

# Genex Power

## Slow and steady could win the race

**ADD** (no change)

Current price:	A\$0.25
Target price:	A\$0.38
Previous target:	A\$0.41
Up/downside:	56.8%
Reuters:	GNX.AX
Bloomberg:	GNX AU
Market cap:	US\$54.65m
	A\$76.55m
Average daily turnover:	US\$0.03m
	A\$0.05m
Current shares o/s	303.9m
Free float:	69.3%

- H1 19 earnings were above our expectations due to liquidated damages recovered from UGL for late delivery of the first stage solar project.
- We continue to see value in GNX at its current price. The stock is trading near our estimated value for the Stage 1 Solar and the K2-hydro (26 cps) but well below the value inclusive of their early stage solar and wind projects (38 cps).
- If financial close can be achieved on the K2-hydro project we expect the stock will rally. GNX is expecting financial close this half.

### Better H1 19 earnings but it's not repeatable

GNX received a one-off \$2.36m payment of liquidated damages from UGL who was the contractor for the 50MW first stage solar project at Kidston. Apart from this, the results are in line with our forecast. This isn't surprising given that all of GNX's electricity output is fully contracted.

### The K2H value proposition revisited

As we said in our initiation note, in a renewables heavy generation market storage assets hold the key to making the grid manageable. K2H will combine large scale storage (8 hours) with extremely fast response times that will make it ideally placed to provide firming services. GNX is working towards monetising this potential with a long term (> 25 years) offtake contract with stable pricing. We estimate that the economic life of the K2H asset would be at least 80 years.

### We think there's upside in a Labor win

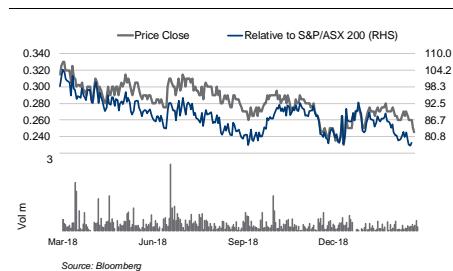
The outlook for renewable energy projects under a Labor government is positive as the opposition is heading towards the election with a policy of nearly doubling the amount of renewable energy. This could be a significant boost for the proposed 320MW of solar and 150MW of wind that GNX has in its project pipeline.

### K2H financial close is the catalyst to watch

The major value driver in our view is the 250MW pumped hydro project. Energy Australia are currently negotiating with GNX to buy a stake up to 50% in the project as well as buying the capacity and output of the project. Management are forecasting that the negotiations will be complete, and financial close achieved before the end of FY19. It is likely that GNX will need to contribute cash towards the development of K2-Hydro so we anticipate a capital raising will be required near the time that financial close will be achieved. We estimate that a \$15m raise will be required.

### Investment View

We believe that it's likely that GNX will achieve financial close on K2-Hydro which opens up possibilities for the remaining pipeline of renewables projects. There are still a lot of pieces in motion so an investment in GNX is not yet a stable source of returns but we believe it has the potential to become one once K2-Hydro is complete. We think there is still upside available for investors who are willing to take the risk on the evolving K2-Hydro project and the future wind and solar expansions.



Price performance	1M	3M	12M
Absolute (%)	-10.9	-2	-23.4
Relative (%)	-14.7	-9	-25.3

**Max Vickerson, CFA**

T +61 7 3334 4804

E max.vickerson@morgans.com.au

Analyst(s) own shares in the following stock(s) mentioned in this report:

– Genex Power

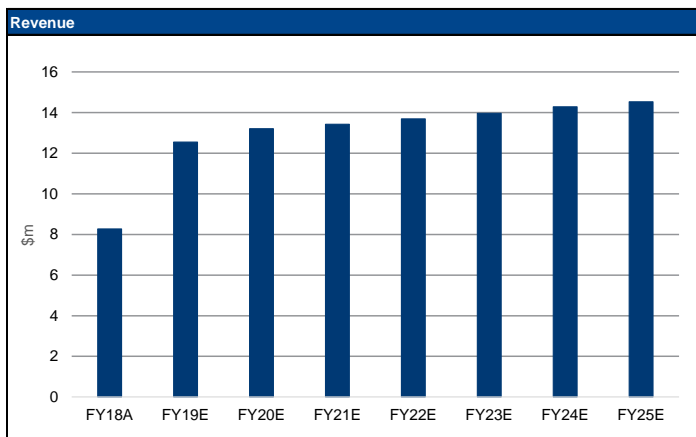
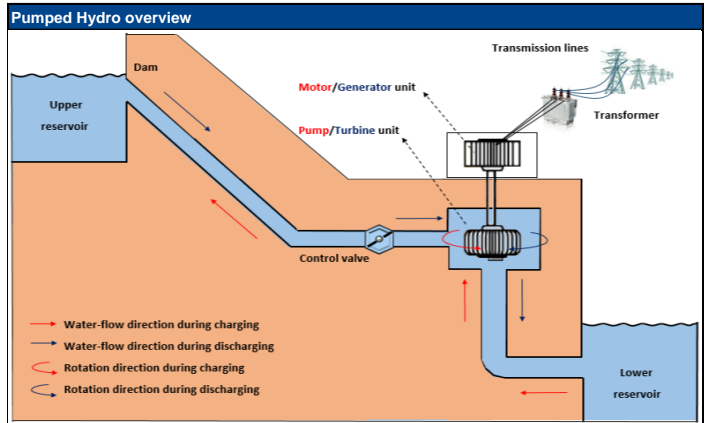
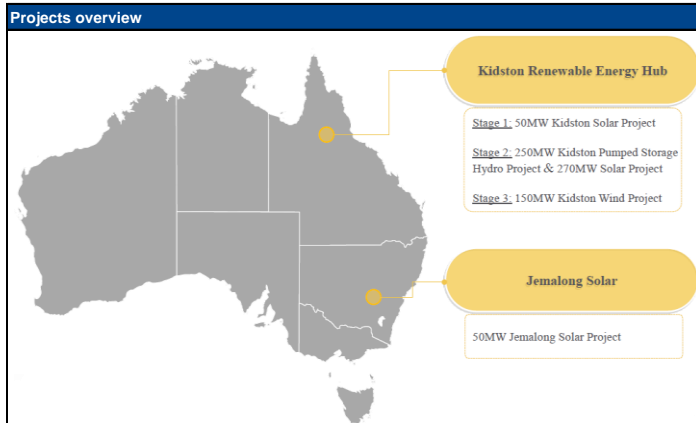
Financial Summary	Jun-18A	Jun-19F	Jun-20F	Jun-21F	Jun-22F
Revenue (A\$m)	8.27	12.55	13.20	13.43	13.69
Operating EBITDA (A\$m)	-1.72	5.97	10.06	10.21	10.39
Net Profit (A\$m)	-7.46	-9.37	1.15	1.76	1.26
Normalised EPS (A\$)	(0.025)	(0.012)	0.002	0.003	0.004
Normalised EPS Growth	(33.3%)	(50.7%)		47.5%	38.0%
FD Normalised P/E (x)	NA	NA	138.7	94.0	68.1
DPS (A\$)	-	-	-	-	0.010
Dividend Yield	0.00%	0.00%	0.00%	0.00%	3.94%
EV/EBITDA (x)	NA	28.95	17.62	16.71	16.08
P/FCFE (x)	NA	NA	91.49	26.90	25.39
Net Gearing	596%	212%	208%	201%	210%
P/BV (x)	4.87	2.16	2.22	2.33	2.55
ROE	(43.3%)	(14.5%)	1.6%	2.4%	3.6%
% Change In Normalised EPS Estimates		(913%)	(25%)	(21%)	(17%)
Normalised EPS/consensus EPS (x)		2.46	-0.29	-0.87	

SOURCE: MORGANS, COMPANY REPORTS

**Figure 1: Business snapshot**

Genex Power (as at 01-03-19)		GNX AU / GNX.AX		Utilities
Market cap (A\$m):	91.6	Rating:		ADD
Shares outstanding (m):	373.8	Price (A\$):		0.25
Free float (%):	69%	Target price (A\$):		0.38
Company website:	<a href="https://www.genexpower.com.au/">https://www.genexpower.com.au/</a>	Upside/downside to target price (%):		56.8%

**Company description**  
 GNX is redeveloping an old gold mine in North Queensland into an energy storage project and has developed a 50MW solar farm adjacent to the mine. GNX also has plans to expand its energy generation with a second stage solar farm up to 270MW and a potential 150MW wind farm, on or near the same site, and a 50MW solar farm in central NSW. The output of the 50MW solar farm is contracted to the Qld government for 20 years and the company is in discussions with Energy Australia to develop and sell the output of the energy storage (pumped hydro) project for a term of at least 25 years. GNX has also obtained conditional approval for up to \$516m of low cost debt finance from the Northern Australia Infrastructure Facility. GNX was founded in 2011 and was listed on the ASX in 2015. The CEO, James Harding, was appointed on the 7th of May 2018 and the Chairman, Dr Ralph Craven, has held his position since the company listed.



**Risks and Drivers**

**Value drivers:**

- Solar output of Stage 1 as price is contracted and locked in.
- Price of the pumped hydro offtake agreement - not yet finalised.
- If carbon reduction targets increase, the value of future renewables projects will also increase.

**Risks:**

- Securing the final offtake agreement for the pumped hydro project at an attractive price.
- Price of engineering contract to build pumped hydro project.
- Cost to access new transmission line for pumped hydro project.
- Construction risk during construction of the pumped hydro project.
- Electricity network congestion if too many other renewables projects nearby get constructed.
- Technological changes driving energy efficiency and alternative generation.
- Interest rates.
- Changes to tax regimes.

SOURCE: MORGANS

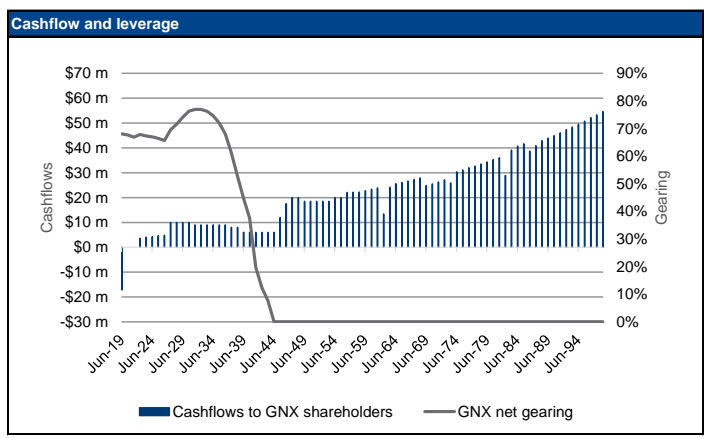
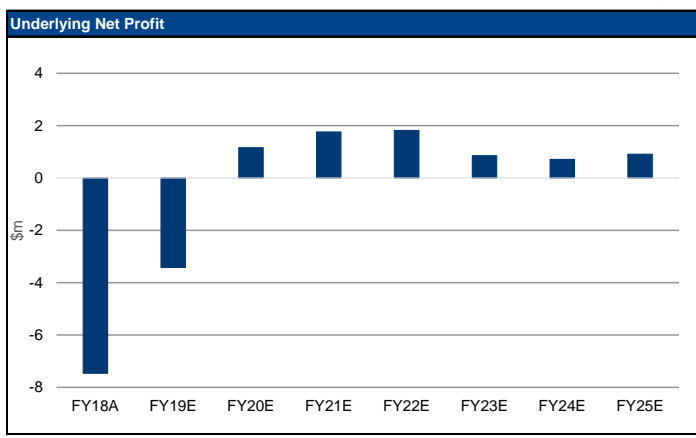


Figure 2: Financial summary

Profit and loss (\$m)									Valuation as at Mar-2019					
	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E						
Revenue	8.3	12.5	13.2	13.4	13.7	14.0	14.3	14.5	DCF - KS1 30 yr forecast (\$m)	16				
Other inc (K2H cost recovery)	1.7	2.7	5.5	5.6	5.7	5.9	6.1	6.2	DCF - GNX share of K2-hydro 80 yr forecast (\$m)	65				
Expenses	(11.7)	(9.2)	(8.6)	(8.8)	(9.0)	(9.3)	(9.5)	(9.8)	DCF - base case renewable options (K2S, Jemalong & K3W) value	36				
EBITDA	(1.7)	6.0	10.1	10.2	10.4	10.6	10.8	11.0	<b>DCF Total (\$m)</b>	<b>117</b>				
D&A	(3.0)	(6.0)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	(5.7)	Shares issued (m)	304				
Operating EBIT	(4.7)	(0.0)	4.3	4.5	4.7	4.9	5.1	5.3	<b>Value per share</b>	<b>\$ 0.38</b>				
Net Interest Expense	(2.7)	(4.1)	(3.7)	(3.5)	(3.3)	(3.7)	(4.1)	(4.0)	DCF Inputs					
SPV Distributions (post tax)	0.0	-	-	-	-	-	-	-	Rf rate	3.5%				
Profit Before Tax	(7.5)	(4.2)	0.7	1.0	1.3	1.2	1.0	1.3	MRP	6.0%				
Tax	-	(5.2)	0.5	0.8	(0.1)	(1.5)	(1.6)	(1.8)	Adjusted Beta	0.75				
Statutory Net Profit	(7.5)	(9.4)	1.2	1.8	1.3	(0.3)	(0.6)	(0.5)	<b>RE</b>	<b>8.0%</b>				
Tax (deferred profit from JV)	-	6.0	-	-	0.6	1.2	1.3	1.4						
Underlying Net Profit	(7.5)	(3.4)	1.2	1.8	1.8	0.9	0.7	0.9						
Underlying Net Profit									Projected returns					
Underlying Net Profit (\$m)	(7)	(3)	1	2	2	1	1	1	12m Target Price	\$ 0.38				
- cents per share	(2.5)	(1.0)	0.3	0.5	0.5	0.2	0.2	0.2	Share Price	\$ 0.25				
- growth		-60%	-131%	53%	3%	-53%	-17%	28%	Upside/(downside)	56.8%				
									Yield	- cps FY19 0.0%				
									12m potential TSR	56.8%				
Dividends									Rating					
Dividends (\$m)	-	-	-	-	4	4	4	5	Key multiples	FY18A	FY19E	FY20E	FY21E	FY22E
Dividend per share (cents)	-	-	-	-	0.97	1.09	1.15	1.24	EV/EBITDA (x)	(95.4)	29.0	17.6	16.7	16.1
- growth	N/A	N/A	N/A	N/A	N/A	N/A	6%	7%	Price-to-earnings (x)	(3.3)	(7.2)	21.2	13.9	13.5
- payout of Underlying NPAT	0%	0%	0%	0%	199%	478%	606%	510%	Dividend yield (%)	-	-	-	-	3.9
Cashflows (\$m)									Gearing - GNX					
EBITDA	(1.7)	6.0	10.1	10.2	10.4	10.6	10.8	11.0	Net Debt (\$m)	91.1	89.8	85.7	79.0	75.5
SPV Distributions (post tax)	-	-	-	-	-	-	-	-	Net Debt / ND+E (%)	86%	68%	68%	67%	68%
Gross operating cashflow	(1.7)	6.0	10.1	10.2	10.4	10.6	10.8	11.0	Net Debt / EBITDA (x)	N/A	15.05	8.52	7.74	7.27
Net interest paid	(2.7)	(4.1)	(3.7)	(3.5)	(3.3)	(3.7)	(4.1)	(4.0)	Operating CF-to-interest (x)	(1.6)	0.4	1.7	1.9	2.1
Tax paid	-	-	-	-	-	-	-	-	Gearing - SPV					
<b>Operating cashflow</b>	<b>(4.4)</b>	<b>1.8</b>	<b>6.4</b>	<b>6.7</b>	<b>7.1</b>	<b>6.9</b>	<b>6.7</b>	<b>7.0</b>	Net Debt (\$m)	N/A	50.0	79.4	241.1	388.7
Capex (ex SPV capex)	(74)	(19)	-	-	-	-	-	-	Net Debt / ND+E (%)	N/A	32%	44%	72%	81%
<b>Investing cashflow</b>	<b>(74)</b>	<b>(19)</b>	-	-	-	-	-	-	Net Debt / EBITDA (x)	N/A	N/A	N/A	N/A	29.4
Equity issuance/(returns)	-	17	-	-	-	-	-	-	Operating CF-to-interest (x)	N/A	N/A	N/A	N/A	0.1
Debt drawdown/(repaid)	-	(0)	(3)	(3)	(3)	(3)	(2)	(2)						
Dividends paid	-	-	-	-	(4)	(4)	(4)	(5)						
Other financing cash flows	-	-	-	-	-	-	-	-						
<b>Financing cashflow</b>	<b>-</b>	<b>17</b>	<b>(3)</b>	<b>(3)</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>	<b>(7)</b>						
Net cashflow	(78)	(1)	3	3	0	0	0	(0)						
Balance sheet (\$m)														
Cash	11	12	13	17	17	17	17	17						
Receivables	1	1	1	1	1	1	1	2						
Fixed Assets	118	112	106	101	95	89	84	78						
SPV equity	-	35	33	29	28	32	36	41						
Tax assets	-	1	1	2	3	2	2	1						
Other	6	10	10	10	10	10	10	10						
<b>Total Assets</b>	<b>136</b>	<b>170</b>	<b>164</b>	<b>159</b>	<b>153</b>	<b>150</b>	<b>150</b>	<b>148</b>						
Debt	102	102	99	96	92	89	87	85						
Deferred Tax from SPV)	-	6	6	6	7	8	9	10						
Other liabilities	18	20	18	18	18	18	19	19						
<b>Total Liabilities</b>	<b>120</b>	<b>128</b>	<b>123</b>	<b>120</b>	<b>117</b>	<b>115</b>	<b>115</b>	<b>114</b>						
<b>Net Assets</b>	<b>15</b>	<b>42</b>	<b>41</b>	<b>39</b>	<b>36</b>	<b>35</b>	<b>35</b>	<b>34</b>						
<b>Average Shares on issue (m)</b>	<b>298.7</b>	<b>338.9</b>	<b>373.8</b>	<b>373.8</b>	<b>373.8</b>	<b>373.8</b>	<b>373.8</b>	<b>373.8</b>						

SOURCE: MORGANS RESEARCH, COMPANY

**Figure 3: Sensitivity of GNX price to K2-Hydro contract price**

Sensitivity	ESSA price (\$ / MW)	GNX price (cps)	Upside / downside
-40%	11.97	30	21%
-30%	13.97	32	30%
-20%	15.96	34	39%
-10%	17.96	36	48%
0%	19.95	38	57%
10%	21.95	40	62%
20%	23.94	42	72%
30%	25.94	44	78%
40%	27.93	46	87%

SOURCE: MORGANS

**Figure 4: GNX share price sensitivity to renewable projects option value**

	\$/shr	Marginal Loss Factors (MLFs)											
		0.80	0.81	0.82	0.83	0.84	0.85	0.86	0.87	0.88	0.89	0.90	
Carbon inclusive PPA price	54.0	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.29
	55.5	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.28	0.30	0.32	0.34	
	57.0	0.27	0.27	0.27	0.27	0.27	0.29	0.31	0.33	0.35	0.37	0.40	
	58.5	0.27	0.27	0.27	0.29	0.31	0.34	0.36	0.38	0.40	0.42	0.45	
	60.0	0.27	0.29	0.32	0.34	0.36	0.38	0.41	0.43	0.45	0.48	0.50	
	61.5	0.32	0.34	0.36	0.39	0.41	0.43	0.46	0.48	0.50	0.53	0.55	
	63.0	0.36	0.39	0.41	0.43	0.46	0.48	0.51	0.53	0.55	0.58	0.60	
	64.5	0.41	0.43	0.46	0.48	0.51	0.53	0.55	0.58	0.60	0.63	0.65	
	66.0	0.45	0.48	0.50	0.53	0.55	0.58	0.60	0.63	0.65	0.68	0.71	

SOURCE: MORGANS

**Figure 5: GNX valuation summary**

Component	Value (\$m)	Value (cps)
KS1	15.5	5
GNX share of K2-hydro	65.0	21
Renewable projects base case	36.1	12
<b>Total</b>	<b>116.7</b>	<b>38</b>

SOURCES: MORGANS, COMPANY REPORTS

**Queensland**

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan	+61 7 3152 0600
Partners	
Brisbane: North Quay	+61 7 3245 5466
Bundaberg	+61 7 4153 1050
Cairns	+61 7 4222 0555
Caloundra	+61 7 5491 5422
Gladstone	+61 7 4972 8000
Gold Coast	+61 7 5581 5777
Holland Park	+61 7 3151 8300
Ipswich/Springfield	+61 7 3202 3995
Kedron	+61 7 3350 9000
Mackay	+61 7 4957 3033
Milton	+61 7 3114 8600
Noosa	+61 7 5449 9511
Redcliffe	+61 7 3897 3999
Rockhampton	+61 7 4922 5855
Spring Hill	+61 7 3833 9333
Sunshine Coast	+61 7 5479 2757
Toowoomba	+61 7 4639 1277
Townsville	+61 7 4725 5787

**New South Wales**

Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
Sydney: Grosvenor	+61 2 8215 5000
Place	
Sydney: Reynolds	+61 2 9373 4452
Securities	
Sydney: Currency	+61 2 8216 5111
House	
Armistdale	+61 2 6770 3300
Ballina	+61 2 6686 4144
Balmain	+61 2 8755 3333
Bowral	+61 2 4851 5555
Chatswood	+61 2 8116 1700
Coffs Harbour	+61 2 6651 5700
Gosford	+61 2 4325 0884
Hurstville	+61 2 8215 5079
Merimbula	+61 2 6495 2869
Mona Vale	+61 2 9998 4200
Neutral Bay	+61 2 8969 7500
Newcastle	+61 2 4926 4044
Orange	+61 2 6361 9166
Port Macquarie	+61 2 6583 1735
Scone	+61 2 6544 3144
Wollongong	+61 2 4227 3022

**Victoria**

Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
Brighton	+61 3 9519 3555
Camberwell	+61 3 9813 2945
Domain	+61 3 9066 3200
Geelong	+61 3 5222 5128
Richmond	+61 3 9916 4000
South Yarra	+61 3 8762 1400
Southbank	+61 3 9037 9444
Traralgon	+61 3 5176 6055
Warrnambool	+61 3 5559 1500

**Western Australia**

West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management	
Perth	+61 8 6462 1999

**South Australia**

Adelaide	+61 8 8464 5000
Exchange Place	+61 8 7325 9200
Norwood	+61 8 8461 2800
Unley	+61 8 8155 4300

**Australian Capital Territory**

Canberra	+61 2 6232 4999
----------	-----------------

**Northern Territory**

Darwin	+61 8 8981 9555
--------	-----------------

**Tasmania**

Hobart	+61 3 6236 9000
--------	-----------------

**Disclaimer**

The information contained in this report is provided to you by Morgans Financial Limited as general advice only, and is made without consideration of an individual's relevant personal circumstances. Morgans Financial Limited ABN 49 010 669 726, its related bodies corporate, directors and officers, employees, authorised representatives and agents ("Morgans") do not accept any liability for any loss or damage arising from or in connection with any action taken or not taken on the basis of information contained in this report, or for any errors or omissions contained within. It is recommended that any persons who wish to act upon this report consult with their Morgans investment adviser before doing so. Those acting upon such information without advice do so entirely at their own risk.

This report was prepared as private communication to clients of Morgans and is not intended for public circulation, publication or for use by any third party. The contents of this report may not be reproduced in whole or in part without the prior written consent of Morgans. While this report is based on information from sources which Morgans believes are reliable, its accuracy and completeness cannot be guaranteed. Any opinions expressed reflect Morgans judgement at this date and are subject to change. Morgans is under no obligation to provide revised assessments in the event of changed circumstances. This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

**Disclosure of interest**

Morgans may from time to time hold an interest in any security referred to in this report and may, as principal or agent, sell such interests. Morgans may previously have acted as manager or co-manager of a public offering of any such securities. Morgans affiliates may provide or have provided banking services or corporate finance to the companies referred to in the report. The knowledge of affiliates concerning such services may not be reflected in this report. Morgans advises that it may earn brokerage, commissions, fees or other benefits and advantages, direct or indirect, in connection with the making of a recommendation or a dealing by a client in these securities. Some or all of Morgans Authorised Representatives may be remunerated wholly or partly by way of commission.

**Regulatory disclosures**

Analyst owns shares in the following mentioned company(ies): Genex Power

**Recommendation structure**

For a full explanation of the recommendation structure, refer to our website at [morgans.com.au/research\\_disclaimer](http://morgans.com.au/research_disclaimer)

**Research team**

For analyst qualifications and experience, refer to our website at [morgans.com.au/research-and-markets/our-research-team](http://morgans.com.au/research-and-markets/our-research-team)

**Research coverage policy**

For an overview on the stock selection process, refer to our website at [morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy](http://morgans.com.au/research-and-markets/company-analysis/Research-Coverage-Policy)

**Research independence statement**

[morgans.com.au/Research-Independence-Statement](http://morgans.com.au/Research-Independence-Statement)

**Stocks under coverage**

For a full list of stocks under coverage, refer to our website at [morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage](http://morgans.com.au/research-and-markets/company-analysis/ASX100-Companies-under-coverage) and [morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage](http://morgans.com.au/research-and-markets/company-analysis/EX-100-Companies-under-coverage)

**morgans.com.au**

If you no longer wish to receive Morgans publications please contact your local Morgans branch or write to GPO Box 202 Brisbane QLD 4001 and include your account details.