Analyst
Joseph House 613 9235 1624
(change of analyst)

Authorisation
Jonathan Snape 613 9235 1601

Genusplus Group Ltd (GNP)

Power to the people

Recommendation
Buy (unchanged)
Price
$0.91
Target (12 months)
$1.18 (previously $1.72)

GICS Sector

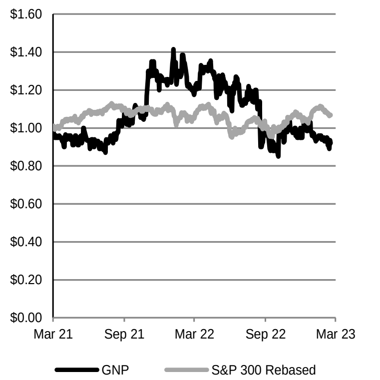
Commercial Services and Suppliers

Expected Return	
Capital growth	**29.2%**
Dividend yield	**2.4%**
Total expected return	**31.6%**
Company Data & Ratios	
Enterprise value	**$160m**
Market cap	**$162m**
Issued capital	**178m**
Free float	**43.4%**
Avg. daily val. (52wk)	**$60,430**
12 month price range	**$0.8475-1.375**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.95	0.98	1.22
Absolute (%)	-2.6	-6.1	-24.6
Rel market (%)	0.7	-5.9	-27.7

Absolute Price



SOURCE: IRESS

Transfer of coverage; positive view maintained

We have transferred GNP analyst coverage; we maintain our Buy recommendation with a Target Price of $1.18/sh (previously $1.72/sh). Our updated investment thesis is underpinned by: (1) a strong EPS growth outlook beyond FY23, with growth of +77% in FY24 and +22% in FY25, driven by an increasing revenue profile to capture large-scale power infrastructure development activity on the east coast of Australia, and as labour and material cost relief materialise; (2) ongoing profitability improvements and scaling of the company's Communications division which has undergone restructuring during FY22 and early FY23; (3) a well-capitalised balance sheet to support further EPS and value accretive acquisitions; and (4) an unwarranted relative valuation discount of ~50% compared with sector peers (considering EV/EBITDA). Our EPS changes reflect revisions to our revenue growth, EBITDA margin and D&A expense outlook: FY23 -43%; FY24 -17%; and FY25 -5%.

FY23: a year of consolidation and margin stabilisation

We expect FY23 will be a year of revenue growth moderation as the company completes the restructuring of its Communications division to improve profitability, and as it integrates the recent L&M Powerline Construction acquisition (announced January 2023). Gross profit and EBITDA margins have already started to show signs of stabilisation with notable improvements in raw material expense and indirect costs (as a % of revenue) in 1H FY23. Beyond FY23, GNP's order book and tender pipeline implies increasing recurring work activities and delivery of large-scale projects, including Transgrid's HumeLink 500kv Transmission Project in NSW.

Investment thesis: Buy, TP$1.18/sh (prev. $1.72/sh)

GNP is leveraged to increasing renewable power, battery energy storage and transmission infrastructure investment on the east coast of Australia, which extends from its mature Western Australian power infrastructure operations, where it services Resources-focussed customers. GNP is well positioned to scale its recently restructured Communications and Industrial Services divisions via potential NBN opportunities and EPC delivery of battery energy storage projects, respectively.

Earnings Forecast

Year ending 30 June	2022a	2023e	2024e	2025e
Sales (A$m)	451	454	493	544
EBITDA (A$m)	35	32	49	57
NPAT (reported) (A$m)	14	12	23	29
NPAT (adjusted) (A$m)	15	13	23	28
EPS (adjusted) (¢ps)	9.1	7.3	13.0	15.8
EPS growth (%)	-18.2%	-19.2%	76.9%	21.9%
PER (x)	10.0x	12.4x	7.0x	5.8x
FCF Yield (%)	-9.4%	8.4%	5.0%	19.5%
EV/EBITDA (x)	4.6x	5.0x	3.3x	2.8x
Dividend (¢ps)	1.8	2.2	2.4	3.0
Yield (%)	2.0%	2.4%	2.6%	3.3%
Franking (%)	100%	100%	100%	100%
ROE (%)	19%	13%	21%	22%

SOURCE: BELL POTTER SECURITIES ESTIMATES

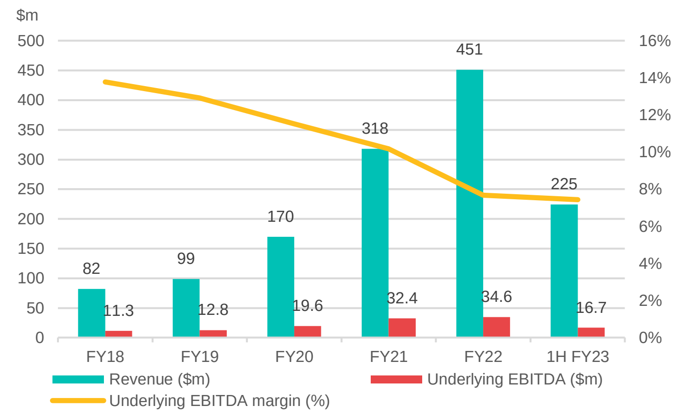
Power to the people

Table 1 – 1H FY23 result summary

Period ending	Jun-21(a)	Dec-21(a)	Jun-22(a)	Jun-22(a)	Dec-22(a)	YoY(Δ%)
Half/Full year	FY	HY	HY	FY	HY	
Revenue $m	**318.2**	216.6	234.3	**450.9**	224.5	4%
Underlying EBITDA $m	**32.4**	19.3	15.4	**34.6**	16.7	-13%
Underlying NPAT $m	**17.2**	9.7	5.0	**14.7**	7.8	-19%
Underlying EPS cps	**11.1**	6.2	3.0	**9.1**	4.4	-29%
Reported NPAT $m	**13.3**	9.2	4.4	**13.6**	6.4	-30%
Reported EPS cps	**8.6**	5.9	2.5	**8.4**	3.6	-39%
DPS cps	**1.8**	0.0	1.8	**1.8**	0.0	
Net debt / (net cash) (excluding leases) $m	**-27.3**	-21.2	-22.7	**-22.7**	-23.1	

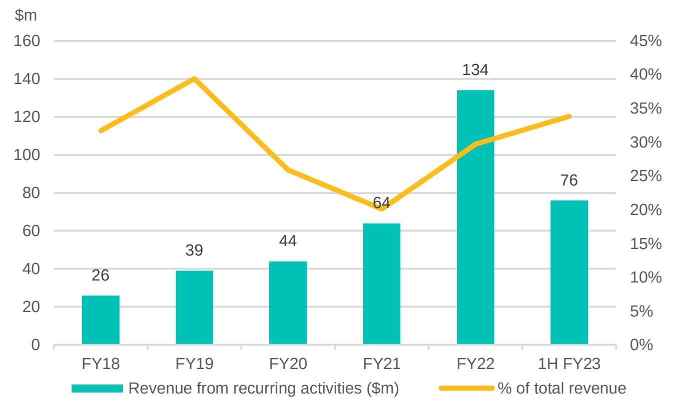
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 1 - Revenue, underlying EBITDA & EBITDA margin



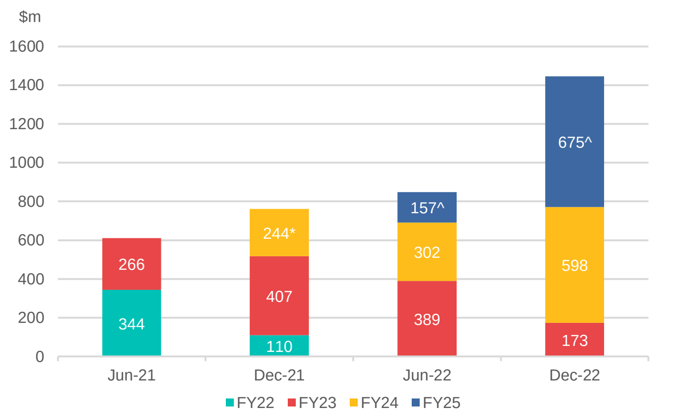
SOURCE: COMPANY DATA

Figure 2 - Revenue from recurring activities



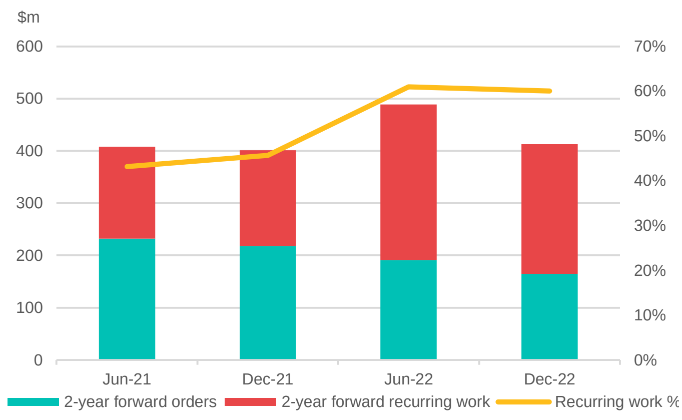
SOURCE: COMPANY DATA

Figure 3 - Tender pipeline over time



SOURCE: COMPANY DATA
NOTE: * FY24+; AND ^ FY25+

Figure 4 - Order book over time: Orders vs recurring work



SOURCE: COMPANY DATA

Key observations from the 1H FY23 financial update

Revenue slightly higher than the pcp: Infrastructure (power) division revenues were $163.8m, down 6.5% pcp, to due to major project completions, timing of new project awards and exceptional wet weather on the east coast of Australia (representing headwinds for Pole Foundations Australia). Industrial Services segment revenues were $43.4m, up 34% pcp. And Communications business revenues were $28.8m, up 24% pcp, as the company continues to deliver into its Telstra Supply Agreement (acquired through the Tandem Corp asset sale) and the Telstra Copper Recovery & Recycling Project.

Margins showing signs of stabilisation: Gross profit margin compression has slowed considerably compared to prior halves, with cost pressures from raw materials and consumables easing. This easing in cost pressures was partially offset by persistent labour cost pressures. EBITDA margins of 7.4% lifted on the prior half (6.6%), however remain below 1H FY22 levels of 8.9%. HoH EBITDA margin expansion was due to lower indirect costs (as a % of revenue).

Communications division restructured: The Communications segment was restructured in early FY23, resulting in improved operational and financial performance in the December 2022 quarter. GNP expects this performance to continue in 2H FY23.

Cash flow and balance sheet update: Operating cash flows (including net interest payments) were $13.7m, up from $4.9m pcp, due to working capital movements and a tax refund (following an increase in the 2020 and 2021 carrying tax base of PPE impacting its DTA position and a consequential tax expense reduction). Capital expenditures were $6.3m ($4.9m debt funded), which compares with $10.7m in 1H FY22 ($9.2m debt funded). GNP ended December 2022 with cash of $27.9m and leases and debt of $26.1m, for net cash of $1.8m.

Order book and tender pipeline update: At 31 December 2022, GNP's order book was $413m: comprising $215m for FY23; and $198m for FY24. Of this order book, recurring works are expected to be $80m in 2H FY23, up from $76m in 1H FY23, and $168m for FY24m. GNP has successfully grown its revenue generation from recurring works each year since FY19, and now represents ~34% of 1H FY23 revenue. GNP reported a tender pipeline of ~$1.4b, split $173m for FY23, $598m for FY24 and $675m for FY25+. See Figure 3 for the historical growth trend in GNP's tender pipeline.

L&M Powerline Constructions acquisition complete: GNP completed the acquisition of L&M Powerline Constructions in January 2023 for $3m cash. L&M Powerline Constructions is expected to generate $5-7mpa of revenue and will provide GNP with exposure to long-term working relationships with global blue chip resources and energy companies in Queensland. L&M Powerline Constructions specialises in delivery of EPC and maintenance work for overhead and underground power infrastructure.

Notable project involvement: GNP's current and upcoming contract deliveries include:

- The design and construction of a 275kv substation at the Green Energy Manufacturing Centre in Gladstone, Queensland, for Fortescue Future Industries (contract value $15m).
- The 330kv Transmission Project for the Rye Park Wind Farm.
- Design and construction of a 220kv transmission line and substation for Rio Tinto's (RIO, not rated) Kangaroo Hill Project (contract value $63m).

Major project awarding: GNP was selected as a preferred proponent (through its Joint Venture with Acconia Construction Australia and Kalpataru Power Transmission) to deliver Transgrid's HumeLink 500kv Transmission project (project cost estimated at $3.3b). The contract with Transgrid and the terms of the JV agreement are yet to be finalised.

Investment thesis and recommendation

Investment thesis: Buy, TP$1.18/sh (prev. $1.72/sh)

Following a change in analyst, we maintain our Buy rating, noting the following drivers:

Significant power infrastructure development pipeline to support activity: We forecast Group revenue CAGR of 6.4% over the forecast period driven by significant investment in renewable energy projects, battery energy storage systems and electricity transmission developments. This investment should translate to initial design and construction work streams during development phase, as well as the recurring maintenance activities that follow. The following forecasts and Government funding programs indicate positive activity support for GNP:

- The Australian Energy Market Operator's (AEMO) 2022 Integrated System Plan report forecasts over 10,000km of new transmission lines will be required to be built by 2050 to enable Australia's energy transition to net zero.
- Replacement dispatchable capacity of 47 GW from battery and hydro storage is required to firm renewable energy sources as coal-fired generation is phased out by 2050. The system currently has 23 GW of coal-fired generation capacity.
- The Australian Government's $20b Rewiring the Nation program will support transmission project and Renewable Energy Zone developments on the east coast.

Cost relief to support profitability: Our earnings outlook is supported by a reversal in gross profit, EBITDA and NPAT margin compression observed over FY21-22, during which labour and material procurement cost inflation, exceptional weather events - which impacted productivity - and integration of the Tandem Corp assets and contracts weighed on profitability. Normalising labour market conditions is a key driver of improvements in our earnings margin outlook, however, we do not expect this trend to occur until 2H FY24.

Communications business profitability to improve following restructure: Following a cost-heavy restart and integration of the Tandem Corp assets and acquired contracts (which generated an EBITDA loss of $3.3m in FY22), we expect ongoing delivery of services under the Telstra Supply Agreement and further cost optimisation to lift operating margins for the company's Communications segment and the Group.

Earnings diversification: GNP should continue to report a growing share of its revenues generated from operations across the east coast of Australia. This expectation extends from prior year revenues generated across this region: ~31% of revenue in 1H FY23; 22% of revenue in FY22; and 7% of revenue in FY21. Scaling of GNP's Communications and Industrial Services divisions would likely drive earnings diversification.

Capital-light operating model: GNP's operations have historically required low levels of capital expenditure (~3% of revenue) for sustaining and growth requirements, which compares favourably with capital-heavy businesses in the Mining Services sector (typically 5-10%+ of revenue). This operating model is likely to lead to attractive FCF generation.

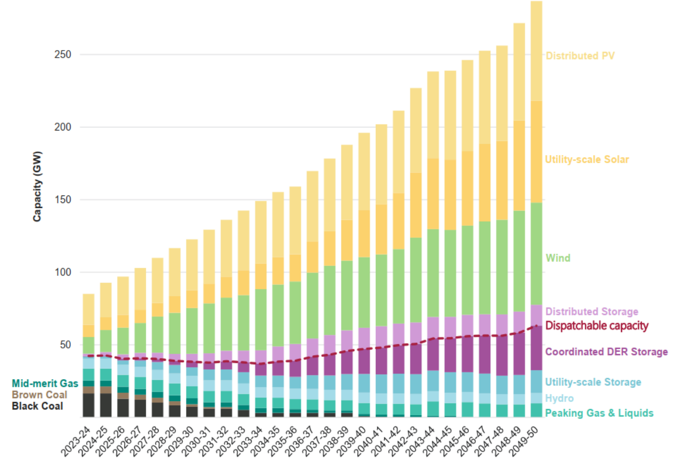
Well capitalised balance sheet: As at 31 December 2022, GNP had cash of $27.9m, net cash (including leases) of $1.8m and a net gearing ratio of -1.9%. GNP's expected financial position should enable the company to meet its capital expenditure needs with capacity to make further EPS and value accretive acquisitions.

GNP grid connection expertise: The company's renewable grid-connection expertise is a competitive advantage and will be used to leverage further work.

Undervalued compared with Mining Services sector: GNP currently trades at a ~50% discount to its Mining Services sector peers across average FY24-25 valuation multiples. We believe this discount is unwarranted given the drivers mentioned above.

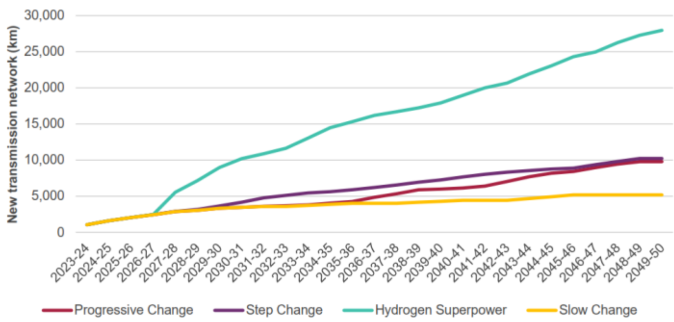
Key charts & development outlook

Figure 5 - Step Change scenario: Forecast NEM capacity to 2050



SOURCE: AUSTRALIAN ENERGY MARKET OPERATOR - INTEGRATED SYSTEM PLAN 2022 REPORT

Figure 6 - New transmission network required in the ODP*



SOURCE: AUSTRALIAN ENERGY MARKET OPERATOR - INTEGRATED SYSTEM PLAN 2022 REPORT
NOTE:* AEMO'S OPTIMAL DEVELOPMENT PLAN

Table 2 - AEMO: Committed & anticipated ISP electricity transmission projects

Committed and anticipated ISP projects	Proponent	Delivery date*	Regulatory status	Description
VNI Minor: Victoria - New South Wales Interconnector Minor upgrade	Transgrid	November 2022	Committed	An incremental upgrade to the transfer capacity of the existing VNI
Eyre Peninsula Link	ElectraNet	Early 2023	Committed	A network upgrade that will improve reliability and network capacity on the Eyre Peninsula in South Australia
QNI Minor: - Queensland - New South Wales Interconnector Minor upgrade	Transgrid	Mid-2023	Committed	An incremental upgrade to the transfer capacity of the existing QNI
Northern QREZ Stage 1	Powerlink	September 2023	Anticipated	A network upgrade to provide additional capacity to the Far North Queensland REZ
Central West Orana REZ Transmission Link	TransGrid	July 2025	Anticipated	A network upgrade to provide additional capacity to the Central West Orana REZ
Project EnergyConnect	Transgrid / ElectraNet	July 2026	Anticipated	A new 330 kilovolt (kV) double-circuit interconnector between South Australia and New South Wales
Western Renewables Link	Ausnet	July 2026	Anticipated	A network upgrade to provide additional capacity to the Western Victoria REZ

SOURCE: AUSTRALIAN ENERGY MARKET OPERATOR - INTEGRATED SYSTEM PLAN 2022 REPORT; AND BELL POTTER SECURITIES ESTIMATES
NOTES: *REFLECTS THE LATEST PROJECT TIMING FOR THE FULL RELEASE OF CAPACITY AS ADVISED BY THE RELAVENT TRANSMISSION NETWORK SERVICE PROVIDER

Table 3 - AEMO: Actionable electricity transmission projects

Actionable projects	Proponent	Delivery date*	Cost estimate	Description
HumeLink	Transgrid	July 2026	$330 million (stage 1) and $2,985 million (stage 2)	A 500 kV transmission upgrade connecting Project EnergyConnect and the Snowy Mountains Hydroelectric Scheme to Bannaby
Sydney Ring#	Transgrid	July 2027	$0.9 billion ±50% for northern option, and $2.25 billion ±50% for southern alternative option	High capacity 500 kV transmission network to reinforce supply to Sydney, Newcastle and Wollongong load centres
New England REZ Transmission Link	Transgrid	July 2027	$1.9 billion ±50%	Transmission network augmentations as defined in the New South Wales Electricity Strategy
Marinus Link	TasNetworks	Cable 1: July 2029; Cable 2: July 2031	$2.38 billion ±30% (cable 1) and $1.40 billion ±30% (cable 2)	Two new HVDC cables connecting Victoria and Tasmania, each with 750 MW of transfer capacity and associated alternating current (AC) transmission
VNI West (Via Kerang)	Transgrid	July 2031; or earlier with additional support	$491 million (stage 1) and $2.5 billion (stage 2)	A new high capacity 500 kV double-circuit transmission line to connect Western Renewables Link (north of Ballarat) with Project EnergyConnect (at Dinawan) via Kerang

SOURCE: AUSTRALIAN ENERGY MARKET OPERATOR - INTEGRATED SYSTEM PLAN 2022 REPORT; AND BELL POTTER SECURITIES ESTIMATES
NOTES: *REFLECTS THE LATEST PROJECT TIMING FOR THE FULL RELEASE OF CAPACITY AS ADVISED BY THE RELAVENT TRANSMISSION NETWORK SERVICE PROVIDER
#THE NORTHERN PART OF THIS PROJECT IS NAMED THE HUNTER TRANSMISSION PROJECT AND MAY INCLUDE THE WARATAH SUPER BATTERY AND RELATED UPGRADES

Changes to estimates & valuation

Earnings changes

We have updated our GNP financial model, incorporating the 1H FY23 financial result update. We have also made the following key changes:

- Rebased our revenue growth assumptions; and
- Rebased our EBITDA margin and D&A assumptions.

Table 4 - Changes to earnings estimates

	Previous			New			Change		
Year ending 30 June	**FY23**	**FY24**	**FY25**	**FY23**	**FY24**	**FY25**	**FY23**	**FY24**	**FY25**
Revenue $m	510	541	574	**454**	**493**	**544**	-11%	-9%	-5%
EBITDA (underlying) $m	46	53	57	**32**	**49**	**57**	-30%	-8%	0%
NPAT (underlying) $m	23	28	30	**13**	**23**	**28**	-43%	-17%	-5%
EPS (underlying) cps	12.9	15.6	16.7	**7.3**	**13.0**	**15.8**	-43%	-17%	-5%
DPS cps	2.4	2.5	2.6	**2.2**	**2.4**	**3.0**	-8%	-4%	15%
Valuation $/sh		1.72			**1.18**			-32%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Valuation changes

We lower our Target Price to $1.18/sh (previously $1.72/sh), reflecting the changes listed above and an updated financial position. We have applied a higher WACC (nominal) assumption of 11.7% for our DCF models used to derive a GNP valuation, up from 11.4% (previous update). We maintain our Buy recommendation.

Valuation methodology & assumptions

Business segment assumptions

The table below outlines our GNP sum of the parts valuation. We have valued GNP's Power Services, Communication Services and Industrial Services business units. Each segment is valued using DCF modelling, applying a nominal WACC of 11.7% and a nominal terminal growth rate of 2.0% per annum. We have not forecast earnings growth from acquisitions; EPS accretive acquisitions are considered upside to our base case valuation assumptions.

Infrastructure (Power): We forecast a revenue CAGR of 4.6% over FY22-25, reflecting execution of a growing pipeline of recurring work streams from East Coast utilities and Western Australian mining projects and large-scale power infrastructure developments, including interconnector and backbone electrical transmission projects. EBITDA margins are expected to remain around 10-11% between FY23-25 . As is the case with GNP's other segments, Infrastructure should maintain its capital-light operating model over the forecast period, with capital expenditure as a percentage of revenue of ~3.0%.

Communications: CAGR of 7.7% is expected over FY22-25 driven by servicing of Tandem Corp contracts (including provision of field services to Telstra customers), ongoing activities with Telstra via the copper Recovery & Recycling Project and Telstra Blackspot and Regional Connectivity program, and new work streams from potential NBN Operate & Maintain contracts and the 5G infrastructure rollout. We forecast EBITDA margins to grow to ~6.0% by FY25, from around -6% in FY22 (BPe), driven by cost optimisation and increasing scale.

Industrial Services: Delivery of Battery Energy Storage System EPC contracts, Electrical, Instrumentation and Control activities, and hybrid power and micro-grid solutions should generate revenue CAGR of 14.3% over FY22-25 for this segment. EBITDA margins should lift to ~8.0% by FY25, from around -27% in FY22 (BPe), driven by increasing scale.

Table 5 - Sum of the parts valuation summary

Diluted shares on issue	178m			
Current valuation	**Previous**		**New**	
	A$m	**A$/sh**	**A$m**	**A$/sh**
Infrastructure (Power)			169	0.95
Communications			14	0.08
Industrial Services			28	0.16
Other assets			7	0.04
Enterprise value			**219**	**1.23**
Net debt / (cash)			10	0.05
Total equity value	**296**	**1.72**	**209**	**1.18**
Current share price				0.91
Upside to current share price				29%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

VALUATION CROSS-CHECK

Table 6 - Valuation cross-check

Multiple comparisons	FY23	FY24	FY25
P/E (BPe)	12.4x	7.0x	5.8x
Mining services sector P/E mean	14.7x	12.2x	11.2x
EV/EBITDA (BPe)	5.0x	3.3x	2.8x
Mining services sector EV/EBITDA mean	6.8x	6.1x	5.8x
P/E premium (discount) to Mining Services sector	**-15%**	**-43%**	**-49%**
EV/EBITDA premium (discount) to Mining Services sector	**-27%**	**-47%**	**-51%**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

The table above compares GNP's current market valuation against the average Mining Services sector rating, considering PE and EV/EBITDA multiples. GNP currently trades at a ~50% discount to its Mining Services sector peers across average FY24-25 valuation multiples. We believe this discount is unwarranted given the following reasons:

Significant power infrastructure development pipeline to support activity: GNP is a beneficiary of significant investment in renewable energy projects, battery energy storage systems and electricity transmission projects. This investment should translate to initial work streams during construction phase, as well as succeeding recurring maintenance contracts. The Australian Energy Market Operator's (AEMO) 2022 Integrated System Plan report forecasts over 10,000km of new transmission lines will be required to be built by 2050, double the length of the National Electricity Market's (NEM) existing interconnected power systems between Port Douglas, Queensland, and Port Lincoln, South Australia. The Australian Energy Market Commission (AEMC) considers this existing system to be one of the largest power networks globally. The Australian Government's Rewiring the Nation policy, a $20b funding program, and other Government mechanisms should enable and accelerate these large-scale electrical transmission developments.

Cost relief to support profitability: Our earnings outlook is supported by a reversal in gross profit, EBITDA and NPAT margin compression observed over FY21-22, during which labour and material procurement cost inflation, exceptional weather events - which impacted productivity - and integration of the Tandem Corp assets weighed on profitability. Normalising labour market conditions is a key driver of expected margin improvement.

Communications business profitability to improve following restructure: Following a cost-heavy restart and integration of the Tandem Corp assets and acquired contracts (which generated an EBITDA loss of $3.3m in FY22), we expect ongoing delivery of services under the Telstra Supply Agreement and further cost optimisation to lift operating margins for the company's Communications segment and the Group.

Earnings diversification: GNP should continue to report a growing share of its revenues generated from operations across the east coast of Australia. This expectation extends from prior year revenues generated across this region: ~31% of revenue in 1H FY23; 22% of revenue in FY22; and 7% of revenue in FY21. Scaling of GNP's Communications and Industrial Services divisions would likely drive earnings diversification.

Capital-light operating model: GNP's operations have historically required low levels of capital expenditure (~3% of revenue) for sustaining and growth requirements, which compares favourably with capital-heavy businesses in the Mining Services sector (typically 5-10%+ of revenue). This operating model is likely to lead to attractive FCF generation (assuming no acquisitions).

Table 7 - Mining Services sector comps

	EV ($m)	EPS growth (%)			EV/EBITDA (x)			P/E (x)			Dividend yield (%)		
		FY23	FY24	FY25	FY23	FY24	FY2e	FY23	FY24	FY25	FY23	FY24	FY25
Capital products													
EHL	662	-10%	31%	7%	2.6x	2.3x	2.2x	6.3x	4.8x	4.5x	4.5%	6.1%	7.9%
ORI	8,448	15%	18%	12%	8.1x	7.5x	7.1x	20.1x	17.0x	15.3x	2.5%	3.0%	3.3%
Exploration													
ALQ	7,435	21%	5%	7%	11.6x	11.0x	10.4x	19.6x	18.6x	17.4x	3.0%	3.2%	3.4%
DDH	410	20%	14%	10%	3.1x	2.9x	2.8x	7.0x	6.1x	5.6x	6.5%	6.7%	7.4%
IMD	1,338	17%	7%	8%	10.2x	8.3x	7.8x	17.8x	16.6x	15.4x	1.3%	1.8%	1.9%
MSV	115	33%	113%	-6%	3.1x	2.8x	2.9x	21.6x	10.1x	10.8x	2.9%	7.2%	6.7%
XRF	135	35%	9%	10%	10.3x	9.4x	8.6x	17.2x	15.9x	14.5x	3.0%	3.3%	3.3%
Contractors													
GNP	**160**	**-1%**	**28%**	**na**	**4.6x**	**3.8x**	**na**	**10.2x**	**8.0x**	**na**	**2.2%**	**3.3%**	**na**
MAD	903	39%	23%	20%	12.4x	10.3x	8.9x	22.9x	18.6x	15.5x	1.2%	1.7%	2.1%
MAH	581	11%	13%	9%	1.9x	1.9x	1.9x	5.2x	4.6x	4.2x	4.5%	5.2%	5.2%
NWH	1,362	7%	9%	5%	4.8x	4.5x	4.3x	11.2x	10.3x	9.9x	6.2%	6.2%	6.2%
PRN	1,342	57%	7%	5%	2.5x	2.4x	2.4x	6.6x	6.1x	5.9x	0.4%	1.2%	2.9%
Engineering													
ANG	236	48%	23%	10%	5.7x	4.7x	4.4x	9.1x	7.4x	6.8x	1.4%	1.9%	1.9%
DOW	3,684	-23%	34%	20%	6.1x	5.4x	5.0x	14.0x	10.5x	8.7x	4.4%	6.2%	7.6%
GNG	276	-19%	-4%	na	6.0x	6.5x	na	13.3x	13.8x	na	6.4%	5.9%	na
LYL	255	17%	-6%	7%	5.4x	5.7x	5.4x	11.7x	12.5x	11.7x	6.5%	6.0%	8.3%
MND	1,097	8%	23%	19%	10.0x	8.6x	7.7x	22.5x	18.3x	15.4x	3.9%	4.7%	5.6%
WOR	9,864	-4%	32%	17%	12.6x	11.2x	10.1x	25.9x	19.7x	16.8x	3.2%	3.4%	3.6%
Simple average					6.7x	6.1x	5.7x	14.6x	12.2x	11.1x	3.5%	4.3%	4.8%
Trimmed average (25%)					6.5x	5.9x	5.6x	14.4x	12.2x	11.3x	3.5%	4.3%	4.8%
Median					5.8x	5.5x	5.2x	13.6x	11.5x	11.2x	3.1%	4.0%	4.4%

SOURCE: BLOOMBERG

Summary: Genusplus Group Ltd (GNP)

Company overview & history

GenusPlus Group (GNP) is a service provider to mining, utilities and other private customers who have needs across electrical plant and equipment, power, and telecommunications infrastructure. GNP has five core business segments: Powerlines Plus (PLP) (Overhead Power Infrastructure), Diamond (Underground Power and Telecommunications), Proton Power (HV Testing and Commissioning), and ECM (Electrical Services and Mechanical Fabrication), and more recently the addition of Genus Renewables.

GNP was created in 2018, following a restructuring of its business under a new corporate group. The original founding business of GNP is PLP, which was started by GNP's current MD, David Riches, in 2009. PLP was originally founded to work on remote powerline projects in WA and quickly grew, with it winning work with Horizon Power, Western Power and Rio Tinto over the following years. PLP has moved to grow outside of WA via the acquisitions of Burton Power and Picton Power Lines, which were acquired to gain a foothold in the QLD and NSW markets respectively.

GNP has also moved to expand its service offering, with the company making two acquisitions in underground power and telecommunications lines (Diamond Underground Services and Complete Cabling and Construction), as well as two acquisitions for E&I services (EC&M and Kambalda Electrical Contractors).

Investment thesis: Buy, TP$1.18/sh (prev. $1.72/sh)

GNP is leveraged to increasing renewable power, battery energy storage and transmission infrastructure investment on the east coast of Australia, which extends from its mature Western Australian power infrastructure operations, where it services Resources-focussed clients. GNP is well positioned to scale its recently restructured Communications and Industrial Services divisions via potential NBN opportunities and EPC delivery of battery energy storage projects, respectively.

Valuation methodology

Our GNP valuation is based on discounted cash flow models of the company's Power Services, Communication Services and Industrial Services business units. Key inputs underpinning our DCF valuations include a WACC of 11.7% and a terminal growth rate of 2.0% (both nominal).

Key risk to investment thesis

Risk to Investment Thesis

Key risks to GNP include, although are not limited to:

EPC/Construction risk: The construction industry is inherently risky, and particularly so when EPC contracts are involved. This is exacerbated by the general fixed cost nature of construction contracts. Any unforeseen project costs and delays will thus be borne by the contractor. EPC contracting, and construction contracting more generally, is fraught with examples of major contract disputes which can impact profitability, cash flow and ongoing viability. While GNP appears to have a solid track record of achieving profits, there always remains a risk that materially negative project cash outflows may occur.

Contract completion risk: There is always a risk that unforeseen issues prevent GNP from completing a contract as initially intended, or that a disagreement arises with the party that awarded the contract. This risk has grown as project developers have attempted to shift a greater proportion of risks onto contractors, and is particularly pertinent with EPC contracts, where contractors are responsible for project delivery.

Contract mispricing risk: In addition to customer disputes, GNP could misprice projects for which it tenders. This could result in GNP winning work on uneconomic terms, which may result in GNP recording large losses on some projects that were not originally anticipated. Mispricing could occur as a result of not factoring into account for unforeseen costs, time constraints and project risks. A potential push into larger sized projects increases this risk, as the potential for larger cost overruns and disputes is greater. A cost inflationary environment can increase this risk, particularly when combined with fixed price contracts.

Contract renewal/replenishment risk: In order to maintain revenue, GNP needs to continually win new projects from clients to replace revenue from other projects as they are completed. The amount of work available for tender varies significantly across periods of time as a result of the cyclical nature of client industries and capital expenditures. During times of low construction activity there is a heightened risk that GNP will not be able to replace completed projects with new work. During times of low project activity, margins are also more likely to come under pressure as engineering & construction companies aggressively tender for a smaller supply of opportunities.

Bad debt risk: Given that GNP is not paid entirely upfront for its contracts, there is a risk that a customer(s) will not be able to fully pay GNP for its services in the event that they suffer cash flow issues. This risk is somewhat mitigated when project works are with large companies like Western Power, Telstra and FMG.

Availability and cost of employees/subcontractors risk: During times of an upturn in construction activity, there is a possibility that staff shortages can occur. This may impact GNP's ability to source adequate staff to tender for new projects and increase its revenue. Even if staff are able to be secured, it may require GNP to pay substantially higher rates to both current and newly hired employees/subcontractors in order to secure their services.
Occupational Health & Safety risk: Electrical and construction activity carries with it significant health and safety risks. If not properly mitigated by sufficient safety procedures, there is a risk that employees may suffer serious harm. A lack of proper safety procedures and a proper safety culture would damage employee morale, impact the ability to hire and retain staff, potentially cause litigation risks, and impact a company's social licence.

Commodity price/Macroeconomic risk: Given that GNP provides a significant portion of its services on mining projects, any sustained fall in commodity prices is likely to lead to a reduction in opportunities, and the demand for GNP's services.

Genusplus Group Ltd
as at 3 March 2023

Recommendation	Buy
Price	$0.91
Target (12 months)	$1.18

Table 8 - Financial summary

Date		**3/03/23**
Price	**$/sh**	**0.91**
Target price	**$/sh**	**1.18**

Bell Potter Securities
Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)

PROFIT AND LOSS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
Revenue	**$m**	**318**	**451**	**454**	**493**	**544**
Expenses	$m	(286)	(416)	(421)	(444)	(487)
Underlying EBITDA	**$m**	**32**	**35**	**32**	**49**	**57**
Depreciation & amortisation	$m	(7)	(12)	(15)	(15)	(16)
EBIT	**$m**	**25**	**23**	**18**	**34**	**41**
Net interest expense	$m	(1)	(1)	(1)	(1)	(1)
Profit before tax	**$m**	**24**	**22**	**16**	**33**	**40**
Tax expense	$m	(7)	(7)	(3)	(10)	(12)
NPAT (underlying)	**$m**	**17**	**15**	**13**	**23**	**28**
Adjustments (post-tax)	$m	(4)	(1)	(1)	1	1
NPAT (reported)	**$m**	**13**	**14**	**12**	**23**	**29**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
OPERATING CASH FLOW						
Receipts from customers	$m	318	465	511	479	538
Payments to suppliers and employees	$m	(307)	(451)	(482)	(452)	(485)
Tax paid	$m	(7)	(2)	(3)	(10)	(12)
Net interest	$m	(1)	(1)	(1)	(1)	(1)
Other	$m	2	-	1	0	-
Operating cash flow	**$m**	**6**	**10**	**25**	**16**	**40**
INVESTING CASH FLOW						
Capex	$m	(11)	(5)	(4)	(8)	(8)
Acquisitions	$m	(2)	(20)	(8)	-	-
Disposal of assets	$m	1	1	1	-	-
Other	$m	(0)	(1)	(1)	(1)	-
Investing cash flow	**$m**	**(12)**	**(24)**	**(12)**	**(8)**	**(8)**
Free cash flow	***$m***	***(6)***	***(14)***	***14***	***8***	***31***
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	4	(2)	2	-	-
Dividends paid	$m	-	(3)	(7)	(4)	(5)
Proceeds from share issues (net)	$m	-	19	-	-	-
Other	$m	(3)	(7)	(8)	(8)	(8)
Financing cash flow	**$m**	**1**	**7**	**(13)**	**(12)**	**(13)**
Change in cash	**$m**	**(6)**	**(6)**	**0**	**(4)**	**18**

BALANCE SHEET

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
ASSETS						
Cash	$m	34	28	28	24	42
Receivables	$m	58	69	50	66	72
Inventories	$m	2	4	5	5	5
Property, plant & equipment	$m	16	18	21	22	23
Intangibles	$m	6	34	31	28	26
Other assets	$m	40	80	65	67	70
Total assets	**$m**	**156**	**232**	**200**	**212**	**238**
LIABILITIES						
Payables	$m	64	73	36	30	33
Borrowings	$m	7	5	8	8	8
Provisions	$m	0	1	0	0	0
Leases	$m	13	22	21	20	21
Other liabilities	$m	14	38	36	35	35
Total liabilities	**$m**	**98**	**139**	**101**	**94**	**97**
NET ASSETS	**$m**	**58**	**93**	**99**	**118**	**142**
Share capital	$m	29	54	55	55	55
Reserves	$m	(1)	(0)	(0)	(0)	(0)
Retained earnings	$m	29	40	44	63	87
SHAREHOLDER EQUITY	**$m**	**58**	**93**	**99**	**118**	**142**
Weighted average shares	m	155	162	177	177	177

FINANCIAL RATIOS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
VALUATION						
EPS (adjusted)	c/sh	11.1	9.1	7.3	13.0	15.8
EPS growth (Acps)	%	na	-18.2%	-19.2%	76.9%	21.9%
PER	x	8.2x	10.0x	12.4x	7.0x	5.8x
DPS	c/sh	1.8	1.8	2.2	2.4	3.0
Franking	%	100%	100%	100%	100%	100%
Yield	%	2.0%	2.0%	2.4%	2.6%	3.3%
FCF/share	c/sh	(4.0)	(8.5)	7.6	4.5	17.7
FCF yield	%	-4.4%	-9.4%	8.4%	5.0%	19.5%
EV/EBITDA	x	4.9x	4.6x	5.0x	3.3x	2.8x
NTA	$/sh	0.34	0.37	0.39	0.51	0.65
P/NTA	x	2.7x	2.5x	2.4x	1.8x	1.4x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(14)	(1)	1	4	(13)
Net debt / Equity	%	-24.8%	-0.8%	0.6%	3.7%	-9.4%
Net debt / Net debt + Equity	%	-32.9%	-0.8%	0.6%	3.6%	-10.3%
Net debt / EBITDA	x	-0.4x	0.0x	0.0x	0.1x	-0.2x
EBITDA /net interest expense	x	46.0x	32.4x	22.6x	36.2x	46.0x
PROFITABILITY RATIOS						
EBITDA margin	%	10.2%	7.7%	7.1%	10.0%	10.4%
EBIT margin	%	7.9%	5.0%	3.9%	6.9%	7.6%
Return on assets	%	12.8%	7.6%	6.0%	11.1%	12.4%
Return on equity	%	34.0%	19.5%	13.5%	21.1%	21.5%
Return on invested capital	%	63.1%	33.9%	17.3%	30.4%	33.5%

ASSUMPTIONS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
Power Services						
Revenue	$m	294	349	332	362	399
Operating EBITDA	$m	29	36	33	40	44
Operating EBITDA margin	%	9.8%	10.3%	9.9%	11.1%	11.1%
Communications Services						
Revenue	$m	7	56	58	63	70
Operating EBITDA	$m	1	(3)	(3)	1	4
Operating EBITDA margin	%	17.7%	-6.0%	-4.9%	1.7%	5.7%
Industrial Services						
Revenue	$m	32	76	91	103	113
Operating EBITDA	$m	(1)	(1)	5	7	8
Operating EBITDA margin	%	-4.5%	-1.1%	5.2%	6.6%	6.6%

HALF YEARLY ASSUMPTIONS

Year ending 30 June	Unit	1H 2022a	1H 2023e	1H 2024e	1H 2025e	1H 2026e
Revenue	**$m**	**217**	**225**	**241**	**265**	**284**
Expenses	$m	(197)	(208)	(217)	(238)	(254)
Underlying EBITDA	**$m**	**19**	**17**	**24**	**27**	**30**
Depreciation & amortisation	$m	(6)	(7)	(7)	(8)	(8)
EBIT	**$m**	**14**	**9**	**16**	**20**	**22**
Net interest	$m	(0)	(1)	(1)	(1)	(1)
Pre-tax profit	**$m**	**13**	**9**	**16**	**19**	**21**
Tax expense	$m	(3)	(1)	(5)	(6)	(6)
Tax rate	*%*	*-26%*	*-10%*	*-30%*	*-30%*	*-30%*
NPAT (underlying)	**$m**	**10**	**8**	**11**	**13**	**15**
Adjustments (post-tax)	$m	(1)	(1)	0	0	0
NPAT (reported)	**$m**	**9**	**6**	**11**	**14**	**15**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Tara Speranza	Healthcare	612 8224 2815	tsperanza
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Daniel Laing	Industrials	613 8224 2886	dlaing
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Thomas Sima	Associate Analyst	612 8224 2843	tsima
James Williamson	Associate Analyst	613 9235 1692	jwilliamson

Research Coverage & Policies

For Bell Potter Securities' Research Coverage Decision Making Process and Research Independence Policy please refer to our company website: https://bellpotter.com.au/research-independence-policy/.

Authoring Research Analyst's Certification

The Authoring Research Analyst is responsible for the content of this Research Report, and, certifies that with respect to each security that the Analyst covered in this Report (1) all the views expressed accurately reflect the Analyst's personal views about those securities and were prepared in an independent manner and (2) no part of the Analyst's compensation was, is or will be, directly or indirectly, related to specific recommendations or views expressed by that Research Analyst in the Research Report.

Research Analyst's Compensation

Research Analyst's compensation is determined by Bell Potter Securities Research Management and Bell Potter Securities' Senior Management and is based upon activities and services intended to benefit the investor clients of Bell Potter Securities Ltd. Compensation is not linked to specific transactions or recommendations. Like all Company employees Research Analysts receive compensation that is impacted by overall Company profitability.

Prices

The Price appearing in the Recommendation panel on page 1 of the Research Report is the Closing Price on the Date of the Research Report (appearing in the top right hand corner of page 1 of the Research Report), unless a before midday (am) time appears below the Date of the Research Report in which case the Price appearing in the Recommendation panel will be the Closing Price on the business day prior to the Date of the Research Report.

Availability

The completion and first dissemination of a Recommendation made within a Research Report are shortly after the close of the Market on the Date of the Research Report, unless a before midday (am) time appears below the Date of the Research Report in which case the Research Report will be completed and first disseminated shortly after that am time

Dissemination

Bell Potter generally disseminates its Research to the Company's Institutional and Private Clients via both proprietary and non-proprietary electronic distribution platforms. Certain Research may be disseminated only via the Company's proprietary distribution platforms; however such Research will not contain changes to earnings forecasts, target price, investment or risk rating or investment thesis or be otherwise inconsistent with the Author's previously published Research. Certain Research is made available only to institutional investors to satisfy regulatory requirements. Individual Bell Potter Research Analysts may also opt to circulate published Research to one or more Clients by email; such email distribution is discretionary and is done only after the Research has been disseminated. The level and types of service provided by Bell Potter Research Analysts to Clients may vary depending on various factors such as the Client's individual preferences as to frequency and manner of receiving communications from Analysts, the Client's risk profile and investment focus and perspective (e.g. market-wide, sector specific long term and short term etc.) the size and scope of the overall Client relationship with the Company and legal and regulatory constraints.

Disclaimers

This Research Report is a private communication to Clients and is not intended for public circulation or for the use of any third party, without the prior written approval of Bell Potter Securities Limited.

The Research Report is for informational purposes only and is not intended as an offer or solicitation for the purpose of sale of a security. Any decision to purchase securities mentioned in the Report must take into account existing public information on such security or any registered prospectus.

This is general investment advice only and does not constitute personal advice to any person. Because this Research Report has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited Broker (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this Research Report.

While this Research Report is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in this document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee expressly or impliedly, that the information contained in this Research Report is complete or accurate.

Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views, opinions or recommendations contained in this Research Report or for correcting any error or omission which may have become apparent after the Research Report has been issued.

Bell Potter Securities Research Department has received assistance from the Company referred to in this Research Report including but not limited to discussions with management of the Company. Bell Potter Securities Policy prohibits Research Analysts sending draft Recommendations, Valuations and Price Targets to subject companies. However, it should be presumed that the Author of the Research Report has had discussions with the subject Company to ensure factual accuracy prior to publication.

All opinions, projections and estimates constitute the judgement of the Author as of the Date of the Research Report and these, plus any other information contained in the Research Report, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice.

Notwithstanding other departments within Bell Potter Securities Limited advising the subject Company, information obtained in such role is not used in the preparation of the Research Report.

Although Bell Potter Research does not set a predetermined frequency for publication, if the Research Report is a fundamental equity research report it is the intention of Bell Potter Research to provide research coverage of the covered issuers, including in response to news affecting the issuer. For non-fundamental Research Reports, Bell Potter Research may not provide regular updates to the views, recommendations and facts included in the reports.

Notwithstanding that Bell Potter maintains coverage on, makes recommendations concerning or discusses issuers, Bell Potter Research may be periodically restricted from referencing certain Issuers due to legal or policy reasons. Where the component of a published trade idea is subject to a restriction, the trade idea will be removed from any list of open trade ideas included in the Research Report. Upon lifting of the restriction, the trade idea will either be re-instated in the open trade ideas list if the Analyst continues to support it or it will be officially closed.

Bell Potter Research may provide different research products and services to different classes of clients (for example based upon long-term or short term investment horizons) that may lead to differing conclusions or recommendations that could impact the price of a security contrary to the recommendations in the alternative Research Report, provided each is consistent with the rating system for each respective Research Report.

Except in so far as liability under any statute cannot be excluded, Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in the document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of the document or any other person.

In the USA and the UK this Research Report is only for institutional investors. It is not for release, publication or distribution in whole or in part in the two specified countries. In Hong Kong this Research Report is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In the United States this Research Report is being distributed by Bell Potter Securities (US) LLC which is a registered broker-dealer and member of FINRA. Any person receiving this Research Report from Bell Potter Securities (US) LLC and wishing to transact in any security described herein should do so with Bell Potter Securities (US) LLC.

Bell Potter Securities Limited
ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Prosperity Tower, 39 Queens Road Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929