

Genex Power Limited

Utilities | Raising Target Price

Offtake and equity investment term sheet with EnergyAustralia

GNX-ASX | Price A\$0.27 | Market Cap A\$77.7M

SPECULATIVE BUY Unchanged

PRICE TARGET A\$0.52 ↑ from A\$0.48

GNX has entered into a non-binding term sheet with EnergyAustralia for a long-term energy storage services and equity investment in the 250MW Kidston Pumped Hydro project (K2-Hydro).

This is a very good outcome particularly given the challenging political backdrop. While the commercial details are understandably scant the introduction of a strong and experienced partner/offtaker is, in our view, a positive reflection on the potential of K2-Hydro. GNX is targeting financial close in 1H 2019.

We increase our price target to 0.52ps after rolling our valuation forward by 6 months and maintain our SPEC BUY rating.

Removing electricity market exposure...

EnergyAustralia is seeking a long-term energy storage services agreement for the full dispatch and market rights for K2-Hydro. This tolling agreement (assuming completion) will remove electricity market risk for GNX and provide a more stable revenue stream.

...could result in additional NAIF support

The Northern Australia Infrastructure Facility (NAIF) previously provided an indicative term sheet for a long-term concessional debt facility of up to \$516mn for K2-Hydro and K2-Solar. Given EnergyAustralia's BBB+ credit rating and the removal of electricity price risk it is conceivable, in our view, that NAIF increases its exposure to K2-Hydro.

K2-Hydro the focus...

Progressed pumped hydro projects are far more scarce than solar and consequently should generate better returns. Post this endorsement by EnergyAustralia GNX will focus its human resources and capital on delivering financial close for K2 Hydro in 1H 2019.

...but expect further progress at K2-Solar in medium term

GNX now expect financial close of K2-Solar to lag K2-Hydro. That said given the shorter development and construction period they still expect K2-Solar and K2-Hydro to commence generating in 2022.

Next steps

Over the next 6 months we expect to see 1) finalisation of the engineering, procurement and construction contract for K2 Hydro (CGest \$390mn); 2) confirmation of \$9mn Arena grant; 3) connection agreement finalisation; 4) NAIF funding; 5) Offtake contract and Special Purpose Vehicle establishment (50% GNX, 50% EnergyAustralia).

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