

CORO ENERGY – VIETNAM PLANS STARTING TO BEAR FRUIT

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By Dr. Michael Green

Coro Energy's plans for Vietnam are starting to bear fruit. Last week investors learnt that this South East Asian energy company has made dramatic strides by entering binding joint-venture agreements concerning the Vietnamese solar acquisition which was first reported to the market four months ago. We have had a very useful session with management and this blog represents our considered opinion.

Firstly, we believe that these agreements have all the makings of a being a cracking deal which represents a low-cost entry into the rapidly growing Vietnamese energy sector as an independent power producer. Coro is to acquire a 85% stake in a newly formed joint-venture to be named Coro Renewables Vietnam (the JV) for providing the initial US\$500,000 of funding to pay for immediate development of a 5MW pilot rooftop project through to 'Ready to Build' status.

Secondly, the JV partner is VPE, which is a highly regarded local Engineering, Procurement and Construction (EPC) contractor. VPE will be transferring its existing 150MW project portfolio into the JV and will provide management services in exchange for a 15% carried interest in the JV. Truth is that VPE can be seen to be a leading Vietnamese solar asset owner and EPC contractor, with an experienced team of over 90 operations staff and an extensive experience in deploying solar PV systems in Vietnam. VPE has the workforce to currently install 20MW of rooftop solar a month.



Rooftop solar PV scheme. Source: Company

Coro's US\$500,000 will be used to cover planning and permitting costs to de-risk a 5MW pilot project which is planned to achieve 'Ready to Build' status during 2022. Then, Coro will have the right to fund the construction of the 5MW pilot project at an expected cost of US\$3.5 million. The end result is that Coro could be on the receiving end of near-term cash flows of roughly US\$0.6 million per annum unlevered (unlevered cash flow is the gross free cash flow generated by a company before accounting for its financial obligations). On top of this, Coro will have the option to fund the entire 150MW portfolio held by the JV, which most likely would be achieved through project finance.

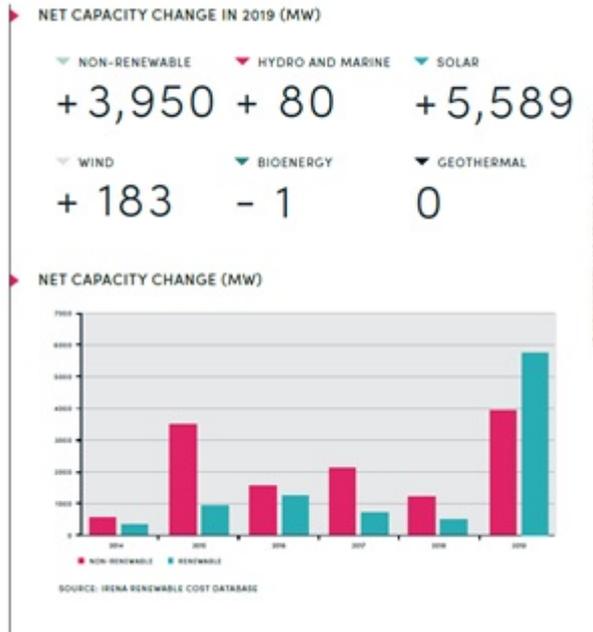
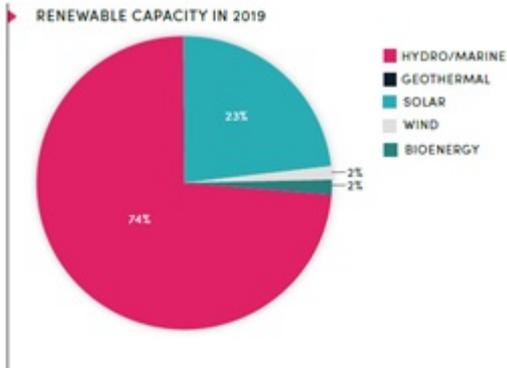
Rooftop Solar PV schemes are now forming a major part of the energy mix in Vietnam via simple "take or pay" commercial agreements between the Independent Power Producers (IPP) and the commercial users under the roof. Examples of clients from prior projects undertaken by VPE include steel company LTD Viet Vinh, TNHH MTV Company Long Manh, IMAX Technology Solutions JSC and INOX water processing facility. Roof space is issued free of cost by the off taker together with right of access.

We believe the long-term "take or pay" Power Purchase Agreements (PPAs) look good. Terms include monthly billing and metering performed by Coro as the IPP with a late payments deposit escrow account available 4 days after late payment. Prices range from US\$8.5 cents – 10.5 cents per kilowatt hour. The duration of these Power Purchase Agreements (PPAs) are 20-25 years, with system title transferred to the consumer at the end of term. As mentioned earlier on, power is importantly supplied under a "take or pay" methodology.

It has to be highlighted that over the last two decades, Vietnam's GDP has grown by more than 5% per annum. This really underlines the significant growth in the demand for power. To meet such demand, Vietnam is now planning 15-20% additional renewables capacity by 2030, which equates to something like 35GW. Importantly, all rooftop projects in Vietnam benefit from attractive economics and are underpinned by the long term "take or pay" PPAs with creditworthy industrial customers and US dollar denominated pricing.

At the time of this latest announcement CEO Mark Hood pointed out that *"I am delighted to announce the entry of binding agreements in connection with our Vietnamese roof-top solar project, which moves Coro closer to maiden revenues with the pilot project and a step forward on our strategic goal of being a major regional player in the renewables space."*

CAPACITY IN 2019	MW	%
NON-RENEWABLE	30,690	56
RENEWABLE	24,519	44
HYDRO/MARINE	16,069	33
SOLAR	5,695	10
WIND	375	1
BIOENERGY	380	1
GEOHERMAL	0	0
TOTAL	55,208	100



Vietnam – energy mix. Source: Company

With this highly impressive transaction, Coro has secured access to a significant portfolio in Vietnam which should see cash generative projects with short development cycles. So, moving ahead it does bring investors the promise of significant news flow coupled with the real prospect of high returns. We see all the pieces are now in place in Vietnam to build a development portfolio with projects each at different stages of progression. This creates a number of differently phased cash generative opportunities which are starting to be rolled out in the near future.

We believe there is a highly compelling strategic rationale behind this move in Vietnam. Not only will Coro accelerate its recognition as a strategic builder, owner, operator and developer of assets in South East Asia, also, this bitesize entry into Vietnam through a small scale 5MW pilot project allows the company to demonstrate proof of concept.

It's a shrewd move to partner up with a local engineering firm, allowing Coro to gain market access without deploying a large local resource team, thus establishing a presence in-country and recognition as an IPP. Coro should be able to unveil themselves of opportunities that become available with the opening up of future utility scale projects expected in the deregulated marketplace.

The 5MW pilot project will be supplying solar power to four different companies, with the installation covering approximately 75,000m² of multiple roofs across an industrial area. Bullishly, the management is talking about the initial project being planned to be in operation in Q1 2022. This will provide proof of concept to reassure management, investors and partners alike. The plan is that the initial 5MW project will act as a cookie cutter to roll out further multiple solar projects that make up the 150MW portfolio. All this might sound quite rapid, but CEO Mark Hood and COO Michael Carrington were working on these renewable projects in South East Asia for four years before they joined Coro.

It seems assured that Vietnam will remain one of the highest growth markets at the forefront of the regional transition to clean energy. Coro continues to rapidly build its clean energy portfolio alongside the progress that the company is making on its utility scale projects in the Philippines, where early planning and permitting work is ongoing. In addition, the team is keeping a good eye on Indonesia where the government has aspirations to become an industry leader in renewables.



South East Asia – projected GDP growth, electricity demand and increasing penetration by renewables. Source: Company

There are plenty of good reasons for Coro’s focus on South East Asia. Rapid GDP growth serves to increase energy demand and significant new annual investment in renewables is forecast to 2040 to meet growing demand (see chart above). At the same time governments are noted to be shelving coal projects in favour of clean energy substitutes.

It’s not hard to get excited by Coro, which has a highly attractive mix of renewables and a gas portfolio which is well underpinned by the expected growth in regional energy demand in South East Asia – electricity demand in the region is forecast by Bloomberg to increase by 152% to 2050.

Based on what has been revealed about the 5MW earnings stream, the read across for the full 150MW portfolio suggests that the company will benefit from 30 x US\$0.6 million per annum unlevered, or US\$18 million per annum. All of this suggests a far larger company is in the making compared to the current derisibly low market cap of some £6.4 million. And that is just from rooftop solar in Vietnam, from a single joint venture.

We **initiated coverage** on Coro Energy in December 2020 with a **Conviction Buy** stance and a target price of 1.50p, a time when the shares were trading at 0.275p. Despite the big move into renewables in South East Asia the share price is now only a touch higher at 0.305p and we are more than happy to reiterate our stance.

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