

Genex Power Limited

Utilities

27 April 2021

Rating
BUY↑
from SPECULATIVE BUY

Price Target
A\$0.36
unchanged

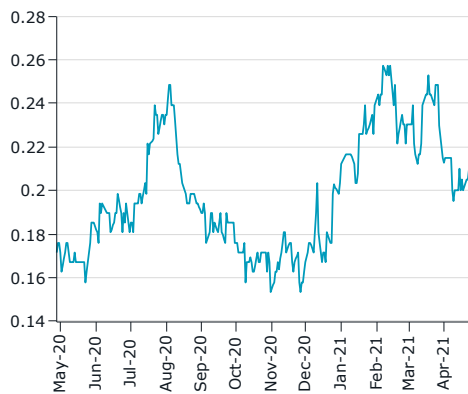
GNX-ASX

Price
A\$0.21

Market Data

52-Week Range (A\$) :	0.15 - 0.27
Avg Daily Vol (000s) :	4,233
Market Cap (A\$M) :	239.0
Shares Out. (M) :	1,111.5
Dividend /Shr (AUC) :	0.0
Dividend Yield (%) :	0.0
Enterprise Value (A\$M) :	395

FYE Jun	2020A	2021E	2022E	2023E
Sales (A\$M)	10.3	16.6	22.2	22.6↓
Previous	-	-	-	94.1
EBITDA (A\$M)	1.8	7.8↓	13.5↓	13.6↓
Previous	-	8.9	15.3	53.9
EBIT (A\$M)	(6.2)	(0.3)↓	3.5↓	3.6↓
Previous	-	0.8	5.3	24.0
Net Income (A\$M)	(10.5)	(3.0)↓	3.1↓	(0.8)↓
Previous	-	(1.9)	4.6	17.2



Source: FactSet

Priced intraday 26 April 2021

Genex Power Ltd. is a power generation development company, which focuses on the production and storage of renewable energy. Its projects includes Kidston Solar, Kidston Pumped Hydro and Jemalong Solar.

Canaccord Genuity (Australia) Limited has received a fee as Joint Lead Manager to the Genex Power Limited Capital Raising announced 24 March 2021.

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Sole survivor - the last ASX-listed, Australia-focused renewable player

Financial and contractual close at its 100% owned Kidston Pumped Hydro (K2H) was a hard fought victory for GNX's board and executive. This is a truly transformational project for the company, in our view, and it is planned to be delivered during a pivotal period for Australia's energy transition. K2H won't just deliver more renewable energy into the grid, it will enable increased renewable penetration while improving grid stability. This is a hugely strategic, 80+ year asset which, in our view, is not being appropriately valued by the market.

We upgrade to BUY (from Speculative Buy) and retain our \$0.36 SOTP-based price target.

Renewable-focused investment choices are increasingly scarce on the ASX

Following the bidding wars for Tilt Renewables, Infigen Energy and Windlab, there are very few ways to play renewables on the ASX. This sector may be of increasing importance, and Australia may be blessed with abundant renewable resources, but the ASX has precious few options as corporate and private interests continue to outbid public markets, despite constant ESG chatter from large buy-side institutions.

The stakeholders are varied and the benefits, like the project, are large in our view

K2H is a significant "build-back-better" infrastructure project, which will: 1) create regional jobs (Kennedy unemployment rate is 8%); 2) assist the grid in managing increased renewable penetration; 3) have a net public benefit estimated at \$343mn; and 4) provide EnergyAustralia (EA) with the dispatch rights to a highly valuable asset, which can help manage escalating price risks. This project, in our opinion, represents the best of public-private cooperation, a view supported by the \$610mn in concessional NAIF funding, \$47mn in Arena grants and a \$147mn contribution from the QLD Government for the transmission line.

Fully funded to deliver

Post the ~\$115mn equity raising GNX has a pro-forma cash balance of \$145mn and liquidity of \$802mn. With the \$777mn cost estimate for K2H inclusive of \$40mn in contingency and the development being primarily "full-wrap" EPC, which places cost and schedule risk firmly on the contractor, we believe the company is more than adequately funded for the development.

Valuation and earnings thoughts

We have significantly updated our valuation and earnings model post improved disclosure by GNX. We continue to use an FCF-to-equity model to value Kidston Solar (50MW), Jemalong (50MW) and K2H and use a developer margin multiple for its Baldercombe battery development. We do not currently value GNX's other developments.

With regard to K2H, while we acknowledge that valuing a project with a useful life greater than 80 years is a fraught task, here are some observations from our modelling:

1. Revenue of ~\$55mn per annum escalating at CPI (subject to undisclosed floor).
2. Stable EBITDA of ~\$45mn escalating during the EA offtake period. The most recent TLT bid was equivalent to 36x FY22E EV/EBITDA and 25x FY23E (TLT's wind assets have a ~30year life and are not concessionally funded). Applying this FY23E multiple to K2H and discounting back to today would yield an equity value of \$450mn.
3. Project IRR of 7%, which is slightly lower than Snowy Hydro 2 which quoted ~8% in its economic case.

Figure 1: Financial summary

FY Jun 30	2019	2020	2021E	2022E	2023E	2019	2020	2021E	2022E	2023E	
PROFIT & LOSS (A\$mn)											
Revenue	11	10	17	22	23	KEY PRICING ASSUMPTIONS					
Operational Costs	-4	-4	-4	-3	-3	NSW Electricity Prices (\$/MWh)	85.2	78.8	52.5	52.5	62.9
Other income	5	2	4	3	3	SA Electricity Prices (\$/MWh)	79.0	64.5	50.9	52.2	53.5
Corporate & Other	-6	-7	-8	-9	-9	WA Electricity Prices (\$/MWh)	50.0	50.0	50.9	52.2	53.5
EBITDA	6	2	8	13	14	LGC Prices (\$/LGC)	52.6	45.0	27.5	27.5	20.0
DD&A	-6	-8	-8	-10	-10	REALISED PRICES					
Other	0	0	0	0	0	Bundled price (\$/MWh)	82.3	77.8	83.4	84.0	85.4
EBIT	-1	-6	0	3	4	GENERATION FORECASTS					
Financing Income	0	0	0	1	1	Australian Generation (GWh)	131	132	198	264	264
Financing Costs	-5	-4	-3	-1	-5	Total (GWh)	131	132	198	264	264
NPBT	-5	-11	-3	3	-1	PER SHARE DATA					
Tax	0	0	0	0	0	Average Shares (Diluted, M)	303	356	793	1112	1112
Normalised NPAT	-5	-11	-3	3	-1	EOP Shares (Diluted, mn)	312	402	1112	1112	1112
Sig Items, Discon Ops & Mins	0	0	0	0	0	Normalised EPS (A¢/sh)	-1.8	-3.0	-0.4	0.3	-0.1
Reported NPAT	-5	-11	-3	3	-1	CF PS (A¢/sh)	0.2	-1.2	0.6	1.0	0.7
Effective income tax rate	0%	0%	0%	0%	0%	FCF PS (A¢/sh)	-3.9	-11.8	-20.2	-22.1	-30.7
CASHFLOW (A\$mn)						RATIOS					
Cash receipts	16	10	20	22	23	Dividend Yield	0%	0%	0%	0%	0%
Payments to suppliers	-9	-11	-11	-11	-11	PE	-11.1	-6.8	-52.4	70.4	-326.7
Interest received	0	0	0	1	1	PCF (Debt Adj)	15.9	-64.8	22.1	19.0	20.3
Interest paid	-4	-3	-1	-1	-5	EV / EBITDA	28.4	111.7	47.0	45.6	70.5
Other	-2	0	-3	0	0	Gearing (ND / ND + E)	92%	91%	50%	74%	85%
Operating Cashflow	1	-4	5	11	7	Net Debt / EBITDA	17.2x	66.2x	18.6x	29.1x	54.1x
Payments for PP&E	-6	-38	-58	0	0	Interest Cover	-0.2x	-1.5x	-0.1x	2.5x	0.7x
Payments for Intangible Assets	-6	0	0	0	0	ROE (Reported Profit / Av Equity)	-46%	-106%	-4%	2%	-1%
Payments for Growth Developments	0	0	-105	-250	-339	ROIC	-1%	-5%	0%	1%	1%
Asset Sales / (Purchases)	0	0	0	0	0	ROACE	0%	-2%	0%	1%	0%
Other	0	0	-2	-6	-9	FCF Yield	-20%	-59%	-101%	-110%	-154%
Investing Cashflow	-12	-38	-165	-256	-348	DIVIDEND AND FRANKING					
Share Issuance / (Buyback)	2	21	138	0	0	Dividend (A¢/sh)	0	0	0	0	0
Drawdown / (Repayment) of Debt	-1	86	24	245	341	Payout ratio	0%	0%	0%	0%	0%
Dividends	0	0	0	0	0	Franking Balance (A\$mn)	0	0	0	0	0
Other	3	-3	0	0	0	VALUATION					
Financing Cashflow	4	104	162	245	341	Risked					
Surplus / Defecit	-8	62	2	0	0	K1-Solar	0.04				
BALANCE SHEET (A\$mn)						K2-Hydro	0.15				
Current Assets	6	69	67	67	67	Jemalong	0.03				
Non-Current Assets	129	185	324	564	894	Bouldercombe Battery	0.01				
Total Assets	135	254	390	631	960	EV adjustments	0.13				
Current Liabilities	8	31	10	16	26	TOTAL	0.36				
Non-Current Liabilities	118	211	237	475	807	PREMIUM/(DISCOUNT)	0.0				
Total Liabilities	126	243	246	491	833	PRICE TARGET	0.36				
Net Assets	8	11	144	140	128						
Total Cash	3	65	63	63	63						
Total Debt	100	182	209	454	796						
Net Debt	96	117	146	391	733						

Source: Company reports, Canaccord Genuity estimates

Kidston pumped hydro refresh

Project facts and figures:

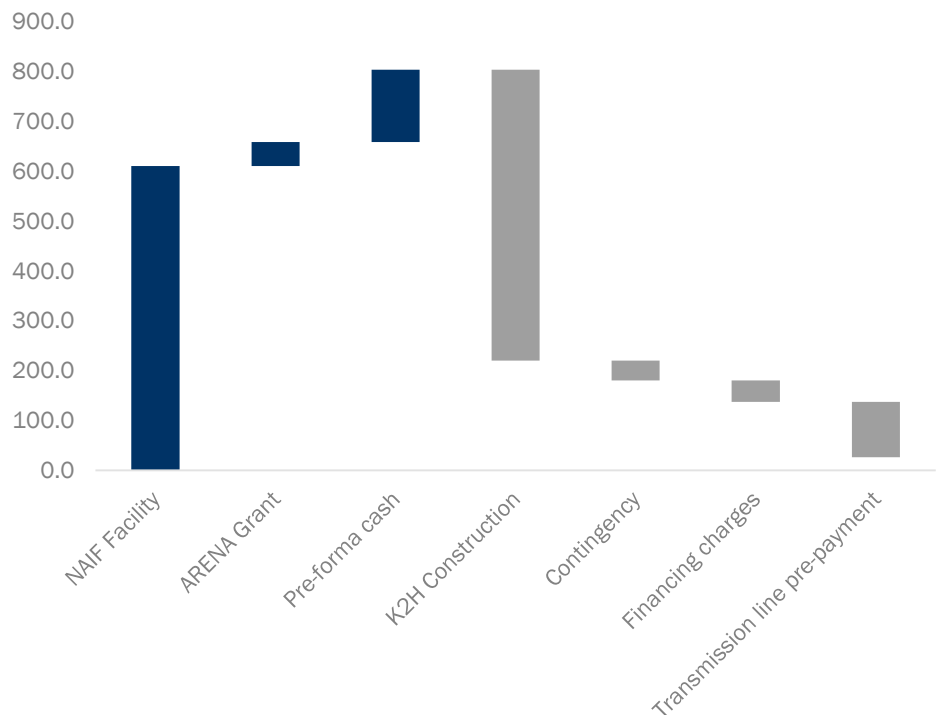
Location: Far-North Queensland
 Nameplate capacity: 250MW
 Generation duration: 8 hours
 Storage capacity: 2,000MWh
 Upper reservoir: Wises Pit (52ha)
 Lower reservoir: Eldridge Pit (54ha)
 Project lifespan: 80 years
 Number of turbines: 2
 Turbine details: 125MW reversible turbines
 Start-up time: <30seconds
 Max gross water head: 218m
 EPC & O&M contractor: McConnell Dowell-
 John Holland (JV)
 Engineering consultant: Entura

Located in Far North Queensland (270km NW of Townsville), the 250MW Kidston Pumped Hydro project (K2H) is GNX's flagship development. It will utilise two historic mining pits (Wises and Eldridge) as the upper and lower reservoirs for the project (218m gross head) with water being supplied from the Copperfield dam.

The capex estimate for the project is \$777mn. This includes contingency (~\$40mn), financing (\$43mn) and a \$111mn prepayment for the transmission line. GNX expects the construction to take approximately four years (first generation in CY25). The main EPC contractor/suppliers are John Holland, McConnell Dowell and Andritz. Substantial liquidated damages and performance guarantees are in place.

The project will be funded primarily through debt with NAIF providing a \$610mn, 15-year debt facility on concessional terms (we assume an interest rate of 2.3%). While this does lead to elevated gearing, particularly given GNX's market cap, the stable cash flows this project will generate, along with the mature technology and EPC contract structure helps ameliorate this risk, in our view.

Figure 2: Funding sources and uses (\$mn)



Source: Company reports, Canaccord Genuity estimates

GNX has an Energy Storage Services Agreement (ESSA) with EnergyAustralia (EA) for 100% of the 250MW at K2H. Under this agreement, GNX receives a fixed annual rental revenue in exchange for EA having full operational dispatch rights for a 10-year period with two 10-year extension options in its favour. If EA utilises both its options then it will have the right to purchase the asset from GNX for its written-down value at the end of the agreement, which is estimated to be \$250m. Under the arrangement, GNX takes zero market risk (EA will buy, sell and dispatch) but will be responsible for O&M and uptime.

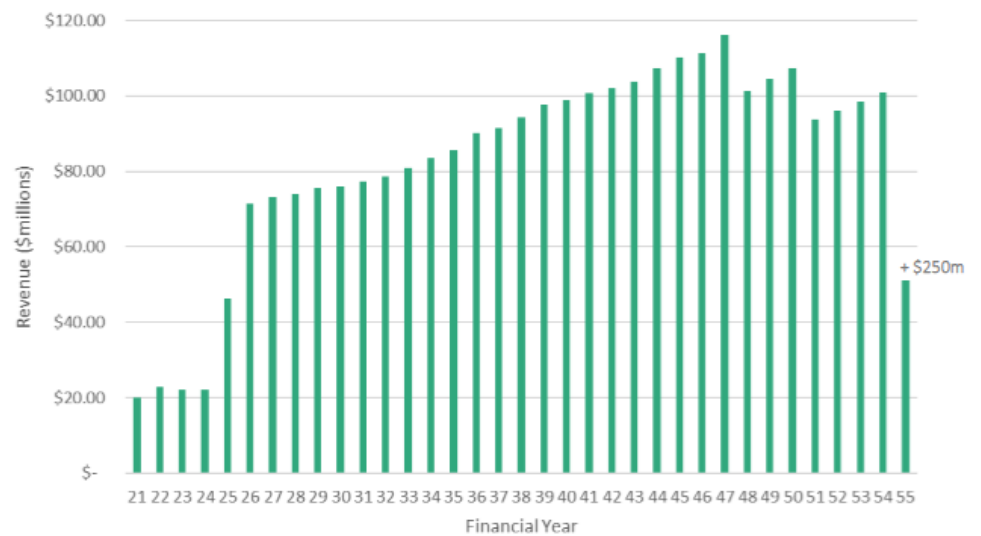
Figure 3: Genex asset base and development pipeline



Source: Company reports

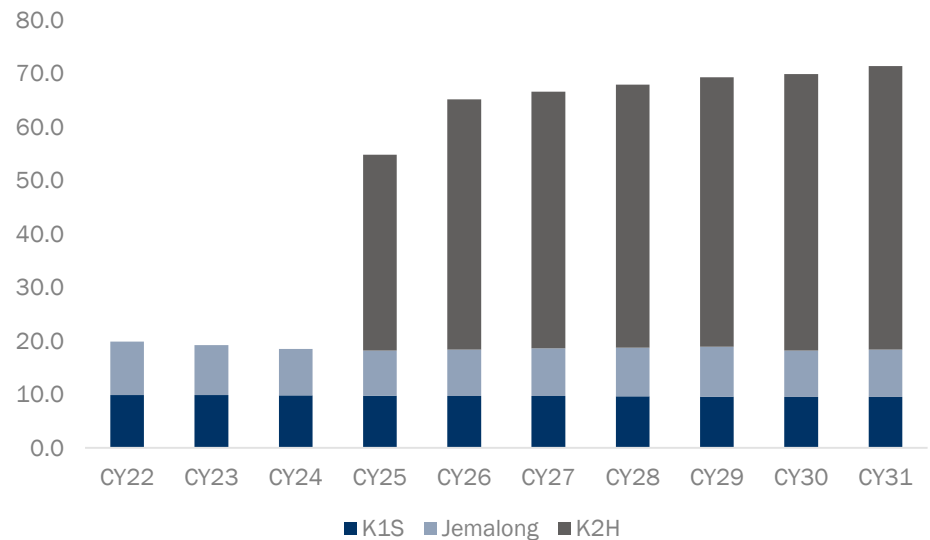
Based on the forecasts presented in Figure 3, GNX expects to generate a group EBITDA margin of 79%.

Figure 4: GNX's forecast sales revenue (\$mn)



Source: Company reports

Figure 5: Operational EBITDA forecasts (\$mn)



Source: Company reports, Canaccord Genuity estimates

Figure 6: International renewable comps

		Market Cap (US\$m)	Cash (US\$m)	Debt (US\$m)	Factset EV Estimate (US\$m)	2020 EBITDA (US\$m)	2021e EBITDA (US\$m)	2022e EBITDA (US\$m)	2023e EBITDA (US\$m)	EV / 2021 EBITDA (x)	EV / 2022 EBITDA (x)
Generators and Gentailors											
Contact Energy	CEN-NZE	4,218	13	771	4,697	297.3	347.5	359.1	357.1	13.5	13.1
Meridian Energy	MEL-NZE	10,455	113	1,154	11,643	563.4	507.7	533.8	545.4	22.9	21.8
Mercury	MCY-NZE	6,657	51	831	7,555	325.2	373.1	407.3	415.7	20.3	18.6
Trustpower	TPW-NZE	1,941	5	392	2,398	139.9	155.6	158.2	146.3	15.4	15.2
Tilt Renewables	TLT-NZE	2,156	415	237	1,973	50.9	50.9	81.3	#N/A	38.7	24.3
Innergex Renewable Energy	INE-TSX	3,174	180	3,914	6,980	442.6	493.7	515.7	540.1	14.1	13.5
Boralex Energy	BLX-TSX	3,532	217	2,961	6,141	411.5	441.0	461.3	497.0	13.9	13.3
TransAlta Renewables	RNW-TSX	4,224	457	696	4,489	365.9	391.6	407.4	408.6	11.5	11.0
NextEra Energy Partners	NEE-USA	153,463	1,163	48,632	213,926	10140.2	11525.2	12458.9	13338.5	18.6	17.2
Acciona	ANA-MCE	9,558	2,948	9,008	16,007	1348.4	1527.9	1706.7	1909.9	10.5	9.4
Iberdrola EDP Renováveis	IBE-MCE	90,444	5,634	49,138	148,816	12503.0	13293.8	14587.4	15478.0	11.2	10.2
Huaneng Renewables Corporation	902-HKG	8,471	2,121	44,406	51,116	5498.4	6751.8	7249.3	7929.5	7.6	7.1
China Datang Corporation	1798-HKG	1,415	475	10,180	11,677	1184.0	1410.3	1506.2	1623.2	8.3	7.8
Dong Energy	ORSTED-CSE	67,452	5,153	9,049	71,791	2927.3	3880.5	3617.3	4195.8	18.5	19.8
Malakoff Energy	5264-KLS	1,022	1,104	2,908	2,880	514.6	509.5	507.3	466.4	5.7	5.7
Median										13.9	13.3

Source: Company reports, Canaccord Genuity estimates

Figure 7: Valuation build-up (free-cash-flow to equity based)

Asset	Equity %	Net Capacity MW	Risk %	Risked FCF to equity A\$m	Risked FCF to equity A\$ps
K1-Solar	100%	50	100%	40.7	0.04
Jemalong	100%		100%	30.2	0.03
GENERATION		50		71.0	0.06
K2-Hydro	100%	250	100%	163.9	0.15
K2-Solar	100%	270	0%	0.0	0.00
K2-Wind	100%	270	0%	0.0	0.00
Bouldercombe Battery	100%	50	50%	10.0	0.01
DEVELOPMENT ASSETS		520		173.9	0.16
EV adjustments					0.13
Premium / (Discount)					0.00
PRICE OBJECTIVE					0.36

Source: Company reports, Canaccord Genuity estimates

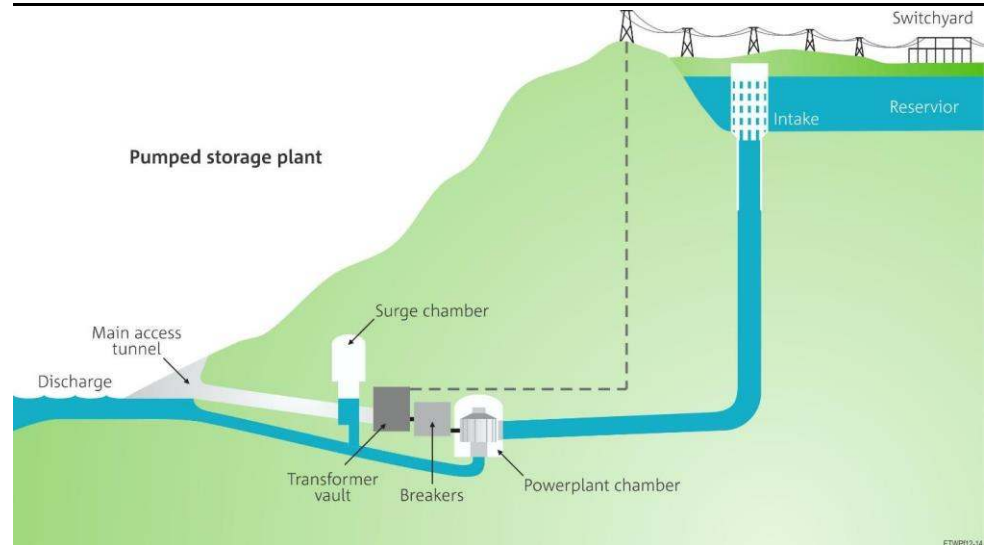
Appendix 1: Pumped hydro

Pumped hydro systems work through the principle of storing the gravitational potential energy of water by pumping it to high elevations from a lower elevation. Upon discharge, the energy is recovered by allowing the water to fall and release its stored energy.

The basics

Conventional pumped hydro storage systems (Figure 8) like K2-Hydro use two water reservoirs at different elevations to pump water during low cost or off-peak hours from the lower to the upper reservoir (charging). When required, such as during periods of high electricity demand, the water is released to the lower reservoir to turn turbines with a generator to produce electricity (discharging): similar to the way in which conventional hydropower plants generate electricity. There are different options for the upper and lower reservoirs: for example, high dams may be used as pumped hydro storage plants, while the lower reservoir may capitalise upon flooded mine shafts, other underground cavities and the open sea.

Figure 8: Schematic of a pumped hydro energy storage installation



Source: CSIRO

Maturity and application

Pumped hydro energy storage is a mature technology. The first plants were used in Italy and Switzerland in the 1890s. By 1933, reversible pump turbines with motor-generators were available. A seawater pumped hydro plant was first built in Japan in 1999.

Pumped hydro storage is the largest and most widespread energy storage technology in the world. It is the only technology that is currently capable of storing energy up to multiple GWh scale. With more than 127 GW worldwide, pumped hydro storage power plants represent nearly 97% of worldwide installed electrical storage capacity, which is about 3% of global generation capacity.

Many existing pumped hydro storage plants store at least six hours or more of energy, making them useful for bulk power management, load levelling and providing firm capacity. Pumped hydro storage can also ramp rapidly while generating, making it useful for load following or levelling, and providing ancillary services such as contingency spinning reserve and frequency regulation.

The Tumut Hydroelectric Power Station 3 in New South Wales is an open-loop pumped hydro system that was the first pumped storage hydroelectric power station built in Australia. It can generate 1,500 MW of electricity through six Toshiba

turbines. Additional systems at Shoalhaven (240 MW) and Kangaroo Valley (160 MW) in New South Wales, and Wivenhoe (500 MW) in Queensland also are in operation.

Pumped hydro storage has historically been used by electric utilities to reduce total generation cost by time shifting and to control grid frequency. A conventional installation cannot function as a frequency controller while pumping, but an advanced, variable speed-control installation can do so by varying the rotational speed of the motor. Typical discharge times of pumped hydro storage range from several hours to a few days. The efficiency of pumped hydro plants is in the range of 70–85%.

Appendix: Important Disclosures

Analyst Certification

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Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: April 26, 2021, 16:30 ET

Date and time of production: April 26, 2021, 01:38 ET

Target Price / Valuation Methodology:

Genex Power Limited - GNX

Our price target is based on a sum-of-the-parts analysis.

Risks to achieving Target Price / Valuation:

Genex Power Limited - GNX

Energy policy risk: Australian energy policy has been extremely politicized over the last decade. Policy changes (both at a federal and state level) have occurred on numerous occasions. While we are hopeful that the NEG can provide the certainty craved by industry this outcome is far from certain.

Regulatory approval risk: Kidston is subject to a number of regulatory approvals which could slow the pace of development.

Pricing risk: Electricity and green credit pricing are historically volatile. While this risk can be mitigated by securing long-term offtake agreements for relevant parts of the project, this could result in lower or higher ultimate returns.

Technology risk: Pumped hydro and solar PV are mature technologies. Future advances in other technologies used to generate, manage and store electricity (e.g., large-scale battery storage) may be more efficient and/or more cost-effective and could adversely impact GNX's finances.

Development risk: the construction of a large development in remote QLD carries both budget and schedule risks. We believe the company will seek to minimise these risks through appropriate contracting strategies.

Operational risk: GNX will be subject to operational risks which are beyond its control. Operations may be curtailed or cancelled as a result of adverse weather conditions, mechanical difficulties, shortages or cost increases of consumables, external services failure (including energy and water supply), IT system failures etc. This risk is partially mitigated by having an experienced management team and using experienced contractors to plan for and manage such events.

Key personnel risk: A number of staff in GNX's management team has significant energy and/or hydroelectric industry experience and expertise. If one or more of these key personnel were to depart, it may be difficult to replace them adequately, in which case there could be an adverse effect on GNX's ability to execute its strategic plans.

Financing risk: GNX will require future financing to pursue its development plans. There is no guarantee that funding will be available on satisfactory terms, which could result in the Kidston Project not proceeding.

Distribution of Ratings:

Global Stock Ratings (as of 04/26/21)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	604	64.46%	40.56%
Hold	162	17.29%	20.37%
Sell	14	1.49%	28.57%
Speculative Buy	144	15.37%	68.06%
	937*	100.0%	

*Total includes stocks that are Under Review

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the Global Stock Ratings table)

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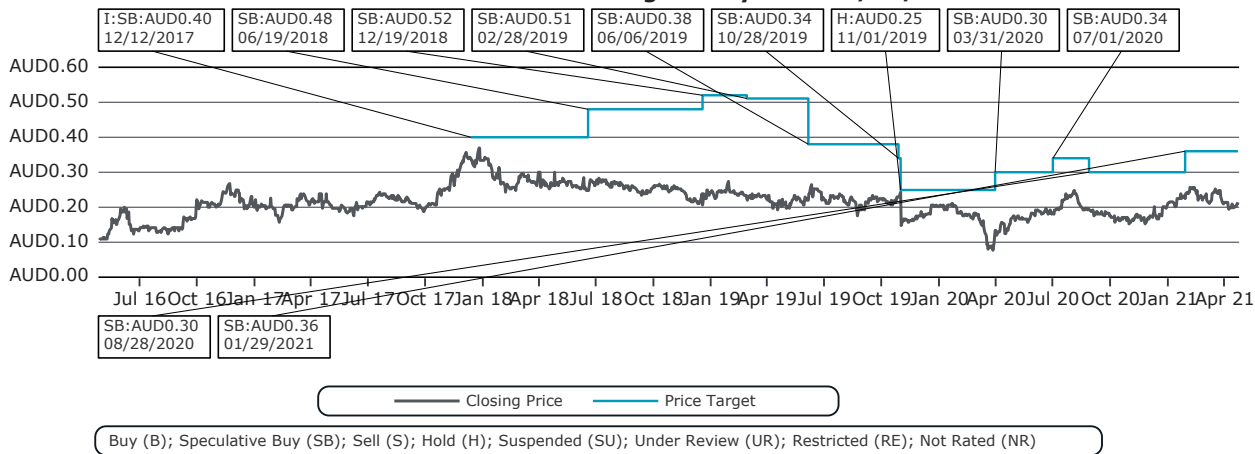
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Canaccord Genuity or one or more of its affiliated companies intend to seek or expect to receive compensation for Investment Banking services from Genex Power Limited in the next three months.

Canaccord Genuity (Australia) Limited has received a fee as Joint Lead Manager to the Genex Power Limited Capital Raising announced 24 March 2021.

Genex Power Limited Rating History as of 04/23/2021



Required Company-Specific Disclosures (as of date of this publication)

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In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

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