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Genusplus Group (GNP)

Gathering momentum

Recommendation
Buy (unchanged)
Price
$2.62
Target (12 months)
$3.10 (unchanged)

Sector

Commercial Services and Suppliers

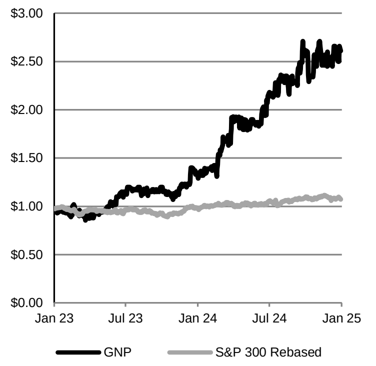
Expected Return	
Capital growth	18.3%
Dividend yield	1.1%
Total expected return	19.5%

Company Data & Ratios	
Enterprise value	$418m
Market cap	$472m
Issued capital	180m
Free float	46.6%
Avg. daily val. (52wk)	$519,537
12 month price range	$1.29-2.80

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	2.45	2.61	1.37
Absolute (%)	6.9	0.4	91.2
Rel market (%)	9.3	0.3	82.4

Absolute Price



SOURCE: IRESS

Recent contract awards add to momentum

In this report we outline recent company developments and key ideas in support of our Buy thesis. Key points:

Contract update: Since our last report published on 20 December 2024, GNP has announced two significant contract awards. Firstly, GNP was announced as the head contractor for TasNetworks' Stage 1 North West Transmission Developments project. The initial phase of the contract (ECI Phase) is for the delivery of engineering and design works, valued at $42m. The second, Construction Phase is scheduled to commence in 2Q 2026, with completion expected in 2029. The total value of Stage 1 works is $950m. Secondly, GNP announced a work package for Western Power's Clean Energy Link project (North Region) valued at ~$270m, with works to commence in January 2025 and scheduled to complete in mid-2027. In addition, GNP received a notice to proceed from Transgrid on the HumeLink Transmission Project. GNP anticipates commencing onsite works in May 2025 and practical completion in late 2027. GNP's share of the HumeLink East project contract value is ~$350m.

Orderbook analysis: We have illustrated the revenue recognition profile of 8 major contracts announced over FY24-25 for completion in 2H FY25 onwards. Findings of our analysis highlight: (1) ~90%+ of our revenue forecasts are now contracted, giving us a high degree of confidence in our 23% EPS CAGR outlook; and (2) each successive major contract award from now will likely drive an upgrade to our (and possibly consensus) forecasts. You can find more details of our analysis on page 2 of this report.

EPS changes: We make no material changes to our forecasts.

Investment thesis: Buy, TP$3.10/sh (unchanged)

We continue to see GNP as a key small-cap investment opportunity to play the theme of increasing investment in renewable energy, battery energy storage and transmission infrastructure across Australia. GNP's valuation multiples are undemanding when considering our EPS CAGR expectation of 23% over FY24-27.

Earnings Forecast

Year ending 30 June	2024a	2025e	2026e	2027e
Sales (A$m)	552	698	813	953
EBITDA (A$m)	45	58	68	80
NPAT (reported) (A$m)	19	27	32	39
NPAT (adjusted) (A$m)	21	27	32	39
EPS (adjusted) (¢ps)	11.6	15.2	18.0	21.7
EPS growth (%)	31.3%	31.5%	18.7%	20.4%
PER (x)	22.7x	17.2x	14.5x	12.1x
FCF Yield (%)	14.2%	2.2%	6.9%	11.3%
EV/EBITDA (x)	9.2x	7.2x	6.1x	5.2x
Dividend (¢ps)	2.5	3.0	3.0	3.0
Yield (%)	1.0%	1.1%	1.1%	1.1%
Franking (%)	100%	100%	100%	100%
ROE (%)	18%	20%	20%	20%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Gathering momentum

Orderbook analysis: Upside risk to our 23% EPS CAGR outlook

Tables 1-2 outline a breakdown of our GNP revenue forecasts and major contracts secured in FY24-25. GNP has demonstrated significant major contract award momentum during this period, winning ~$590m of new project-based contracts in FY24 (includes GNP's $350m share of the HumeLink East project) and ~$480m in FY25-to-date (excludes an estimated ~$900m of construction works for TasNetworks' North West Transmission Developments Phase 1 project).

We have estimated the revenue recognition profile of each major contract. Our assumptions may differ to GNP's actual delivery, with potential delays a risk to consider.

Key findings:

- Our FY25-27 revenue forecasts are largely secured against 8 major contracts. While unsecured revenue is still forecast over FY25-27, we acknowledge the analysis does not consider revenue generation from small Power Infrastructure subsidiaries and recently acquired businesses, including Partum Engineering, Geographe Tree Services, Blue Tongue Energy and L&M Powerline Constructions.
- Our baseline revenue forecasts are driving our 23% EPS CAGR forecast over FY24-27.
- If GNP maintains a high conversion rate on tendered work, we see scope for earnings upgrades in the short term.

Table 1 - Three-year revenue & orderbook analysis

Half year	Jun-25	Dec-25	Jun-26	Dec-26	Jun-27
Total revenue (BPe)	371.7	402.9	409.6	471.7	481.7
Communications revenue (BPe)	70.0	71.4	72.8	74.3	75.8
Total revenue (excl. Coms)	**301.7**	**331.5**	**336.7**	**397.4**	**405.9**
Recurring revenue (BPe)	125.5	144.3	144.3	166.0	166.0
Project-based & other revenue	**176.2**	**187.2**	**192.4**	**231.4**	**239.9**
Value of major contracts announced	**135.3**	**170.8**	**159.9**	**222.8**	**209.4**
Western Power: Clean Energy Link - Northern Region project	35.0	50.0	60.0	70.0	35.0
TasNetworks: NWTD Phase 1 - ECI works	8.0	22.0	12.0		
TasNetworks: NWTD Phase 1 - Construction works			15.0	50.0	70.0
Ausgrid: HCREZ sub-transmission works	0.9	1.0	0.1	30.0	42.0
Transgrid: HumeLink East Transmission project	36.4	72.8	72.8	72.8	62.4
Fortescue: Design & construct 33kV Power Distribution infrastructure	15.0	5.0			
Fortescue: Contracts for construction of a 220kV transmission line	20.0	20.0			
MREH project BESS	20.0				
Project-based & other revenue shortfall / (surplus) vs forecast	**40.9**	**16.4**	**32.5**	**8.6**	**30.5**
Revenue shortfall / (surplus) as a % of total revenue	11%	4%	8%	2%	6%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Table 2 - Major project completion timeline

Half year	Jun-25	Dec-25	Jun-26	Dec-26	Jun-27	Total contract value
Western Power: Clean Energy Link - Northern Region project	13.0%	18.5%	22.2%	25.9%	13.0%	270
TasNetworks: NWTD - ECI Phase	19.0%	52.4%	28.6%			42
TasNetworks: NWTD - Construction Phase	0.0%	0.0%	3.3%	11.1%	15.6%	450*
Ausgrid: HCREZ sub-transmission works	0.6%	0.7%	0.1%	21.4%	30.0%	140
Transgrid: HumeLink East Transmission project	10.4%	20.8%	20.8%	20.8%	17.8%	350
Fortescue: Design & construct 33kV Power Distribution infrastructure	53.6%	17.9%				28
Fortescue: Contracts for construction of a 220kV transmission line	40.0%	40.0%				50
MREH project BESS	33.3%					60

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES
NOTE: * WE ASSUME GNP WILL SPLIT THE ~$900M ESTIMATED CONSTRUCTION CONTRACT WORK 50/50 WITH A JV PARTNER

Genusplus Group (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$3.10/sh (unchanged)

We continue to see GNP as a key small-cap investment opportunity to play the theme of increasing investment in renewable energy, battery energy storage and transmission infrastructure across Australia. GNP's valuation multiples are undemanding when considering our EPS CAGR expectation of 23% over FY24-27.

Valuation methodology

Our GNP valuation is based on discounted cash flow and ROIC-based valuation models of the company's Power Services, Communication Services and Industrial Services business units. Key inputs underpinning our valuation methods include a WACC of 10.8% and a terminal growth rate of 3.0% (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
as at 13 January 2025

Recommendation	Buy
Price	$2.62
Target (12 months)	$3.10

Table 3 - Financial summary

Date		13/01/25	Bell Potter Securities
Price	$/sh	2.62	Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)
Target price	$/sh	3.10	

PROFIT AND LOSS

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
Revenue	**$m**	**444**	**552**	**698**	**813**	**953**
Expenses	$m	(407)	(506)	(641)	(744)	(874)
Underlying EBITDA	**$m**	**37**	**45**	**58**	**68**	**80**
Depreciation & amortisation	$m	(15)	(15)	(18)	(21)	(23)
EBIT	**$m**	**22**	**30**	**40**	**47**	**57**
Net interest expense	$m	(2)	(1)	(1)	(1)	(1)
Profit before tax	**$m**	**20**	**29**	**39**	**46**	**56**
Tax expense	$m	(4)	(9)	(12)	(14)	(17)
NPAT (underlying)	**$m**	**16**	**21**	**27**	**32**	**39**
Adjustments (post-tax)	$m	(2)	(1)	-	-	-
NPAT (reported)	**$m**	**13**	**19**	**27**	**32**	**39**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
OPERATING CASH FLOW						
Receipts from customers	$m	507	615	678	799	940
Payments to suppliers and employees	$m	(477)	(521)	(629)	(737)	(858)
Tax paid	$m	9	(11)	(12)	(14)	(17)
Net interest	$m	(1)	(1)	(1)	(1)	(1)
Other	$m	-	-	-	-	-
Operating cash flow	**$m**	**38**	**82**	**37**	**47**	**64**
INVESTING CASH FLOW						
Capex	$m	(6)	(14)	(8)	(9)	(10)
Acquisitions	$m	(4)	(3)	(19)	(5)	(1)
Disposal of assets	$m	3	1	-	-	-
Other	$m	(0)	-	-	-	-
Investing cash flow	**$m**	**(7)**	**(16)**	**(27)**	**(14)**	**(11)**
Free cash flow	***$m***	***30***	***66***	***10***	***33***	***53***
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	1	3	-	-	-
Dividends paid	$m	(3)	(4)	(4)	(5)	(5)
Proceeds from share issues (net)	$m	-	-	-	-	-
Other	$m	(9)	(11)	(10)	(11)	(11)
Financing cash flow	**$m**	**(11)**	**(12)**	**(14)**	**(16)**	**(16)**
Change in cash	**$m**	**19**	**54**	**(4)**	**16**	**37**

BALANCE SHEET

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
ASSETS						
Cash	$m	47	101	97	113	150
Receivables	$m	57	52	74	90	106
Inventories	$m	4	3	3	3	3
Property, plant & equipment	$m	18	25	35	37	37
Intangibles	$m	31	31	40	36	32
Other assets	$m	71	76	101	100	100
Total assets	**$m**	**227**	**288**	**351**	**379**	**428**
LIABILITIES						
Payables	$m	51	75	89	98	115
Borrowings	$m	6	4	4	4	4
Provisions	$m	0	1	1	1	1
Leases	$m	22	25	39	36	35
Other liabilities	$m	44	62	68	63	62
Total liabilities	**$m**	**122**	**167**	**200**	**202**	**217**
NET ASSETS	**$m**	**105**	**121**	**150**	**177**	**211**
Share capital	$m	55	55	62	62	62
Reserves	$m	(0)	(0)	(0)	(0)	(0)
Retained earnings	$m	50	66	89	116	149
SHAREHOLDER EQUITY	**$m**	**105**	**121**	**150**	**177**	**211**
Weighted average shares	m	177	178	179	180	180

FINANCIAL RATIOS

Year ending 30 June	Unit	2023a	2024a	2025e	2026e	2027e
VALUATION						
EPS (adjusted)	c/sh	8.8	11.6	15.2	18.0	21.7
EPS growth (Acps)	%	-5.1%	31.3%	31.5%	18.7%	20.4%
PER	x	29.8x	22.7x	17.2x	14.5x	12.1x
DPS	c/sh	2.0	2.5	3.0	3.0	3.0
Franking	%	100%	100%	100%	100%	100%
Yield	%	0.8%	1.0%	1.1%	1.1%	1.1%
FCF/share	c/sh	17.2	37.2	5.7	18.2	29.5
FCF yield	%	6.6%	14.2%	2.2%	6.9%	11.3%
EV/EBITDA	x	11.4x	9.2x	7.2x	6.1x	5.2x
NTA	$/sh	0.42	0.51	0.61	0.79	0.99
P/NTA	x	6.3x	5.2x	4.3x	3.3x	2.6x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(19)	(72)	(54)	(72)	(111)
Net debt / Equity	%	-18.1%	-59.2%	-35.8%	-40.8%	-52.4%
Net debt / Net debt + Equity	%	-22.1%	-145.0%	-55.8%	-68.9%	-110.2%
Net debt / EBITDA	x	-0.5x	-1.6x	-0.9x	-1.1x	-1.4x
EBITDA /net interest expense	x	22.4x	46.2x	65.8x	69.2x	102.1x
PROFITABILITY RATIOS						
EBITDA margin	%	8.3%	8.2%	8.3%	8.4%	8.4%
EBIT margin	%	4.9%	5.5%	5.7%	5.8%	5.9%
Return on assets	%	6.8%	8.0%	8.5%	8.9%	9.7%
Return on equity	%	15.7%	18.2%	20.0%	19.8%	20.1%
Return on invested capital	%	25.7%	44.5%	55.0%	50.7%	58.4%

HALF YEARLY ASSUMPTIONS

Year ending 30 June	Unit	1H 2023a	1H 2024a	1H 2025e	1H 2026e	1H 2027e
Revenue	**$m**	**225**	**250**	**327**	**403**	**472**
Expenses	$m	(207)	(228)	(300)	(369)	(432)
Underlying EBITDA	**$m**	**17**	**22**	**27**	**34**	**40**
Depreciation & amortisation	$m	(7)	(8)	(8)	(11)	(12)
EBIT	**$m**	**10**	**14**	**19**	**23**	**28**
Net interest	$m	(1)	(1)	(0)	(0)	(0)
Pre-tax profit	**$m**	**9**	**14**	**18**	**23**	**28**
Tax expense	$m	(2)	(4)	(5)	(7)	(8)
NPAT (underlying)	**$m**	**7**	**10**	**13**	**16**	**19**
Adjustments (post-tax)	$m	(1)	(1)	-	-	-
NPAT (reported)	**$m**	**6**	**9**	**13**	**16**	**19**

VALUATION SUMMARY

12-month valuation

Valuation method	Weight (%)	Val. ($/sh)
Discounted cash flow	50%	1.35
ROIC	50%	1.73
Final valuation		**3.08**

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.

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