

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

Energy commercialization revenues at record levels; the company obtained an environmental authorization in Chile



RECOMMENDATION	BUY
Target Price (MXN\$)	\$ 49.00
Current Price (MXN\$)	\$ 24.90
Expected Dividend (MXN\$)	\$ 0.00
Potential Return	96.8%
Market Cap (MXN\$ Mn)	4,106
EV/ EBITDA	n.a.
P/E	n.a.
P/BV (current)	3.3x

Opinion and recommendation

COX continued to experience high demand in its energy supply and sale business in Mexico, with record revenues. However, results included accounting adjustments that resulted in negative EBITDA and a net loss. The company obtained financing from Cox Energy Solar, which significantly strengthened its cash levels. It was also granted an environmental license in one of the projects in Chile.

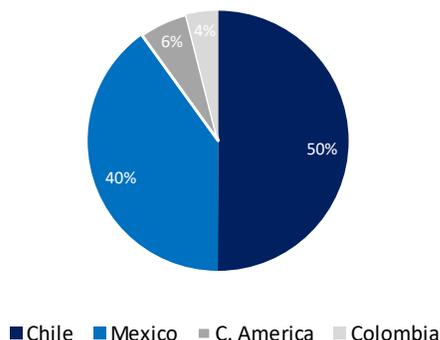
Following these results, we are reiterating our BUY recommendation. We are adjusting our target price to MXN\$49.0/share, from MXN\$53.0/share, as a result of higher interest rates in our discounted cash flow model, partially offset by higher tariff increases.

Portfolio

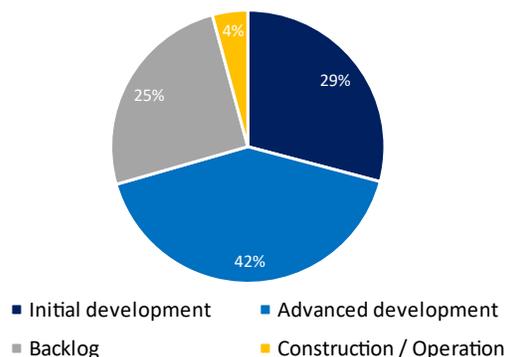
Capacity of projects in the construction and development stage remained at 1,219 MWp and that of identified opportunities at 1,098 MWp. 29% of the portfolio is in initial development, 41% in advanced development, 25% in backlog, and the remaining 4% in operation and construction. The main change with respect to 1Q22 was that the company obtained the environmental license for the Machalí project in Chile (capacity of 11 MWp) which will allow it to start construction during the rest of 2022. This project's status became RTB2022.

COX is preparing itself to participate in the next auction in Guatemala and Puerto Rico. The company also made a strategic alliance with a business group in Puerto Rico to begin project management and development operations.

Portfolio by country



Portfolio by development stage



2Q22 Results

Revenues reached MXN\$132.0 million in 2Q22, a record figure, and significantly higher than the MXN\$2.3 million of 2Q21. This performance was mainly due to the energy supply and sale business of Cox Energy Suministrador in Mexico and, to a lesser extent, in Chile. Operating expenses rose 90.0% to MXN\$57.9 million, as a result of an accounting adjustment in the fair value of assets for an unspecified amount and non-recurring expenses due to the change in corporate structure. As a result, the company recorded a negative EBITDA of MXN\$73.9 million, compared to a MXN\$28.0 million negative figure the previous year. Financing costs were MXN\$73.5 million, from MXN\$8.5 million, mainly due to FX losses. COX thus reported a quarterly net loss of MXN\$174.0 million, higher than the MXN\$13.6 million net loss in the same period of the previous year.

The cash position improved to MXN\$246.7 million at the end of the quarter, thanks to the intercompany loan that COX Energy América obtained from Cox Energy Solar. We believe that these resources will allow Cox Energy América to meet the required investments of its growth strategy. The company mentioned in its press release that it has various alternatives that could strengthen its liquidity. In fact, it continues to work on the BME Growth dual listing, which will likely take place 3Q22. We believe that this will allow COX to gain access to new investors. On the other hand, total liabilities amounted to MXN\$495.4 million due to the intercompany loan.

Appointments

On July 18, COX appointed Raquel Alzaga as Corporate Vice President and CFO. She has 20 years of experience in the sector. In addition, Javier García Arenas was appointed as Deputy CEO.

Valuation of Generation Projects

	Mexico	Chile	Colombia	C.A.	Total
Price per MW	70	50	70	72	
Annual Increase in Energy Prices	5.00%	4.00%	7.00%	5.00%	
Unlevered Beta	0.56	0.56	0.56	0.56	
Re-Levered Beta	1.47	1.51	1.43	1.54	
Risk-Free Rate	7.50%	7.00%	9.00%	5.00%	
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	16.9%	15.9%	19.2%	15.4%	
Average Cost of Debt	8.8%	8.3%	10.3%	6.3%	
WACC	11.2%	10.6%	12.9%	9.0%	
PV	\$9.43	\$9.67	\$2.69	\$7.79	\$29.57

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	3,162.7
La Meseta	50%	36.0	10.9	25.1	27.0%	18.3	15.9%	15.8	320.5
El Sol de Vallendar	50%	154.0	20.0	134.0	27.0%	97.8	15.9%	84.4	1,711.9
Iscali (Campeche)	50%	225.0	68.3	156.8	30.0%	109.7	16.9%	80.3	1,629.0
La Granja Solar (Zacatecas)	50%	33.6	4.4	29.3	30.0%	20.5	16.9%	17.5	355.5
Total Amount (MXN\$ Mn)									7,179.6
Probability									100%
Price per Share (MXN\$)									43.5

Sum-of-The-Parts

(Per Share Figures)

Generation	
Mexico	\$9.43
Chile	\$9.67
Colombia	\$2.69
Panama	\$7.79
40% of Ibox	\$14.24
Total Generation	\$43.81
Asset Rotation	\$43.50
Total Valuation	\$87.30
Deuda Neta	\$6.74
Discount	39%
Target Price	\$49.00
Current Price	\$24.90
Potential Return	96.8%

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	Sonnedix	48.0	PPA DisCo 2016 & 2017	COD 2022
	Machali (PMGD)	11.0	Advanced Development	100		11.0	Stabilized Price	RTB 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 Portfolio		1,582.6				1,219.4		

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