

Genex Power ^{GNX}

Recommendations

Rating	BUY
Risk	Speculative
Price Target	\$0.47
Share Price	\$0.25

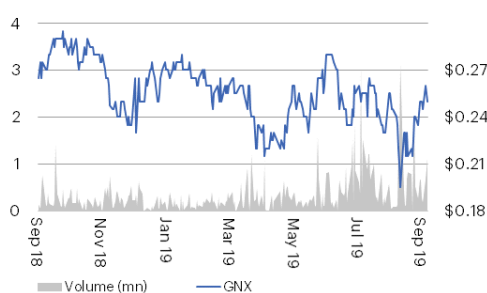
Snapshot

Monthly Turnover	\$3.7mn
Market Cap	\$120mn
Shares Issued	401.8mn
52-Week High	\$0.30
52-Week Low	\$0.19
Sector	Utilities

Business Description

GNX is a renewable energy developer, with its flagship location in Kidston, North Queensland. This consists of: a 50MW solar farm (operational), a 270MW solar farm (pre-financial close), a 250MW pumped storage hydro project (near financial close) and a 150MW wind farm (pre-feasibility study). They are also developing a 50MW solar project (near financial close) in Jemalong, NSW.

12 Month Price & Volume



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Disclosure

The author owns no shares in GNX.

E.L. & C. Baillieu Limited has acted in a corporate advisory role and raised capital in a placement for GNX, and earned fees in relation to that activity in the past 12 months.

Company Report

Transmission clear

Transmission line funding confirmed: The Queensland Government recently announced it will provide up to \$132m for the construction of a 186km transmission line (the Line) from Kidston to Mount Fox. GNX will contribute \$100m to the project as part of its funding package for the K2-Hydro project (K2H) and receive long-term access rights in return. This represents a key milestone for the finalisation of the financing package for K2H, with formal signoff on K2H from the Energy Australia board being the final requirement.

Capacity for future projects: The Line will have 275kV of capacity, which is sufficient to connect the K2-Hydro (and future K2-Solar and K3-Wind) project(s) to the national electricity grid. The Line is expected to be completed prior to the opening of the K2H project in CY23 and will be owned and operated by state-owned transmission network provider Powerlink.

FY19 result in line: GNX reported FY19 operating revenue of \$10.8m and adjusted EBITDA of \$1.3m, which was broadly in line with our forecasts of \$12.6m and \$1.4m respectively. The difference in revenue was due to unseasonal cyclonic weather in early CY19, while reported EBITDA of \$5.6m benefited from \$2.4m of liquidated damages and \$1.9m of R&D rebates. The revenue split from the operation of the 50MW Kidston Solar project was \$9.9m from the Queensland Government PPA, \$0.2m from electricity sales pre-PPA start and \$0.7m from LGC sales.

Forecast changes: Changes to our forecasts are minor. Our updated valuation and 12-month price target is \$0.47 (from \$0.49).

Investment view: GNX is close to reaching financial close on the Jemalong (expected within weeks) and K2-Hydro (expected in 2-3 months) projects, which will further reduce risk and we believe will crystallise significant value for shareholders. Construction on both projects is expected to commence by the end of CY19, with Jemalong commencing operations in CY20 and K2H in CY23. We believe GNX is well positioned to capitalise on the transition to renewable power generation and the increasing demand for large-scale energy storage in the medium term. BUY maintained.

Investment Summary

Year End: 30 June		2018A	2019A	2020E	2021E	2022E
Revenue	\$mn	8.3	10.8	13.1	24.9	24.9
EBITDA	\$mn	-1.7	5.6	0.8	13.7	13.7
EBIT	\$mn	-4.7	-0.8	-5.6	4.6	4.6
Reported Profit	\$mn	-7.5	-5.5	-7.3	-3.1	-6.0
Adjusted Profit	\$mn	-7.5	-5.5	-7.3	-3.1	-6.0
EPS (Reported)	¢	-2.3	-1.6	-1.6	-0.6	-1.2
EPS (Adjusted)	¢	-2.3	-1.6	-1.6	-0.6	-1.2
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Adjusted)	x	N/A	N/A	N/A	N/A	N/A
EV/EBITDA	x	-121.4	38.7	378.3	28.4	34.8
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0.0	0.0	0.0	0.0	0.0
Franking	%	0	0	0	0	0

Financial Summary

GENEX POWER	
Code:	GNX
Analyst:	Luke Macnab
Date:	17 September, 2019
Share Price:	\$0.250
Market Capitalisation:	\$120m
Financial Year End:	June

Rating:	BUY
Price Target:	\$0.47
Upside/downside:	88%
Valuation:	\$0.47
Valuation method:	DCF/Multiple
Risk:	Speculative

PROFIT & LOSS (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Operating revenue	8.3	10.8	13.1	24.9	24.9
COGS	0.0	0.0	0.0	0.0	0.0
Gross profit	8.3	10.8	13.1	24.9	24.9
Expenses	-10.0	-5.2	-12.3	-11.3	-11.3
EBITDA	-1.7	5.6	0.8	13.7	13.7
Depreciation	-3.0	-6.4	-6.4	-9.0	-9.0
EBITA	-4.7	-0.8	-5.6	4.6	4.6
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-4.7	-0.8	-5.6	4.6	4.6
Net Interest expense	-2.7	-4.7	-4.9	-9.1	-13.3
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	-7.5	-5.5	-10.5	-4.5	-8.6
Tax	0.0	0.0	3.1	1.3	2.6
Underlying NPAT	-7.5	-5.5	-7.3	-3.1	-6.0
Underlying NPATA	-7.5	-5.5	-7.3	-3.1	-6.0

EARNINGS	FY18A	FY19A	FY20E	FY21E	FY22E
EPS - Underlying (cps)	-2.3	-1.6	-1.6	-0.6	-1.2
EPS Growth - Underlying	-13%	-29%	-3%	-61%	93%
EPS - Reported (cps)	-2.3	-1.6	-1.6	-0.6	-1.2
Diluted shares (m)	325.8	339.2	471.2	513.1	513.1
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	0%	0%	0%	0%	0%

VALUATION	FY18A	FY19A	FY20E	FY21E	FY22E
P/E - Underlying (x)	-10.9	-15.5	-16.0	-40.8	-21.2
EV/EBIT (x)	-44.1	-277.0	-53.9	83.8	102.7
EV/EBITA (x)	-44.1	-277.0	-53.9	83.8	102.7
EV/EBITDA (x)	-121.4	38.7	378.3	28.4	34.8
Price/Book (x)	5.3	10.0	107.2	-62.8	-15.9
Price/NTA (x)	7.6	22.1	-33.6	-19.3	-10.1
Price/FCF	-0.9	-14.3	2.9	53.7	51.5

Significant items (net of tax)	0.0	0.0	0.0	0.0	0.0
Reported profit	-7.5	-5.5	-7.3	-3.1	-6.0

BALANCE SHEET (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Assets					
Cash	11.0	3.5	19.4	17.0	14.6
Receivables	0.9	2.0	1.8	3.5	3.5
PPE	118.4	118.5	217.4	298.9	380.3
Goodwill & Intangibles	4.5	4.6	4.6	4.6	4.6
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	0.9	6.0	6.0	6.0	6.0
Total Assets	135.6	134.5	249.2	329.9	409.0
Liabilities					
Payables	1.5	2.3	2.5	2.3	2.3
Debt	100.2	99.8	200.0	285.2	370.4
Provisions	3.8	3.9	3.9	3.9	3.9
Tax payable	0.4	0.4	0.4	0.4	0.4
Deferred Revenue	3.8	3.9	3.9	3.9	3.9
Other liabilities	10.6	15.8	15.8	15.8	15.8
Total Liabilities	120.4	126.1	226.5	311.4	396.6
Equity					
Share capital	40.0	41.9	41.9	41.9	41.9
Retained earnings	-24.8	-30.3	-37.6	-40.8	-46.8
Other equity	0.1	-3.2	-3.2	-3.2	-3.2
Total shareholders equity	15.3	8.4	1.1	-2.0	-8.1
BV per share (cps)	4.7	2.5	0.2	-0.4	-1.6
NTA per share (cps)	3.3	1.1	-0.7	-1.3	-2.5

GROWTH	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue growth	na	nm	21%	91%	0%
COGS growth	na	nm	#DIV/0!	#DIV/0!	#DIV/0!
Expenses growth	40%	-48%	134%	-8%	0%
EBITDA growth	-76%	-424%	-86%	1620%	0%
PBT growth	8%	-27%	92%	-57%	93%
Underlying NPAT growth	8%	-27%	34%	-57%	93%
Reported NPAT growth	8%	-27%	34%	-57%	93%

MARGINS & RETURNS	FY18A	FY19A	FY20E	FY21E	FY22E
EBITDA Margin	na	51.7%	6.1%	54.8%	54.8%
EBITA Margin	na	-7.2%	-42.7%	18.6%	18.6%
NPBT Margin	na	-50.6%	-80.4%	-18.0%	-34.7%
ROIC	-4.9%	-0.5%	-2.7%	1.4%	1.0%
ROE	-43.3%	-46.2%	-153.9%	666.2%	119.4%
ROA	-4.7%	-0.6%	-2.9%	1.6%	1.3%
Effective Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%

GEARING	FY18A	FY19A	FY20E	FY21E	FY22E
Net Debt	89.2	96.4	180.6	268.2	355.7
Enterprise value	209.2	216.4	300.6	388.2	475.7
Net Debt/EV (%)	42.6%	44.5%	60.1%	69.1%	74.8%
Net Debt/EBITDA (x)	-51.8	17.2	227.3	19.6	26.0
EBITDA/Net Interest (x)	-0.6	1.2	0.2	1.5	1.0

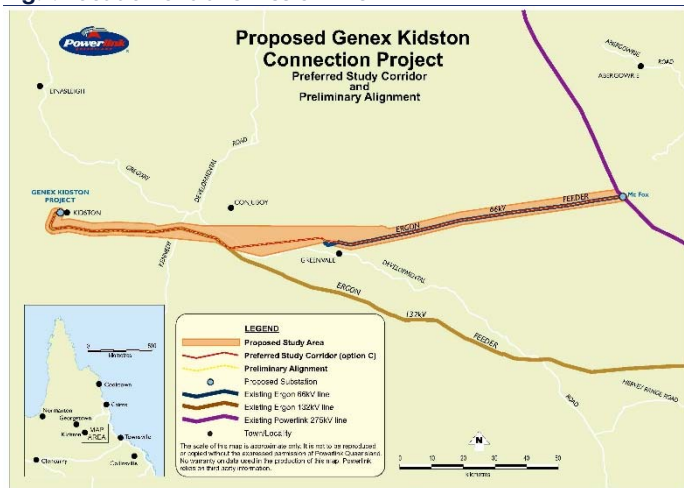
SEGMENT REVENUES (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Kidston Stage 1 Solar	8.3	10.8	13.1	13.1	13.1

CASH FLOW (A\$m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash at Start	11.1	11.0	3.5	19.4	17.0
Cash from operations	-6.1	0.5	41.0	2.9	3.0
Capex	-83.0	-6.4	-0.3	-0.5	-0.5
Free cash flow	-89.1	-5.9	40.7	2.4	2.5
Cash flow from investing	0.6	-5.9	-171.0	-90.0	-90.0
Cash flow from financing	88.3	4.3	146.2	85.2	85.2
Cash at end	11.0	3.5	19.4	17.0	14.6
Free cash flow per share (cps)	-27.3	-1.7	8.6	0.5	0.5
GOCF / EBITDA	129%	86%	248%	116%	116%
FCF / Underlying cash NPAT	1194%	108%	-555%	-76%	-41%

Transmission clear

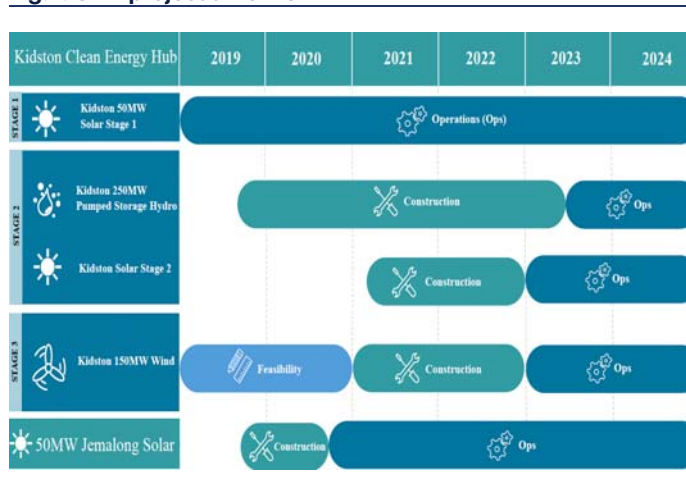
- **Stage 1 operating smoothly:** The Kidston Stage 1 Solar (K1S) project began operations in December 2017, selling electricity into the market at spot rates. This continued until 31 July 2018, when the Revenue Support Deed with the Queensland Government commenced. This provides a floor price for the electricity which K1S provided, which we understand to be around \$90/MWh. If the monthly average spot price is above this level (which typically occurs in the summer months), GNX will retain the extra revenue.
- **Stage 2 development progressing:** GNX received all required approvals for the K2H project during FY19 and has also secured approvals for a \$610m long term loan from the Northern Australia Infrastructure Fund (NAIF) at concessional interest rates. This will be used for the construction of the Pumped Storage Hydro plant at Kidston and also for the transmission line.
- **Strong financial position:** GNX raised \$21m in July 2019 through a placement (\$16m) and SPP (\$5m), which has been used for the purchase of rights to the Jemalong project and to progress both it and the K2H project. GNX's cash balance post-raising was c.\$32m.
- **J-Power and refinancing to add cash:** GNX also has an agreement with J-Power to fund its equity stake in the K2H project. This enables J-Power to subscribe to new shares worth up to \$25m and take a 15-20% stake in the enlarged company. The K1S project is also undertaking a refinancing, which will result in lower interest rates and potentially release a small amount of additional cash.

Fig.1: Location of transmission line



Source: GNX

Fig.2: GNX project timeline

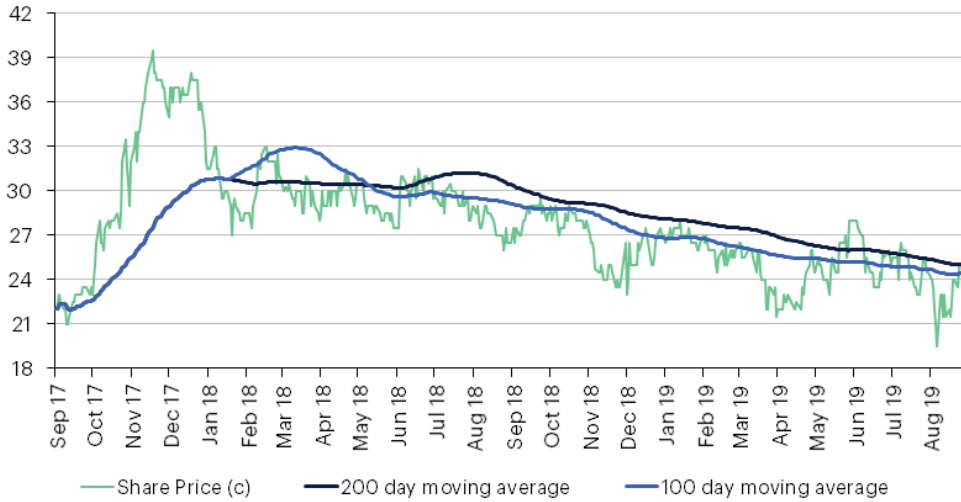


Source: GNX

- **Stage 2 Solar update:** The 165MW Stage 2 Solar (K2S) project is designed to complement the K2H project, by being able to power one of the two pumps with minimal transmission losses. Although Jemalong and K2H are the short term priorities, land has been secured and the approvals process has been significantly progressed.
- **Stage 3 Wind update:** The Stage 3 Wind project is still undertaking a feasibility study, which should be completed in early CY20. We understand that the wind readings to date have been favourable, although the exact size and scope of the project are yet to be determined (initial estimates are for 150MW).

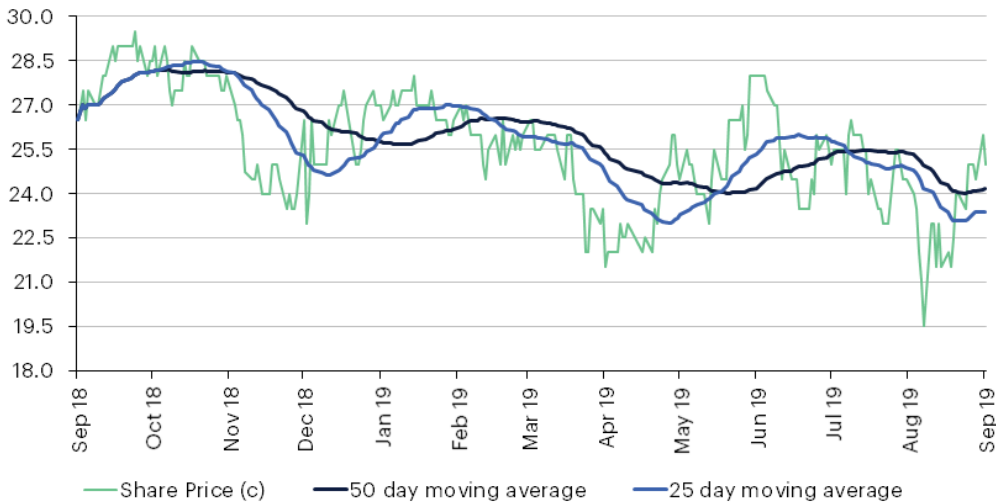
Appendix

Fig.3: Long term momentum indicators



Source: Iress

Fig.4: Short term momentum indicators



Source: Iress

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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.

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Hold: 46%

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