

COX Energy America, S.A.B. de C.V. (BIVA: COXA)

Raising Target Price to MXN\$69.0 per Share

We are raising our target price for COX Energy America (COX)'s shares slightly to MXN\$69.0/share, from an original level of MXN\$65.00/share, after having incorporated the company's new projects into our forecasting model, as a result of the recent strategic change in its investment portfolio. We continue with a BUY recommendation as the potential return is 130% compared with the current price level. Furthermore, we consider COX to be an excellent investment option in the solar energy sector.

The main changes in our model were the following:

- The total capacity of COX's project portfolio was 2,396 MWp (of which 2,015 MWp are attributable to COX) at the end of 1Q21, which represented an increase of 11.9% with respect to 2,141 MWp (1,808 MWp attributable to the company) that the company reported in 4Q20. This was mainly due to a greater focus on the Chilean market, whose capacity reached 937.8 MWp (825.8 MWP attributable to COX), in addition to the updating of various connection points in Colombia, which boosted this country's capacity by 78 MWp. In Mexico, the company reduced the Pinto Solar project's capacity from 500 MWp to 100 MWp given its new strategic focus, which was offset by the incorporation of 4 new projects in the initial phase of development.
- Acquisition of 40% of Ibox Energy at a price of €95 million that includes a fixed component of €20 million and a variable component of €75 million. We are conservatively valuing this asset at the acquisition cost. In addition, Ibox will likely sell a 650 MW package during the rest of the year (from a total pipeline of 4,000 MW), which we are including under asset rotation;
- Subscription offer of 18,469,536 shares amounting to MXN\$628.0 million. We expect this transaction to take place during the remainder of the year. The share dilution will be 11.3%, but it will be more than offset by the new projects.

We believe that COX's main risk are the potential adverse regulatory changes in any of the markets in which the company operates.

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Valuation of Generation Projects

	Mexico	Chile	Colombia	Panama	Sum
Price per MW	70	50	70	57	
Annual Increase in Energy Prices	3.00%	2.00%	2.00%	2.00%	
Unlevered Beta	0.56	0.56	0.56	0.56	
Re-Levered Beta	1.47	1.51	1.43	1.54	
Risk-Free Rate	6.67%	4.19%	7.04%	2.85%	
Tax Rate	30.0%	27.0%	33.0%	25.0%	
Debt / Equity	2.33	2.33	2.33	2.33	
Market Risk Premium	6.38%	5.89%	7.08%	6.77%	
Cost of Equity	16.1%	13.1%	17.2%	13.3%	
Average Cost of Debt	8.0%	5.5%	8.3%	4.1%	
WACC	10.4%	7.8%	11.0%	6.9%	
PV	\$23.42	\$11.84	\$3.49	\$3.62	\$42.37

Asset Rotation

USD Mn	Country	Capacity	% attributable to COX	MWp attributable to COX	Potential Sale Date	Capex per MW (USD Mn)	Project Status	% of Total Capex	Sales Price per Mw (USD Mn)
Ibox	Europa	650	40%	260	2021	0.65	COD / RTB	30%	1.25
Valleland	Chile	74	100%	74	2022	0.65	RTB	20%	1.00
La Meseta	Chile	160	30%	48	2022	0.65	COD	70%	1.50
El Sol de Vallena	Chile	308	100%	308	2022	0.65	RTB	20%	1.00
La Granja Solar (Zacatecas)	Mexico	336	30%	101	2022	0.65	RTB	20%	1.00
Iscali (Campeche)	Mexico	300	100%	300	2022	0.65	COD	70%	1.50
El Pinto Solar (Campeche)	Mexico	100	100%	100	2024	0.65	COD	70%	1.50

USD Mn	% to be Sold	Total Amount COX	Total Investment COX	Pre-Tax Profit	Tax Rate	After-Tax Profit	Discount Rate	PV (USD Mn)	PV (MXN\$ Mn)
Ibox	100%	325.0	115.9	209.1	25.0%	156.8	3.8%	151.1	3,021.7
Valleland	50%	37.0	4.8	32.2	27.0%	23.5	13.1%	20.8	415.5
La Meseta	50%	36.0	10.9	25.1	27.0%	18.3	13.1%	16.2	323.8
El Sol de Vallena	50%	154.0	20.0	134.0	27.0%	97.8	13.1%	86.5	1,729.6
La Granja Solar (Zacatecas)	50%	50.5	6.6	43.9	30.0%	30.7	16.1%	26.5	529.5
Iscali (Campeche)	50%	225.0	68.3	156.8	30.0%	109.7	16.1%	94.5	1,890.7
El Pinto Solar (Campeche)	50%	75.0	22.8	52.3	30.0%	36.6	16.1%	23.4	467.8
Total Amount (USD Mn)									8,378.5
Price per Share (MXN\$)									46.1

Sum-of-The-Parts

(Per Share Figures)

Generation	
Mexico	\$23.42
Chile	\$11.84
Colombia	\$3.49
Panama	\$3.62
40% of Ibox	\$12.92
Total Generation	\$55.29
Asset Rotation	\$46.06
Total Valuation	\$101.34
Deuda Neta	\$3.25
Discount	30%
Target Price	\$69.00
Current Price	\$30.00
Potential Return	130.0%

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