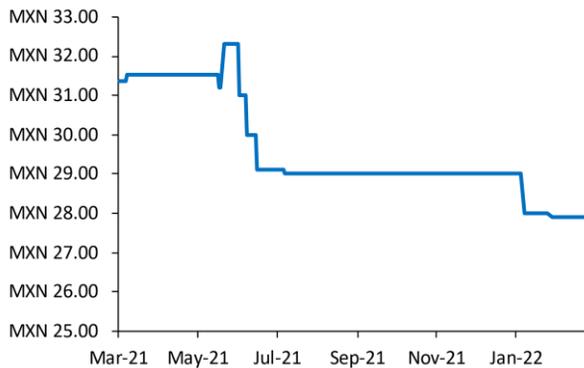


COX Energy America, S.A.B. de C.V. (BIVA: COXA)

4Q21 Results: Portfolio adjustment continued



RECOMMENDATION	BUY
Target Price (MXN\$)	\$ 53.00
Current Price (MXN\$)	\$ 27.90
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	90.0%
Market Cap (MXN\$ Mn)	4,601
EV/ EBITDA	n.a.
P/E	n.a.
P/BV (current)	3.3x

Opinion and Recommendation

COX continued to debug projects with little viability in 4Q21. The company decided to separate the projects into current (high viability) and identified opportunities (medium viability). As a result, it now has 20 current projects with a total capacity of 1,219 MWp, compared to 30 projects with a capacity of 1,983 MWp at the end of 3Q21.

COX announced that its 2022 strategic plan will be focused on achieving a geographically diversified portfolio in Latin America, as well as seeking the rotation of assets that are in different stages of maturity. Sustainability will remain as a top priority for the company. On the other hand, it started the dual listing process in the BME growth stock exchange.

We are lowering our target price to MXN\$53.0/share, from an original level of MXN\$60.0/share, after having incorporated the adjustment in COX's project portfolio, as well as new macroeconomic variables.

Portfolio

COX closed 2021 with 20 projects with an attributable capacity of 1,219 MWp. In addition, the company has identified opportunities in 25 additional projects with capacity of 1,098 MWp. This compares to 30 projects with total capacity of 1,983 MWp at the end of 3Q21 and 36 projects in 2020 with total capacity of 1,809 MWp.

50% of COX's current portfolio is in Chile, 40% in Mexico and the remaining 10% in Guatemala, Panama and Colombia. Capacity under initial development is 355 MWp (29% of total), 813 MWh (67%) in advanced development and backlog, and 51 MWp (4%) under construction or operation.

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The advances that COX carried out in its different projects included:

- the signing of a long-term energy contract in Colombia with the AIR-E, S.A.S. E.S.P, a network operator in the northern zone. COX has energy supply obligations beginning in 2024.
- COX obtained a favorable environmental classification in the San Francisco project (PMGD) in Chile, with which it will be able to start the construction phase.
- COX, in partnership with Sonnedix, started commercial operations in Chile under a 20-year contract for up to 264 GWh/year of renewable energy.

On the other hand, COX reclassified the following projects as “identified opportunities” due to their lower viability. In Mexico: KM 100 (126 MWp) and Peralta (60 MWp). In Chile, Goodyear (3 MWp), Santa Elvira (11 MWp), La Cumbre (3 MWp), Mocha (8 MWp), Callejón (11 MWp) and Siete Puntos (11 MWp) were cancelled, which was offset by an increase in the capacity of Utility Portezuelo (to 200 MWp, from 154 MWp). In Central America: Capira Solar (12 MWp), Sona Solar (12 MWp), Rio Grande Solar (23 MWp), San Antonio (80 MWp) and Jutiapa (120 MWp). In Colombia, it replaced the Atlantic Coast projects (390 MWp) with four projects with combined capacity of 48 MWp.

4Q21 Results

COX is still in the pre-operative phase. Total revenues amounted to MXN\$23.4 million in 2021, up 96.9% as a result of a greater number of customers in Mexico’s energy trading business, which includes the sale of energy in the wholesale market, as well as the exchange of clean energy certificates. COX expects revenue from this business to grow exponentially in the future due to deals it has recently closed.

COX recorded total operating expenses of MXN\$396.1 million which included a MXN\$270.3 million accounting adjustment related to the reclassification of the phase of the Valle Land I, II, Aparse and Pinto solar projects after the review that the company carried out of its different assets. Excluding this adjustment, operating expenses would have been MXN\$172.4 million due to higher administrative and personnel expenses. EBITDA was MXN\$98.7 million negative, from last’ year’s MXN\$87.3 loss. The comprehensive financing result was MXN\$44.5 million, from MXN\$9.5 million the previous year, which derived from FX. As a result, COX ended the year with a MXN\$439.3 million net loss. However, the company expects to post a positive net profit in 2022, which seems very good news to us. On the other hand, COX does not have any debt at the moment.

Valuation

We are lowering our target price to MXN\$53.00/share, from an original level of MXN\$60.0/share after incorporating COX portfolio adjustments, as well as new long-term inflation and interest rate assumptions. The potential return is 90% against the current market price. We remain BUY as we believe COX’s long-term outlook is favorable.

Valuation of Generation Projects

	Mexico	Chile	Colombia	C.A.	Total
Price per MW	70	50	70	72	
Annual Increase in Energy Prices	4.00%	3.00%	4.00%	4.00%	
Unlevered Beta	0.56	0.56	0.56	0.56	
Re-Levered Beta	1.47	1.51	1.43	1.54	
Risk-Free Rate	6.50%	6.00%	7.00%	3.70%	
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	15.9%	14.9%	17.2%	14.1%	
Average Cost of Debt	7.8%	7.3%	8.3%	5.0%	
WACC	10.2%	9.6%	10.9%	7.7%	
PV	\$10.35	\$11.63	\$2.21	\$9.11	\$33.30

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	Europe	650	40%	260	2023	0.65	COD / RTB	30%	1.25
La Meseta	Chile	160	30%	48	2023	0.65	COD	70%	1.50
El Sol de Vallendar	Chile	308	100%	308	2023	0.65	RTB	20%	1.00
Iscali (Campeche)	Mexico	300	100%	300	2024	0.65	COD	70%	1.50
La Granja Solar (Zacatecas)	Mexico	336	20%	67	2023	0.65	RTB	20%	1.00

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	109.3	215.8	25.0%	161.8	3.8%	155.9	3,231.6
La Meseta	50%	36.0	10.9	25.1	27.0%	18.3	14.9%	15.9	330.3
El Sol de Vallendar	50%	154.0	20.0	134.0	27.0%	97.8	14.9%	85.1	1,764.5
Iscali (Campeche)	50%	225.0	68.3	156.8	30.0%	109.7	15.9%	81.7	1,693.3
La Granja Solar (Zacatecas)	50%	33.6	4.4	29.3	30.0%	20.5	15.9%	17.7	366.4
Total Amount (MXN\$ Mn)									7,386.0
Price per Share (MXN\$)									44.7

Sum-of-The-Parts

(Per Share Figures)

Generation	
Mexico	\$10.35
Chile	\$11.63
Colombia	\$2.21
Panama	\$9.11
Total Generation	\$33.30
Asset Rotation	\$44.75
Total Valuation	\$78.04
Discount	32%
Target Price	\$53.01
Current Price	\$27.90
Potential Return	90.0%

Country	Project	MWp	Classification	% Cox	Partner	Attributable to Cox (MWp)	Electricity Sales Strategy	RTB Estimated
Chile	El Sol de Vallenar	308.0	Backlog	100		308.0	PPA Disco 2017	RTB
	Utility Portezuelo + Storage	200.0	Initial Development	100		200.0	Stabilized Price	RTB 2023
	La Meseta	160.0	Advanced Development	30	Sonneditx	48.0	PPA Disco 2016 & 2017	COD 2022
	Machali (PMGD)	11.0	Advanced Development	100		11.0	Stabilized Price	COD 2022
	Río Maule (PMGD)	11.0	Advanced Development	100		11.0	Stabilized Price	RTB 2022
	Montenegro (PMGD)	11.0	Initial Development	100		11.0	Stabilized Price	RTB 2022
	El Guindal (PMGD)	11.0	Initial Development	100		11.0	Stabilized Price	RTB 2022
	San Francisco (PMGD)	7.0	Advanced Development	100		7.0	Stabilized Price	RTB 2022
	San Javier (PMGD)	3.0	In Construction	100		3.0	Stabilized Price	COD 2022
Walmart Piloto (ESCO)	0.210	In Operation	100		0.210	Private PPA	In operation	
Total Chile		722.2				610.2		
Mexico	Iscali	300.0	Advanced Development	100		300.0	Spot + Coverage	RTB 2022
	Atlacomulco	113.4	Advanced Development	100		113.4	Spot + Coverage	RTB 2022
	La Granja Solar	314.0	Advanced Development	20	GPG	62.8	Spot + Coverage	RTB 2023
	Apatzingan	12.0	Initial Development	100		12.0	Spot + Coverage	RTB 2023
Total Mexico		739.4				488.2		
C. America	Santa Rosa Solar	50.0		100		50.0	Spot & PPA	RTB 2022
	Parita Solar	23.0	Initial Development	100		23.0	Spot & PPA	RTB 2022
Total C. America & Caribbean		73.0				73.0		
Colombia	Lanzarote	15.0	Initial Development	100		15.0	Private PPA	RTB 2023
	Tenerife	11.0	Initial Development	100		11.0	Private PPA	RTB 2023
	Vanuatu	11.0	Initial Development	100		11.0	Private PPA	RTB 2023
	Rodas	11.0	Initial Development	100		11.0	Private PPA	RTB 2023
Total Colombia		48.0				48.0		
Total Portafolio		1,582.6				1,219.4		

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