

RECOMMENDATIONS

Rating	BUY ▲
Risk	Speculative
Price Target	\$0.37
Share Price	\$0.31

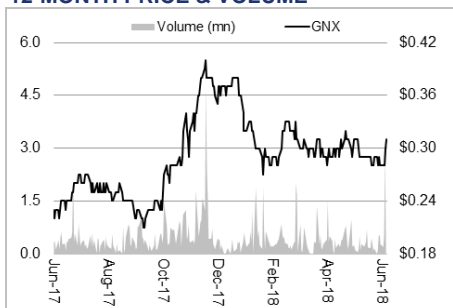
SNAPSHOT

Monthly Turnover	\$2.5mn
Market Cap	\$91mn
Shares Issued	303.9mn
52-Week High	\$0.43
52-Week Low	\$0.21
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



RESEARCH ANALYST

Luke Macnab, CFA
+ 612 9250 8930
lmacnab@baillieuholst.com.au

Nicolas Burgess, CFA
+ 613 9602 9379
nburgess@baillieuholst.com.au

Disclosure

The author owns no shares in GNX.

Genex Power (GNX)

COMPANY REPORT

NAIF lined up for Stage 2

- Indicative offer received:** GNX has received an indicative term sheet from the Northern Australia Infrastructure Facility (NAIF) to support the financing of its Stage 2 projects. The offer is for a facility of up to \$516m on a secured, subordinated and concessional basis with a long-term tenor. It is conditional upon finalising the offtake/grid connection arrangements and funding structure, along with a cost-benefit analysis as per the NAIF Investment Mandate. We expect these requirements will be met over the coming months, with financial completion targeted by the end of CY18.
- NAIF to assist in financing:** NAIF is a corporatised Federal Government entity which was established in 2016. Its aim is to assist in driving the development of economic infrastructure in northern Australia, alongside the private sector. It is mandated to provide up to \$5bn of loans, which may be concessional in nature (ie. below bank interest rates) and can provide up to 100% of a project's debt in certain cases.
- Terms likely to be attractive:** Whilst not a direct comparison, we note that the interest rate on concessional loans to farm businesses from the Federal Government is set at 3.09% (as at 1 February 2018). We also note that the longest tenor of Federal Government debt is 30 years, so the GNX loans could in theory extend as long as that (as per its mandate). Final terms have not been agreed as yet, but we believe the interest rate will be under 4% and that the tenor is likely to be more than 10 years.
- Monthly revenue steady:** GNX recorded Stage 1 Solar revenue of \$1.5m in May, slightly down on the \$1.6m in April. This was driven by an above-average number of rain days during the month. Stage 1 currently has a maximum generation capacity of 45MW and is in the final testing and commissioning phase. Practical completion and commencement of the Revenue Support Deed with the Queensland Government is expected to occur in July 2018.
- Forecast changes:** We have reduced FY18 revenue to zero to reflect the fact that practical completion is expected in July. Our current valuation reflects only Stage 1 of the Kidston development. No change to valuation or target price.
- Investment view:** We believe GNX will undergo a significant upwards rerating 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	0.0	13.1	13.1
EBITDA	\$mn	-7.1	-6.3	-7.9	4.7	4.7
EBIT	\$mn	-7.1	-6.3	-10.1	0.4	0.4
Reported Profit	\$mn	-7.1	-6.5	-8.9	-2.7	-2.5
Adjusted Profit	\$mn	-7.1	-6.5	-8.9	-2.7	-2.5
EPS (Reported)	¢	-3.9	-2.5	-2.8	-0.8	-0.8
EPS (Adjusted)	¢	-3.9	-2.5	-2.8	-0.8	-0.8
EPS Growth	%	N/A	N/A	N/A	N/A	N/A
PER (Reported)	x	N/A	N/A	N/A	N/A	N/A
PER (Adjusted)	x	N/A	N/A	N/A	N/A	N/A
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: 21 June, 2018
Share Price: \$0.315
Market Capitalisation: \$91m
Financial Year End: June

Rating: **BUY**
Price Target: **\$0.37**
Upside/downside: 17%
Valuation: \$0.37
Valuation method: DCF/Multiple
Risk: Speculative

PROFIT & LOSS (A\$m)	FY16A	FY17A	FY18E	FY19E	FY20E
Operating revenue	0.0	0.0	0.0	13.1	13.1
COGS	0.0	0.0	0.0	-1.6	-1.6
Gross profit	0.0	0.0	0.0	11.5	11.5
Expenses	-7.1	-6.3	-7.9	-6.8	-6.8
EBITDA	-7.1	-6.3	-7.9	4.7	4.7
Depreciation	0.0	0.0	-2.2	-4.3	-4.3
EBITA	-7.1	-6.3	-10.1	0.4	0.4
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	-7.1	-6.3	-10.1	0.4	0.4
Net Interest expense	0.0	-0.2	-2.6	-4.2	-3.9
Minorities	0.0	0.0	0.0	0.0	0.0
Underlying PBT	-7.1	-6.5	-12.8	-3.8	-3.6
Tax	0.0	0.0	3.8	1.1	1.1
Underlying NPAT	-7.1	-6.5	-8.9	-2.7	-2.5
Underlying NPATA	-7.1	-6.5	-8.9	-2.7	-2.5
Significant items (net of tax)	0.0	0.0	0.0	0.0	0.0
Reported profit	-7.1	-6.5	-8.9	-2.7	-2.5

BALANCE SHEET (A\$m)	FY16A	FY17A	FY18E	FY19E	FY20E
Assets					
Cash	4.2	11.1	1.3	2.7	9.5
Receivables	0.4	1.3	0.0	1.8	1.8
PPE	0.6	47.7	116.9	112.8	108.8
Goodwill & Intangibles	3.8	4.0	4.3	4.3	4.3
Investments	0.0	0.0	0.0	0.0	0.0
Other assets	6.5	0.3	0.2	0.2	0.2
Total Assets	15.5	64.4	122.7	121.8	124.5
Liabilities					
Payables	0.4	10.8	1.6	1.7	1.7
Debt	3.8	25.5	90.9	88.2	82.9
Provisions	3.6	0.2	3.8	3.8	3.8
Tax payable	0.0	0.0	6.0	0.0	0.0
Deferred Revenue	3.6	0.2	3.8	3.8	3.8
Other liabilities	-3.3	7.1	10.9	21.4	31.9
Total Liabilities	8.0	43.8	117.1	119.0	124.1
Equity					
Share capital	15.8	35.3	36.0	36.0	36.0
Retained earnings	-10.5	-18.4	-31.3	-34.0	-36.5
Other equity	2.2	3.7	0.9	0.9	0.9
Total shareholders equity	7.5	20.6	5.5	2.9	0.4
BV per share (cps)	4.2	7.9	1.7	0.9	0.1
NTA per share (cps)	2.1	6.3	0.4	-0.4	-1.2

CASH FLOW (A\$m)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash at Start	10.7	4.2	11.1	1.3	2.7
Cash from operations	-9.7	-2.7	-10.6	-0.2	1.8
Capex	-0.2	-33.4	-78.3	-0.3	-0.3
Free cash flow	-9.9	-36.1	-88.9	-0.4	1.6
Cash flow from investing	-4.2	8.9	0.0	0.0	0.0
Cash flow from financing	7.7	34.1	79.2	1.8	5.2
Cash at end	4.2	11.1	1.3	2.7	9.5
Free cash flow per share (cps)	-5.5	-13.8	-27.7	-0.1	0.5
GOCF / EBITDA	148%	43%	172%	105%	105%
FCF / Underlying cash NPAT	140%	557%	996%	16%	-64%

EARNINGS	FY16A	FY17A	FY18E	FY19E	FY20E
EPS - Underlying (cps)	-3.9	-2.5	-2.8	-0.8	-0.8
EPS Growth - Underlying	374%	-37%	13%	-70%	-7%
EPS - Reported (cps)	-3.9	-2.5	-2.8	-0.8	-0.8
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)	-8.0	-12.8	-11.3	-37.7	-40.5
EV/EBIT (x)	-12.7	-16.7	-17.8	467.5	435.5
EV/EBITA (x)	-12.7	-16.7	-17.8	467.5	435.5
EV/EBITDA (x)	-12.7	-16.7	-22.7	37.4	34.8
Price/Book (x)	7.5	4.0	18.2	35.3	274.7
Price/NTA (x)	15.3	5.0	78.9	-72.3	-26.0
Price/FCF	-5.7	-2.3	-1.1	-238.4	63.7

GROWTH	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue growth	na	na	na	nm	0%
COGS growth	na	na	na	nm	0%
Expenses growth	132%	-11%	27%	-15%	0%
EBITDA growth	132%	-11%	27%	-159%	0%
PBT growth	132%	-9%	97%	-70%	-7%
Underlying NPAT growth	132%	-9%	38%	-70%	-7%
Reported NPAT growth	132%	-9%	38%	-70%	-7%

MARGINS & RETURNS	FY16A	FY17A	FY18E	FY19E	FY20E
EBITDA Margin	na	na	na	36.1%	36.1%
EBITA Margin	na	na	na	2.9%	2.9%
NPBT Margin	na	na	na	-29.3%	-27.3%
ROIC	-71.5%	-19.2%	-10.5%	0.3%	0.3%
ROE	-79.7%	-46.1%	-68.3%	-63.8%	-154.4%
ROA	-41.7%	-15.7%	-10.8%	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	89.6	85.5	73.5
Enterprise value	90.2	105.1	180.2	176.2	164.1
Net Debt/EV (%)	-0.5%	13.7%	49.7%	48.5%	44.8%
Net Debt/EBITDA (x)	0.1	-2.3	-11.3	18.2	15.6
EBITDA/Net Interest (x)	#DIV/0!	-30.7	-3.0	1.1	1.2

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

NAIF lined up for Stage 2

- **NAIF background:** The Northern Australia Infrastructure Facility has the capacity to offer up to \$5bn worth of loans over five years (ending 30 June 2021) to complement private investment in economic infrastructure in Northern Australia. Relevant projects would include those related to airports, communications, energy, ports, rail and water.
- **Concessionality of loans:** Under the Investment Mandate Direction, this is to be determined on each individual project and provided to the extent required to ensure the project's viability. Types of concessionality may include:
 - Longer loan tenor than commercial lenders (up to the maximum term of Commonwealth borrowings);
 - Lower interest rates than commercial lenders (though no lower than the Commonwealth's cost of borrowing);
 - Extended periods of capitalisation of interest beyond construction completion;
 - Deferral of loan repayments or other types of tailored repayment schedules;
 - Lower or different fee structures than those offered by commercial financiers; and
 - Ranking lower than commercial financiers for cashflow purposes.
- **Terms likely to be attractive:** Whilst not a direct comparison, we note that the interest rate on concessional loans to farm businesses from the Federal Government are set at 3.09% (as at 1 February 2018). We also note that the longest tenor of Federal Government debt is 30 years, so the GNX loan could in theory extend as long as that (as per the Mandate). Whilst the terms have not been agreed as yet, we believe the final interest rate will be under 4% and the tenor is likely to be more than 10 years.
- **Stage 1 revenue steady:** GNX recorded revenue of \$1.5m in May, slightly down on the \$1.6m in April. This was driven by an above-average number of rain days during the month. Stage 1 currently has a maximum generation capacity of 45MW and is in the final testing and commissioning phase. Practical completion and commencement of the Revenue Support Deed with the Queensland Government is expected to occur in July 2018.

FIG.1: K1-SOLAR GENERATION SUMMARY

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Generation (MWh)	3,126	4,919	7,513	9,644	11,288	11,176
Revenue by Month (\$m)	0.49	0.85	1.18	1.38	1.60	1.54
Cumulative Revenue (\$m)	0.49	1.34	2.52	3.90	5.50	7.04

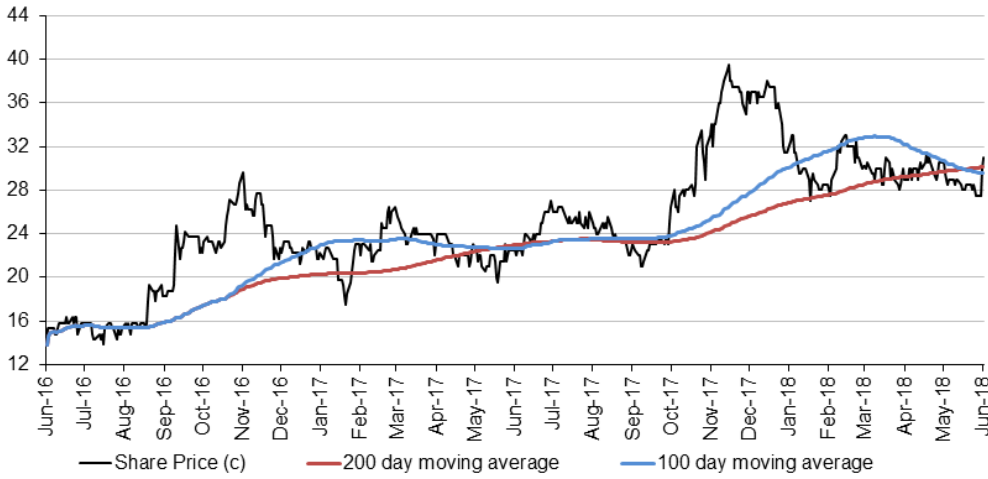
Notes:

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

Source: GNX

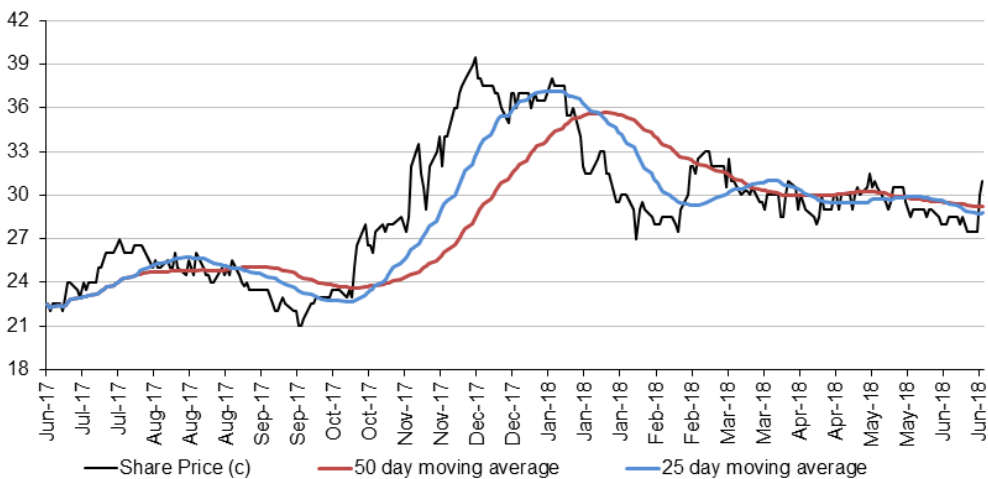
Appendix

FIG.2: LONG TERM MOMENTUM INDICATORS



Source: Iress

FIG.3: SHORT TERM MOMENTUM INDICATORS



Source: Iress

This document has been prepared and issued by:

Baillieu Holst Ltd

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

Analysts' stock ratings are defined as follows:

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 05 June 2018:

Buy: 65%

Hold: 34%

Sell: 1%

Disclosure of potential interest and disclaimer:

Baillieu Holst Ltd (Baillieu Holst) and/or its associates may receive commissions, calculated at normal client rates, from transactions involving securities of the companies mentioned herein and may hold interests in securities of the companies mentioned herein from time to time. Your adviser will earn a commission of up to 55% of any brokerage resulting from any transactions you may undertake as a result of this advice.

When we provide advice to you, it is based on the information you have provided to us about your personal circumstances, financial objectives and needs. If you wish to rely on our advice, it is important that you inform us of any changes to your personal investment needs, objectives and financial circumstances.

If you do not provide us with the relevant information (including updated information) regarding your investment needs, objectives and financial circumstances, our advice may be based on inaccurate information, and you will need to consider whether the advice is suitable to you given your personal investment needs, objectives and financial circumstances. Please do not hesitate to contact our offices if you need to update your information held with us. Please be assured that we keep your information strictly confidential.

No representation, warranty or undertaking is given or made in relation to the accuracy of information contained in this advice, such advice being based solely on public information which has not been verified by Baillieu Holst Ltd.

Save for any statutory liability that cannot be excluded, Baillieu Holst Ltd and its employees and agents shall not be liable (whether in negligence or otherwise) for any error or inaccuracy in, or omission from, this advice or any resulting loss suffered by the recipient or any other person.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment at its original date of publication and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Baillieu Holst Ltd assumes no obligation to update this advice or correct any inaccuracy which may become apparent after it is given.

Baillieu Holst Ltd

ABN 74 006 519 393

Australian Financial Service Licence No. 245421

Participant of ASX Group

Participant of NSX Ltd

www.baillieuholst.com.au

Melbourne (Head Office)

Address Level 26, 360 Collins Street
Melbourne, VIC 3000 Australia

Postal PO Box 48, Collins Street West
Melbourne, VIC 8007 Australia

Phone +61 3 9602 9222

Facsimile +61 3 9602 2350

Email melbourne@baillieuholst.com.au

Adelaide Office

Address Ground Floor, 226 Greenhill Road,
Eastwood SA 5063

Postal PO Box 171

Fullarton SA 5063

Phone +61 8 7074 8400

Facsimile +61 8 8362 3942

Email adelaide@baillieuholst.com.au

Bendigo Office

Address Level 1, 10-16 Forest Street
Bendigo, VIC 3550

Postal PO Box 84

Bendigo, VIC 3552

Phone +61 3 4433 3400

Facsimile +61 3 4433 3430

Email bendigo@baillieuholst.com.au

Geelong Office

Address 16 Aberdeen Street

Geelong West Vic 3218

Postal PO Box 364

Geelong Vic 3220 Australia

Phone +61 3 5229 4637

Facsimile +61 3 4229 4142

Email geelong@baillieuholst.com.au

Gold Coast Office

Address Suite 202 Level 2, Eastside Building
6 Waterfront Place, Robina QLD 4226

Phone +61 7 5628 2670

Facsimile +61 7 5677 0258

Email goldcoast@baillieuholst.com.au

Newcastle Office

Address Level 1, 120 Darby Street
Cooks Hill, NSW 2300 Australia

Postal PO Box 111

The Junction, NSW 2291 Australia

Phone +61 2 4037 3500

Facsimile +61 2 4037 3511

Email newcastle@baillieuholst.com.au

Perth Office

Address Level 9, 216 St Georges Terrace

Perth WA 6000 Australia

Postal PO Box 7662, Cloisters Square

Perth, WA 6850 Australia

Phone +61 8 6141 9450

Facsimile +61 8 6141 9499

Email perth@baillieuholst.com.au

Sydney Office

Address Level 40, 259 George Street
Sydney, NSW 2000 Australia

Postal PO Box R1797

Royal Exchange, NSW 1225 Australia

Phone +61 2 9250 8900

Facsimile +61 2 9247 4092

Email sydney@baillieuholst.com.au