	4.2	11.1	0.0	3.3	7.1
Receivables	0.4	1.3	1.8	1.8	1.8
PPE	0.6	47.7	103.5	99.5	95.4
Goodwill & Intangibles	3.8	4.0	4.0	4.0	4.0
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	6.5	0.3	0.3	0.3	0.3
Total Assets	15.5	64.4	109.6	108.9	108.6
Liabilities					
Payables	0.4	10.8	1.7	1.7	1.7
Debt	3.8	25.5	66.5	57.5	48.6
Provisions	3.6	0.2	0.2	0.2	0.2
Tax payable	0.0	0.0	-0.5	-0.4	-0.4
Deferred Revenue	3.6	0.2	0.2	0.2	0.2
Other liabilities	-3.3	7.1	26.8	36.9	45.8
Total Liabilities	8.0	43.8	95.0	96.1	96.1
Equity					
Share capital	15.8	35.3	35.3	35.3	35.3
Retained earnings	-10.5	-18.4	-24.3	-26.3	-27.7
Other equity	2.2	3.7	3.7	3.7	3.7
Total shareholders equity	7.5	20.6	14.7	12.8	11.3
BV per share (cps)	4.2	7.9	4.6	4.0	3.5
NTA per share (cps)	2.1	6.3	3.3	2.7	2.3

CASH FLOW (A\$m)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash at Start	10.7	4.2	11.1	0.0	3.3
Cash from operations	-9.7	-2.7	-2.1	2.4	2.9
Capex	-0.2	-33.4	-0.1	-0.3	-0.3
Free cash flow	-9.9	-36.1	-2.3	2.2	2.6
Cash flow from investing	-4.2	8.9	-60.0	0.0	0.0
Cash flow from financing	7.7	34.1	51.2	1.2	1.2
Cash at end	4.2	11.1	0.0	3.3	7.1
Free cash flow per share (cps)	-5.5	-13.8	-0.7	0.7	0.8
GOCF / EBITDA	148%	43%	117%	105%	105%
FCF / Underlying cash NPAT	140%	557%	39%	-113%	-180%

EARNINGS	FY16A	FY17A	FY18E	FY19E	FY20E
EPS - Underlying (cps)	-3.9	-2.5	-1.8	-0.6	-0.5
EPS Growth - Underlying	374%	-37%	-25%	-68%	-24%
EPS - Reported (cps)	-3.9	-2.5	-1.8	-0.6	-0.5
Diluted shares (m)	179.9	262.3	321.0	321.0	321.0
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio	0%	0%	0%	0%	0%
Franking	100%	100%	100%	100%	100%

VALUATION	FY16A	FY17A	FY18E	FY19E	FY20E
P/E - Underlying (x)	-7.6	-12.1	-16.3	-50.4	-66.3
EV/EBIT (x)	-12.1	-16.1	-23.4	373.0	339.1
EV/EBITA (x)	-12.1	-16.1	-23.4	373.0	339.1
EV/EBITDA (x)	-12.1	-16.1	-69.4	29.8	27.1
Price/Book (x)	7.2	3.8	6.6	7.5	8.5
Price/NTA (x)	14.5	4.7	9.0	11.0	13.2
Price/FCF	-5.4	-2.2	-42.3	44.5	36.7

GROWTH	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue growth	na	na	na	100%	0%
COGS growth	na	na	na	100%	0%
Expenses growth	132%	-11%	27%	-15%	0%
EBITDA growth	132%	-11%	-65%	-314%	0%
PBT growth	132%	-9%	30%	-68%	-24%
Underlying NPAT growth	132%	-9%	-9%	-68%	-24%
Reported NPAT growth	132%	-9%	-9%	-68%	-24%

MARGINS & RETURNS	FY16A	FY17A	FY18E	FY19E	FY20E
EBITDA Margin	na	na	-33.7%	36.1%	36.1%
EBITA Margin	na	na	-100.2%	2.9%	2.9%
NPBT Margin	na	na	-129.4%	-20.9%	-15.9%
ROIC	-71.5%	-19.2%	-7.8%	0.4%	0.4%
ROE	-79.7%	-46.1%	-33.5%	-13.9%	-12.1%
ROA	-41.7%	-15.7%	-7.5%	0.3%	0.3%
Effective Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%

GEARING	FY16A	FY17A	FY18E	FY19E	FY20E
Net Debt	-0.4	14.4	66.5	54.2	41.5
Enterprise value	85.9	100.7	152.9	140.6	127.8
Net Debt/EV (%)	-0.5%	14.3%	43.5%	38.6%	32.4%
Net Debt/EBITDA (x)	0.1	-2.3	-30.2	11.5	8.8
EBITDA/Net Interest (x)	#DIV/0!	-30.7	-1.2	1.5	1.9

SEGMENT REVENUES (A\$m)	FY16A	FY17A	FY18E	FY19E	FY20E
Solar Phase One	0.0	0.0	6.5	13.1	13.1
Solar Phase Two	0.0	0.0	0.0	0.0	0.0

Sun, surf and wind

- **Stage 1 in commissioning process:** Stage 1 is currently operating at around 45MW, with Substantial Completion expected by the end of May. GNX has been receiving revenue for electricity sold into the grid (and LGCs) since December and will continue to do so until Practical Completion (expected by the end of July). At that point, the 20-year offtake agreement with the Queensland Government will commence.
- We estimate that GNX is currently receiving around \$170-180/MWh, based on an average electricity price of around \$85-95/MWh and LGC price of \$75-95/MWh. In our forecasts, we have factored in an offtake price of \$90/MWh, with the Government also receiving the LGCs generated.

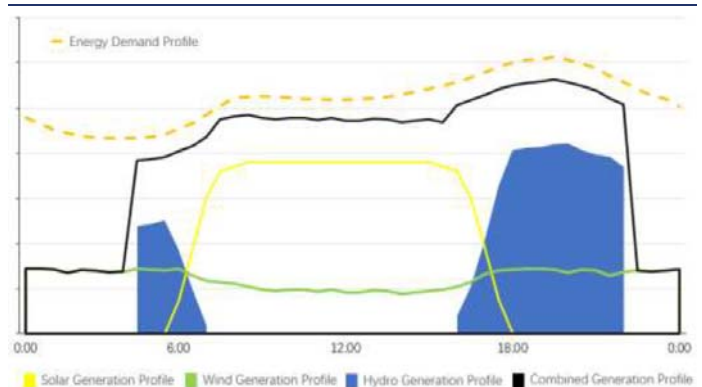
FIG.1: K1-SOLAR GENERATION SUMMARY

	Dec 17	Jan 18	Feb 18	Mar 18	Apr 18
Generation (MWh)	3,126	4,919	7,513	9,644	11,288
Revenue for Month (\$m)	0.49	0.85	1.18	1.38	1.60
Cumulative Revenue (\$m)	0.49	1.34	2.52	3.90	5.50

Notes:
 1. Revenue comprised of energy and LGC sales on an accrual and unaudited basis
 2. December 2017 revenue from 5 December
 3. April 2018 revenue includes unrealised LGC revenue

Source: GNX

FIG.2: KIDSTON COMBINED GENERATION PROFILE

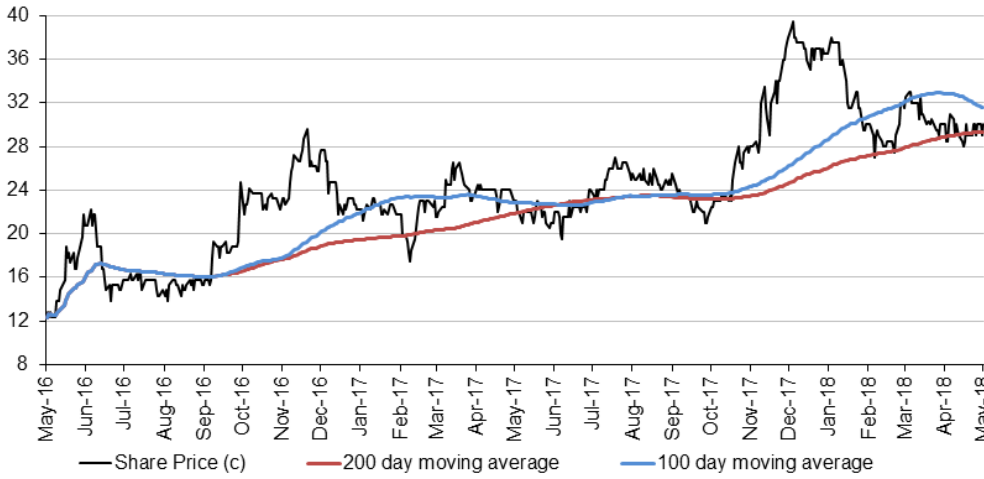


Source: GNX

- **Stage 2 on track:** GNX continues to work with UGL on detailed design works for the Stage 2 Solar project to achieve the most cost-effective and time-efficient solution for construction. The knowledge gained through UGL's involvement in Stage 1 should ensure that this process goes smoothly. GNX expects that finalisation of the full fixed-price EPC contracts on both Stage 2 projects will occur well in advance of financial close.
- **Financing discussions continue:** GNX continues to negotiate with a number of potential offtake partners, equity investors and debt financiers on Stage 2. First stage board approval has been obtained within NAIF (Northern Australia Infrastructure Facility) for concessional debt funding. The key domino in the financing process will be the offtake agreement, with five interested parties understood to be interested. We also understand that a number of infrastructure funds are involved in talks to be an equity partner with GNX at the SPV level.
- **Financial close a positive catalyst:** We expect that financial close on Stage 2 will be reached in 3Q or 4Q CY18 and that GNX will do an equity raising at that point. We estimate that the project will be 75-80% geared, meaning around \$160-200m of equity would be required.
- A third party will be sought to co-invest alongside GNX, with their payment recognising value already created. This would reduce the dollar amount of GNX's contribution and enhance its returns.
- In addition, we believe there is the possibility of Stage 1 being included in the arrangement, which would again reduce the cash portion of GNX's commitment and further enhance returns to GNX shareholders. As such, we believe the financial close of Stage 2 is likely to be a strong positive catalyst for GNX.

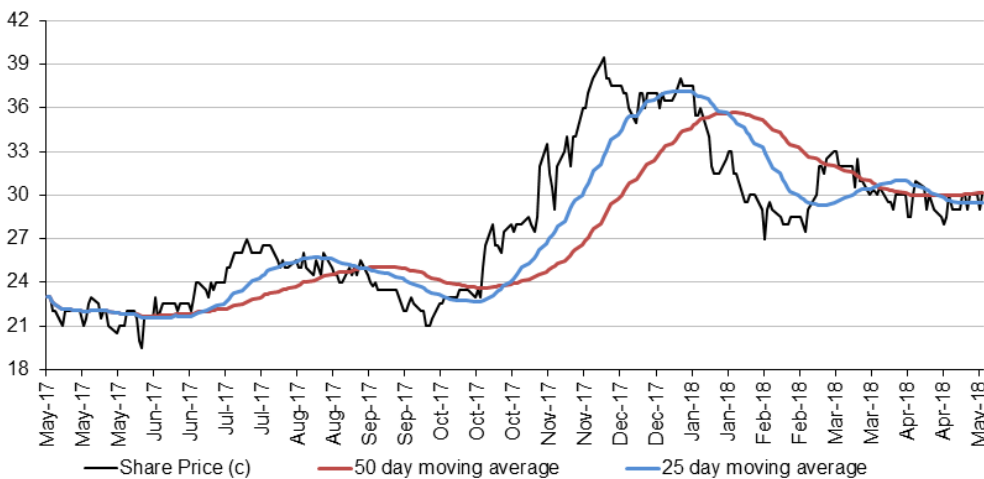
Appendix

FIG.3: LONG TERM MOMENTUM INDICATORS



Source: Iress

FIG.4: SHORT TERM MOMENTUM INDICATORS



Source: Iress

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Buy: The stock's total return is expected to increase by at least 10-15 percent from the current share price over the next 12 months.

Hold: The stock's total return is expected to trade within a range of \pm 10-15 percent from the current share price over the next 12 months.

Sell: The stock's total return is expected to decrease by at least 10-15 percent from the current share price over the next 12 months.

Baillieu Holst Analysts' stock ratings distribution as of 07 March 2018:

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Hold: 28%

Sell: 3%

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