

Genex Power Ltd

(GNX \$0.315) Buy, upgrade from Speculative Buy



Analyst	Date	Price Target
Jon Bishop	20 th June 2018	\$0.80/sh

NAIF Funding for up to \$516m for Stage 2

Investment case

The announcement of NAIF Funding is a significant step in advancing Stage 2 of the Kidston Renewable Power Hub in far north Queensland. The \$516m commitment of low cost, long tenor debt underwrites circa 80% of the debt financing we have assumed in our model. GNX will continue to benefit from accommodative Federal Government policy and economic incentives, as well as a market that is desperate for base load electricity generation that – via the Pumped Hydro battery storage – can meet peaking demand. We believe therefore, that the balance of financing is largely a formality. Fully financed, we view that GNX's Kidston portfolio is highly attractive to infrastructure funds and/or large utilities: There is clear precedence in the market. We upgrade recommendation to BUY and set a revised \$0.80/sh Price Target.

Key points

- GNX has announced that it has received a Term Sheet from the Northern Australia Infrastructure Facility for up to \$516m;
- The Term Sheet provides for a secured, subordinated loan subject to a number of conditions:
 - Negotiation of satisfactory off-take & grid connection agreements (we expect news in the Sep Q);
 - Economic analysis to determine concessionality that NAIF can offer the project;
 - Finalisation of the snr debt funding (we anticipate short term news; with ARENA and/or the Clean Energy Fund likely candidates) and equity;
 - Finalisation of due diligence;
 - Final documentation and execution;
 - NAIF Credit Approval and Board Investment Decision;
- The \$516m amount represents 80% of the \$650m we assume in low interest debt and project finance we assume to fund Stage 2 into commissioning from CY20 from the 270MW Solar and CY21 for the 250MW Pumped Hydro storage facility;
- Though terms are confidential, we assume a tenor of 20yrs with a modest amortisation schedule;
- Cost of finance we assume to be sub 4% ie bond rate plus administration costs;
- Stage 2 is now substantially derisked of the Kidston Renewables Project: We have adjusted our Stage 2 risk weightings to 80%;
- Our Valuation inc. to \$0.80/sh (prev. \$0.54/sh) and upgrade recommendation to BUY (prev. Speculative Buy).
- Our unrisks valuation is \$1.05/sh net of the proposed Stage 3 wind farm proposal;
- We set an \$0.80/sh Price Target awaiting the following short term catalysts:
 - Power Purchase Agreements/Offtake for Pumped Hydro;
 - Power Purchase Agreements/Offtake for Solar Stage 2;
 - Project Finance;
 - NAIF credit committee approval;
 - Grid connection agreements;
 - JV participation/farm-down.

Genex Power Ltd	Year End 30 June	
Share Price	0.315	A\$/sh
Price Target	0.80	A\$/sh
Valuation	0.85	A\$/sh

Shares on issue	318	m, diluted
Market Capitalisation	98	A\$m
Enterprise Value	193	A\$m
Debt	-100	A\$m
Cash	5	A\$m
Largest Shareholder	Zhefu Hydropower	11.0%

Production F/Cast	2018f	2019f	2020f
Attrib. Power Generation (GwH)	146.0	144.5	221.9

Assumptions	2018f	2019f	2020f
Guaranteed Price Received (\$/MWh)	88	88	88
Electricity Price inflation	2.5%	2.5%	2.5%

Key Financials	2018f	2019f	2020f
Revenue (A\$m)	7	26	105
EBITDA (A\$m)	0	11	84
NPAT (A\$m)	-4	-9	38
Cashflow (A\$m)	-10	-2	61

CFPS (Ac)	-2	0	14
P/CFPS (x)	na	na	2.2

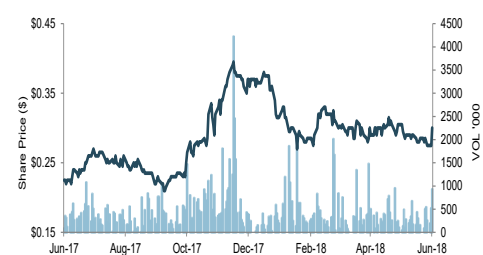
EPS (Ac)	-1	-2	9
EPS growth (%)	na	na	na
PER (x)	na	na	3.6

EV:EBITDA (x)	38295.4	51.3	7.8
EV:EBIT (x)	na	479.5	9.3

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	6%	15%	11%
Interest Cover (x)	na	na	3.9

Share Price Chart



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Analysis

The announcement of NAIF Funding is a significant step in advancing Stage 2 of the Kidston Renewable Power Hub in far north Queensland.

The \$516m commitment of low cost (<4%), long tenor (+20yr) debt underwrites circa 80% of the debt financing we have assumed in our model.

GNX will continue to benefit from accommodative Federal Government policy and economic incentives, as well as a market that is desperate for base load electricity generation that – via the Pumped Hydro battery storage – can meet peaking demand.

We believe therefore, that the balance of financing is largely a formality. We assume that the balance of Project Finance will likely be secured during the Sep Q; the Clean Energy Fund appears to be a likely source.

Stage 2 is now substantially derisked of the Kidston Renewables Project: We have adjusted our Stage 2 risk weightings to 80%.

Our Valuation and Price Target inc. to \$0.85/sh and \$0.80/sh respectively (prev. \$0.54/sh and \$0.54/sh);

Our unrisks valuation is \$1.05/sh net of the proposed Stage 3 wind farm proposal;

The short term identifiable catalysts are:

- Power Purchase Agreements/Offtake for Pumped Hydro;
- Power Purchase Agreements/Offtake for Solar Stage 2;
- Project Finance;
- NAIF credit committee approval;
- Grid connection agreements;
- JV participation/farm-down.

Fully financed, we view that GNX's Kidston portfolio is highly attractive to infrastructure funds and/or large utilities: There is clear precedence in the market.

Therefore, we feel that fully financed GNX will traded on capitalised forward earnings (inclusive of Stage 2) of at least 12x/

Recent transaction multiples (Duet Group and Pac Hydro) were estimated at closer to 15-18x.

Backing out -\$800m in project and Govt back finance, this would support \$1.00-\$2.00/sh fully diluted.

We upgrade recommendation to BUY (prev. Speculative Buy) as we see that the balance of financing is largely a formality.

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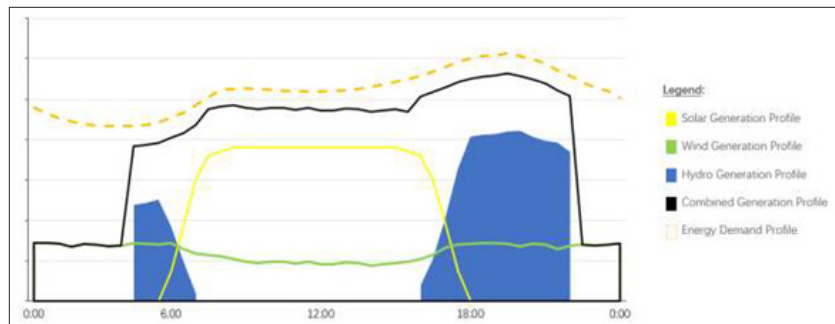
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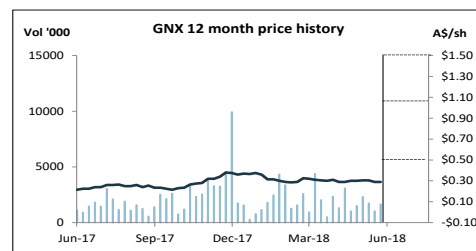
Key Variables

Val/ Sh	CPI									
\$0.85	-4%	-3%	-2%	-1%	0%	1%	2%	3%	4%	
	\$0.745	\$0.771	\$0.797	\$0.823	\$0.85	\$0.875	\$0.901	\$0.927	\$0.953	



Technology	State	Owner	Location	Capacity (MW)	Capital cost* (5m)	Capital efficiency (A\$/MW)
Commissioned						
Wind	Vic	RES (Renewable Energy Systems) Australia	Ararat	240	450	1.9
Actively constructing						
Wind	SA	Neoen and Megawatt Capital	Hornsedale Stage 2	100	800	8.0
Wind	SA	Neoen and Megawatt Capital	Hornsedale Stage 3	109		
Wind	NSW	Goldwind	White Rock - Stage 1	175	400	2.3
Wind	Qld	RATCH	Mt Emerald	180	380	2.1
Wind	NSW	Partners Group and CWP Renewables	Sapphire	270	588	2.2
Wind	NSW	Global Power Generation Australia	Crookwell 2	91	200	2.2
Financial commitment and will start in 2017						
Wind	NSW	Infigen Energy	Bodangora Wind Farm	113	236	2.1
Wind	NSW	PARF	Silverton	200	460	2.3
Solar	Qld	ESCO Pacific/ Palisade	Ross River	148	225	1.5
Solar	Qld	FRV	Lilyvale	100	400	4.0
Solar	SA	Snowy Hydro	Tailem Bend	100	200	2.0
Solar	NSW	Neoen	Griffith, Parkes, Dubbo	95	230	2.4
Solar	Vic	Overland Sun Farming	Yatpool, Iraak, Wemen	320	500	1.6
Solar	SA	Lyon Group	Riverland Solar Farm	330	700	2.1
Solar	Qld	APA group	Darking Downs	107	217	2.0
Solar	Qld	Genex Power	Kidston, FNQ	50	100	2.0
Announced but no financial close						
Wind	Vic	Goldwind	Stockyard Hill Wind Farm	500	n/a	
Solar + Battery	Qld	Genex Power	Kidston Renewables Hub	520	750	1.4
Solar + Battery	Vic	Lyon Group	Nowingi Solar * Battery Farm	250	660	2.6

Our Share Price Sensitivity



Our Market Sensitivity

Price Target: \$0.80/sh

Valuation: \$0.85/sh

Bull Scenario - \$1.50

GNX successfully funds Stage 2 and 3 into development and/or attracts corporate interest per Duet Group and Pacific Hydro.

Base Scenario: \$1.05/sh

GNX successfully sources project funding for Stage 2 within the coming months.

Bear Scenario: \$0.50/sh

Electricity prices received are below long term projections and/or there are delays to commencement of Stage 2.

Company Summary

Genex Power Ltd (ASX: GNX) is an emerging renewable energy power generator. A third phase of renewable generation will only add to the attractiveness of its Kidston Renewable Power Hub in far north Queensland. Kidston already comprises a two-stage solar farm (50MW Stage 1 due end CY'17; 270MW Stage 2 - CY'19) as well as a 250MW Pumped Hydro power storage solution. Stage 1 and 2 are designed to meet peaking electricity demand in a rising NEM price environment. Stage 3 wind will enhance baseline, 24/7365 generation and revenue profile of the business.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Market Statistics				Year End 30 June			
Share Price	\$0.315	A\$/sh		Directors			
Issued Capital				Dr R Craven - NE Chair			
FP Ord	287.8	m		J Harding - CEO			
Opt. (var)	44.4	m		S Kidston - Exec Dir			
Perf Rights		m		B Guo - Fin Dir			
Total Dil. FPOrd	318.1	m		A du Mee - NE Dir			
				Yongqing Yu - NE Dir			
Market Capitalisation	\$98	m		M Addison - MD			
Enterprise Value	\$193	m		Shareholders			
Debt	-\$100			Zhefu Hydropower 11.0.%			
Cash	\$5	m		Board & Mgmt -20%			
Asset Valuation				A\$m	A\$/sh		
Kidston Solar PV (50MW)				123	0.37		
Pumped Storage Hydro (250MW) - risked 80%				56	0.17		
Kidston Solar PV (270MW) - risked 80%				129	0.39		
LGCs - risked 80%				82	0.25		
Corporate				(18)	(0.06)		
Unpaid Capital				7	0.02		
Debt				(100)	(0.30)		
Cash				5	0.01		
				-	-		
Total				284	0.85		
F/Cast Production (A\$m)				2018f	2019f	2020f	2021f
Attrib. Power Generation (GwH)							
Kidston Solar PV (50MW)				146	145	143	142
Kidston Solar PV (270MW)						79	781
Pumped Storage Hydro (250MW)						-	-
Total Power (GwH)				146	145	222	922
<i>Op. Costs (O&M plus pumping tariff) - (\$/MWh)</i>				<i>32.39</i>	<i>33.18</i>	<i>33.99</i>	<i>34.82</i>
Assumptions							
Inflation	2.5%	2.5%	2.5%	2.5%			
Guaranteed Price Received (\$/MWh)	88.0	88.0	88.0	88.0			
Peak Pricing (\$/MWh)	100.0	100.0	100.0	100.0			
Pumping Tariff (\$/MWh)	35.0	35.0	35.0	35.0			
Ratio Analysis (A\$m)				2018f	2019f	2020f	2021f
CF (A\$m)				(10)	(2)	61	50
CF / Sh (Ac/sh)				(2)	(0)	14	12
CF Ratio (x)				na	na	2	3
Earnings (A\$m)				(4)	(9)	38	37
EPS (Ac/sh)				(1)	(2)	9	8
EPS Growth (%)				na	na	na	(0)
Earnings Ratio (x)				na	na	4	4
E'prise Val. (A\$m)	230	546	650	765			
EV : EBITDA (x)	38,295	51	8	9			
EV : EBIT (x)	na	480	9	11			
Net Debt / ND+Eq (%)	6%	15%	11%	10%			
Interest Cover (x)	na	na	4	3			
EBIT Margin (%)	na	0	1	1			
ROE (%)	(0)	(0)	0	0			
ROA (%)	(0)	0	0	0			
Div. (Ac/sh)	-	-	-	-			
Div. payout ratio	-	-	-	-			
Div. Yield	-	-	-	-			
Div. Franking	-	-	-	-			
Profit and Loss (A\$m)				2018f	2019f	2020f	2021f
Energy Sales				7	19	95	96
Deferred Revenue				-	-	-	-
Interest Revenue				0	8	10	7
Other Revenue				-	-	-	-
TOTAL REVENUE				7	26	105	103
Operating Costs				2	5	8	8
Dep/Amort				-	10	14	14
Writeoffs (explor)				-	-	-	-
Corp O/H				4	3	3	3
Provisions				1	-	-	-
EBITDA				0	11	84	84
EBIT				(1)	1	70	70
Interest Expense				3	22	25	25
NPBT				(4)	(13)	54	52
Tax				1	(4)	16	16
NPAT				(4)	(9)	38	37
Minority Interest				-	-	-	-
NET PROFIT				(4)	(9)	38	37
Net Abnormal Profit/(Loss) after Tax				-	-	-	-
Net Profit After Abnormal				(4)	(9)	38	37
Cash Flow (A\$m)				2018f	2019f	2020f	2021f
+ Net Profit				(4)	(9)	38	37
+ Working Capital Adjustment				(7)	-	-	-
+ Dep/Amort				-	10	14	14
+ Provisions, W/O				1	-	-	-
+ Tax Expense				1	(4)	16	16
- Tax Paid				-	(2)	7	16
- Deferred Revenue				-	-	-	-
= Operating Cashflow				(10)	(2)	61	50
-Capex + Development				100	360	163	163
-Exploration				1	1	1	1
-Assets Purchased				-	-	-	-
+Asset Sales				-	-	-	-
+Other				-	-	-	-
= Investing Cashflow				(101)	(361)	(164)	(164)
+ Equity Issues (Rts,plc,opts)				0	50	-	-
+Loan Drawdown/Receivable				100	516	100	-
+Other				0	-	-	-
-Loan Repayment				-	-	5	5
-Dividends				-	-	-	-
= Financing Cashflow				109	566	95	(5)
Period Surplus				(2)	203	(7)	(119)
Adj. FX effects				-	-	-	-
CASH				9	212	205	86
Balance Sheet (A\$m)				2018f	2019f	2020f	2021f
Assets							
Cash				9	212	205	86
Current Receivables				2	2	2	2
Other Current Assets				0	0	0	0
Non-Current Assets				153	504	653	801
Total Assets				164	718	859	890
Liabilities							
Borrowings				109	625	720	715
Current Accounts Payable				5	5	5	5
Non-Current Liabilities				9	9	9	9
Other Liabilities				-	-	-	-
Total Liabilities				123	639	734	729
Net Assets				42	80	126	161

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