

Research Flash

Genex Power (GNX) - last price \$0.235 ps, Not rated

What's new?

- GNX has completed the Technical Feasibility Study for its pumped storage hydro project at Kidston.
- The project design is now for 250MW capacity, compared to 330MW proposed at IPO then upgraded to 450MW. However, GNX says the capacity remains flexible as the project proceeds to financial close.
- The project will have 1,500 MWh of total storage capacity. At 250MW capacity, this allows for 6 hours of continuous generation (sufficient to capture high price periods). The project will take 30 seconds to ramp up to full generation capacity.
- Financial close targeted for Q4 2007.

Critical path items for the project

- The next stage will be to **prove the economic/commercial viability of the project**. GNX has highlighted that the increased penetration of intermittent renewables in the electricity market needs to be balanced by large scale energy storage such as what the pumped storage project provides.
- **Capex**. GNX intends to commence a formal tender process for capex. This will see finalisation of construction contractors (turbine, underground, civil), project timing, and construction costs. No estimate of capex was provided by GNX.
- **Revenues**. GNX intends to secure stable and long-term revenue streams whilst retaining a portion of spot market exposure. Revenue sources include power purchase contracts, electricity cap contracts (call options), spot electricity sales, and ancillary services. We think it will be challenging given market conditions to secure revenue contracts of sufficient tenor to attract high levels of debt funding for the project.
- **Securing debt and equity funding**. GNX says discussions will continue into 1H17. We expect capex and revenue contract negotiations will need to be at an advanced stage for meaningful funding discussions to occur.
- **Access to market**. A high voltage transmission line needs to be funded and built (either by GNX or via a third party owner/operator) to transport the electricity generated at Kidston to

the National Electricity Market connection point (GNX expects this to be at Mt Fox about 115km NW of Townsville). For a third party owner, counterparty credit risk will be a key issue to consider.

- **Electricity purchase contracts:** The project will need to purchase electricity from the National Electricity Market in order to pump water from its lower reservoir to its upper reservoir. Potentially a fixed price contract may be required to remove volatility in this key cost item.

Disclosure

Analyst owns shares in GNX.

Morgans Corporate was Lead Manager to the Company's placement in May 2016 and received fees in this regard