





## Coro Energy

17<sup>th</sup> December 2020

### Highly compelling regional energy play in both renewables and gas benefitting from the rapidly growing SE Asian economies

Coro Energy is the old Saffron Energy, which joined AIM in February 2017 with onshore gas producing interests in Italy. Within 12 months a new management team had taken over, led by James Parsons as Chairman, bringing a brand-new strategy for expansion and transformational growth focused on South East Asia. Early 2019 saw Coro acquire a 15% interest in the Duyung PSC in a deal which involved helping to fund highly successful appraisal drilling which saw 2C resources grow by 79% to 495BCF (gross).

#### ■ Booming electricity demand in South East Asia fuelled by GDP growth

Growth in electricity demand in SE Asia is amongst the fastest in the world due to the rapidly rising population, rising incomes, industrialisation and urbanisation. Coro see enviable opportunities to supply this market with gas and renewable energy as coal generation still dominates.

#### ■ Positioned to supply gas to Singapore where premium prices are paid

Duyung PSC's Mako Gas Field is one of the largest gas fields ever discovered in the West Natuna Basin, offshore Indonesia. It is a shallow single tank deposit that is technically low risk. Gas production could start in 2024.

#### ■ Big plans for energy storage backing highly cash generative projects

Coro has just taken a 20.3% stake in ion Ventures which has 250+Mw of battery storage projects in development in SE Asia and UK/Ireland. Coro has first right of refusal to fund each of ion's clean energy projects in SE Asia, which is what NEDs James Parsons and Andrew Dennen are awfully good at.

#### ■ Upside of over 400% based almost solely on the Duyung PSC's NPV

Our highly conservative valuation shows the potential. We initiate coverage of Coro Energy with a **target price of 1.50p** and **Conviction buy** stance.

Table: Financial overview. Source: Company accounts & Align Research

Year to end Dec	2018A	2019A	2020E	2021E
Revenue (US\$'000)	-	-	-	-
PTP (US\$'000)	(4,485)	(7,862)	(6,200)	(5,630)
EPS (\$)	(0.008)	(0.010)	(0.008)	(0.007)

*This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.*

## CONVICTION BUY



#### Key data

EPIC	CORO
Share price	0.275p
52 week high/low	1.975p/0.23p
Listing	AIM
Shares in issue	793m
Market Cap	£2.2m
Sector	Energy

#### 12 month share price chart



#### Analyst details

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**IMPORTANT:** Coro Energy is a research client of Align Research. Align Research holds an interest in the shares of CORO. For full disclaimer information please refer to the last page of this document.

## Business overview

### Coro Energy Operations

Coro Energy PLC is an established AIM-listed South East Asian energy company with a growth strategy focused on low carbon energy investments supported by an existing platform of gas assets.

- **Natural gas – offshore Indonesia** – The company has a 15% interest in the offshore Duyung PSC containing the Mako Gas Field - a shallow gas accumulation that covers a large expanse and boasts attractive commercial metrics even at low commodity prices. The Mako Gas Field represents a strong gas asset which is set to provide a platform for regional growth. In all, six wells have been drilled on the field which includes two appraisal wells that were drilled in 2019 and resulted in a significant increase in the gas resource to 495Bcf of 2C resources. The field contains dry sweet gas with minimal CO<sub>2</sub>, over 97% methane and so minimal treatment is required. The Duyung partners are targeting a Final Investment Decision (FID) by the end of 2021 which could see production beginning in 2024.

- **Natural gas - onshore Italy** – Non-core gas assets in Italy were used to provide Coro with the operational credentials necessary to grow in South East Asia. A collapse in the gas price last year in Italy led to three of the four operating fields being shut in. There was a deal to dispose of these interests to Zenith Energy which was not completed. It is likely that these assets will be disposed of over the coming months.

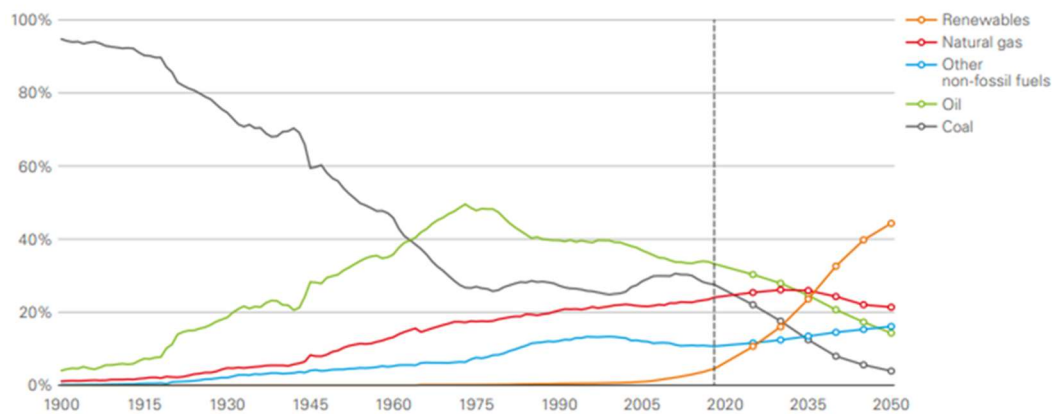
- **Clean energy** - In November 2020, Coro acquired a 20.3% stake in ion Ventures Limited, a South East Asia and UK focused developer of clean energy projects, which primarily involve energy storage. ion Ventures has a pipeline of energy storage projects including 50MW of projects across the South East Asia region including Thailand, the Philippines and Indonesia, along with more than 200MW of at or near shovel-ready projects in the UK/Ireland. Coro has been granted first right of refusal to invest in each of ion Venture's South East Asian projects. Through its £500,000 investment, Coro has become ion's joint largest shareholder with a seat on its board.



*Successful appraisal drilling campaign on the Mako Gas Field in 2019  
Source: Company*

## Transition to low carbon world

The global transition to a low carbon world is urgent, inevitable and probably happening quicker than many had ever envisaged. Moving forward, renewable energy is set to play an increasingly important role in meeting the planet's energy needs and already the transition to a low carbon world has begun in earnest. Oil and gas will of course be needed for decades to come, but their use is likely to be increasingly challenged by a society that is looking to seriously reduce its reliance on fossil fuels.



*Low carbon transition – shares of primary energy in BP's rapid scenario.  
Source: BP Energy Outlook 2020*

Energy Research & Consultancy group Wood Mackenzie reckons that by 2032, renewables will overtake conventional power sources, making them the fastest growing energy source globally. There is no doubt that the electrification of transport, homes and industry will require substantial investment into electricity generation for many years to come. Impressive advances in technology have resulted in the cost of developing renewables falling significantly. Truth is that renewables like wind and solar are becoming cheaper sources of electricity compared to fossil fuels in most parts of the world. However, in order to be a viable and stable source of energy, they need storage.

## Energy storage

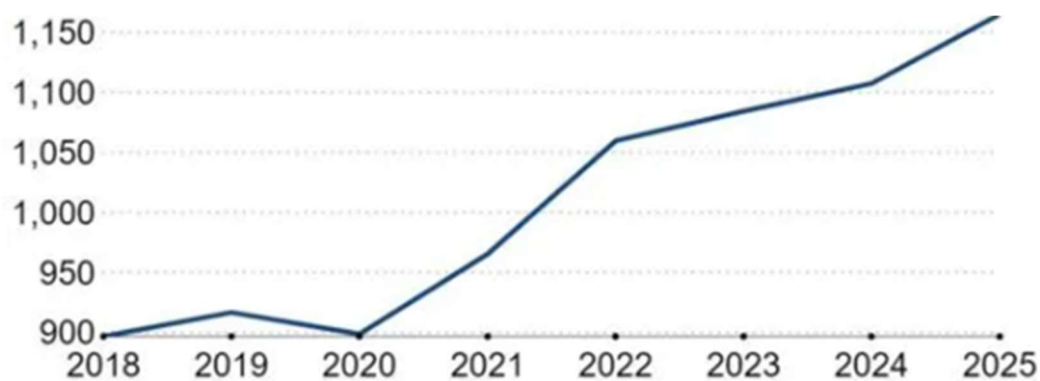
The global energy transition is centred on decarbonisation, decentralisation and digitisation, with renewables intermittency serving to increase the volatility of supply. Electrification is going to lead to increased and varied demand, which needs the flexibility of secondary supply to ensure security. The switch to renewables and changing demand habits is rapidly resulting in energy storage being seen as the next major frontier in electrification.

Battery storage can effectively integrate high shares of solar and wind renewables in power systems around the world. Storage batteries offer a viable solution for storing intermittent energy supplies associated with renewable energy and so it is little surprise to see that the global energy storage market is growing fast. Wood Mac believes that in 2018 the market expanded to record levels with 147% year-on-year growth in GWh terms; and in the next four years expects to see growth in all directions as storage markets balloon. By 2024, they forecast that the global market will increase to a sizeable 44GWh.

## Booming energy demand in South East Asia

Growth in electricity demand in South East Asia is amongst the fastest in the world. This is due to the rapidly rising population, incomes, industrialisation and urbanisation. Populations of many South East Asian countries are growing at a faster rate than elsewhere in the world like the US and China, which is combined with rapidly growing energy use per capita. The region is now home to one-in-ten of the world's people following a 23% increase in the size of its population from 2000 to 2017 to reach something like 700 million. Commentators have suggested that level of growth is likely to continue, with an expected 20% further increase in the population by 2050.

Over the last twenty years, demand for electricity has increased by 80% as millions of new customers gain access to electricity. By 2050, it has been forecast that electricity consumption in this region could grow by 152% which is put down to rising incomes and higher temperatures (leading to increased use of air conditioning, for example). Over the next twenty years the OECD is forecasting that GDP growth in SE Asia will be 4-6% per annum (pa) compared to 0 - 1.5% in Europe, whilst energy demand is forecast to rise by 4% p.a. in SE Asia against a reduction of 0.3% p.a. in Europe.



*Electricity demand (in terawatt-hours per year) in South East Asia.*

*Source: Roland Berger via Nikkei Asia*

The scaling up of the use of renewable energy is the biggest element in South East Asia's transition as the region's national governments were initially slow to adopt policies favourable towards renewables. Today, coal still dominates and renewables penetration is low.

Country	Renewables as share of primary energy supplied	Coal as share of primary energy supplied
UK	13.8%	3.3%
Vietnam	1.0%	50.2%
Thailand	5.2%	12.7%
Philippines	7.4%	36.1%
Malaysia	0.70%	21.1%
Indonesia	4.4%	38.3%

*Primary energy consumption for 2019. Source: BP Statistical Review of World Energy 2020*

The Association of Southeast Asian Nations (ASEAN), a body which includes 10 nations such as Singapore, Thailand and Indonesia, has set an ambitious target of 25% of its primary energy from renewable sources by 2025. This is a bold move as energy demand in the region is expected to grow by 50%. In this region's transition to a low carbon economy, there would look to be a tremendous opportunity to provide investment funds for the development of renewable energy projects for many years to come.

## Background

Saffron Energy commenced trading on AIM in February 2017 as an onshore natural gas producer with interests in northern Italy. Ahead of the listing, the company had raised £2.5 million at 5p per share which gave Saffron an initial market capitalisation of £7.69 million.

December 2017 saw the appointment of a new team in the boardroom led by James Parsons who assumed the role of Chairman. With the new board came a new strategy for expansion and transformational growth in South East Asia. Under the new name Coro Energy, the company was admitted to trading on AIM in April 2018. This move followed the acquisition of Sound Energy Holdings Italy and a £14 million institutional fund raising. On admission, Coro had an initial market capitalisation of £30 million at an opening price of 4.10p.

The first acquisition of the new strategy was seen in September 2018 with the planned acquisition of a 42.5% interest in the shallow water Bulu Production Sharing Contract (PSC) in offshore East Java which contained the Lengo Gas Field. This project came with an independently certified gross 2C resource of 359 Bcf of recoverable dry gas with gross 3C resources of 420 Bcf providing additional upside. The total consideration was US\$10.96 million (plus cost re-imbursements of US\$1.04 million) which suggested a low acquisition price of \$0.10/MMbtu. The team spent 12 months on this acquisition but following the operator going into receivership and concerns about new requirements being introduced in satisfying the Plan of Development, Coro allowed this deal to lapse.

A Joint Technical Study with PETRONAS over Block 2A, offshore Sarawak, Malaysia was announced in December 2018. Under the terms of this study, having conducted an extensive technical analysis on this acreage, Coro had the option to apply for a PSC. Block 2A represented a deep water somewhat frontier play which has not been able to be advanced further. At the time given the downturn in oil prices, E&P companies were not drilling such plays. In addition, with the COVID-19 pandemic and the ongoing tussle between the Indonesia government and Sarawak over oil royalties, the company has turned its attention elsewhere.

The next stage in building its portfolio in SE Asia, came in February 2019 with the acquisition of a 15% interest in Duyung PSC, offshore Indonesia, which contains the shallow water Mako Gas Field together with low risk step out exploration upside. A month later, the Duyung partners confirmed the Plan of Development (POD) for the Mako Gas Field had been approved by the Minister of Energy and Mineral Resources. Drilling of the Tambak-2 well in Duyung PSC commenced in October 2019, which was followed by the drilling of the Tambak-1 well. This work led to the successful appraisal of the Mako Gas Field which has been demonstrated to be a very valuable gas resource.

In April 2020, the resource upgrade of Mako Gas Field at Duyung PSC was announced. The gross (full field) 2C (Contingent) Resource estimate of 493 Bcf of recoverable raw gas, which represented a 79% increase on the pre-appraisal estimate. In May 2020, all the necessary Indonesian regulatory approvals were in place to allow the transfer to take place so Coro's Duyung PSC acquisition was legally completed. This was followed by a CPR released by Gaffney Cline, which confirmed this significant upgrade in resources.



The board revised the SE Asian strategy in November 2020 to include renewables/other low carbon energy sources and energy storage assets. At this time, Coro announced the acquisition of a 20.3% stake in Ion Ventures Holdings Limited, a SE Asia and UK focused developer of clean energy projects, including renewables and battery storage, for £500,000.

## Operations

Coro Energy is a South East Asian energy company with a growth strategy focused on low carbon energy investments supported by an existing platform of gas assets. The company is being positioning to benefit from this region's transition to a low carbon economy. Recently, Coro's strategy has been broadened to include renewables and enabling technologies such as battery storage.

## Indonesia - Gas

## Mako Gas Field, Duyung PSC, Indonesia

The company's flagship asset is a 15% interest in the Mako Gas Field, Duyung Production Sharing Agreement (PSC) offshore Indonesia where the sea is about 100m deep. The Mako Gas Field represents a large single biogenic gas accumulation that lies in the prolific West Natuna Basin. The actual Mako Anticline represents a vast structure which is roughly 47km long and 16km giving rise to 350km<sup>2</sup> area lying above the gas-water contact (GWC).



*Location of the Duyung PSC. Source: Company*

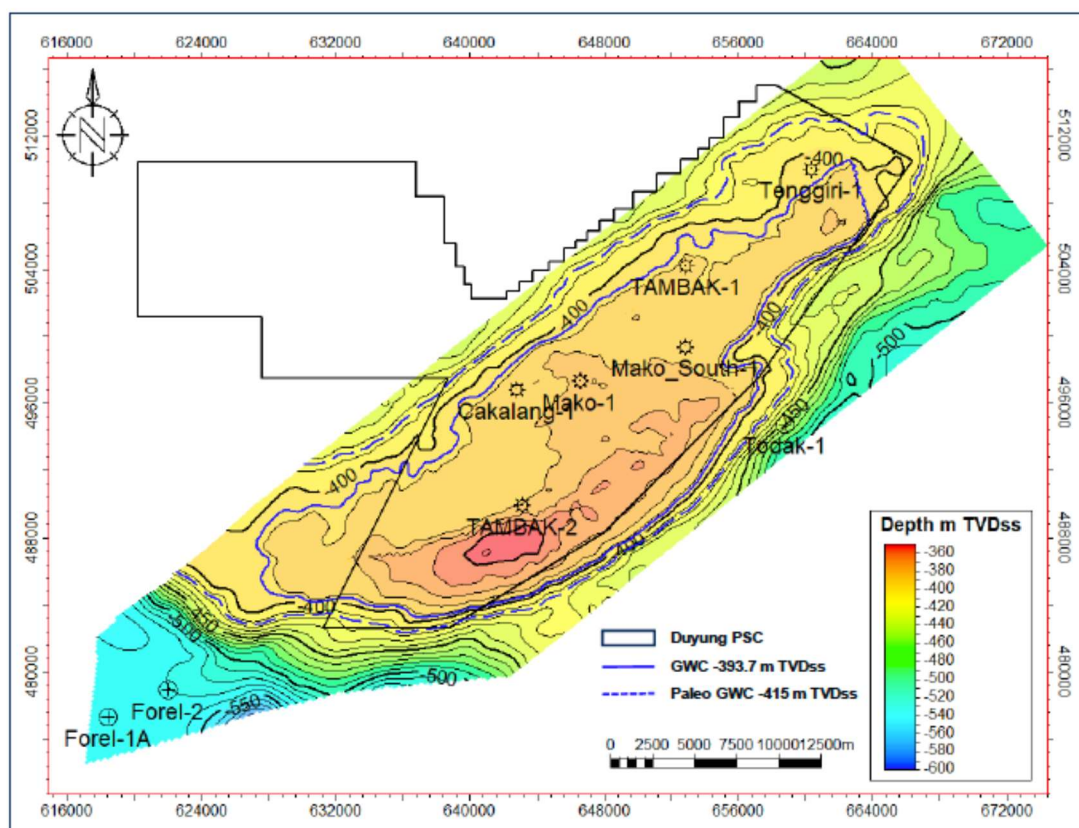
The structure is a Pliocene-age Intra-Muda sandstone reservoir with GWC at around a 391m true vertical depth (TVD). The Mako Gas Field is an extensive high-quality reservoir which is well-defined with low risk but also provides high value step out exploration potential near the main field. This project represents a strong platform for future growth in the region.

This 15% interest was acquired in April 2019 for a total consideration of US\$2.95 million in cash and US\$1.85 million in Coro shares along with contributing US\$10.5 million towards the 2019 exploration and appraisal drilling campaign on the PSC.

The Duyung PSC was originally awarded in 2007. Early 2019 saw the Duyung partners enter into a revised Duyung Gross Split contract with the Government of Indonesia which expires in 2037. The partners in the Duyung PSC are Conrad Petroleum (76.5%), Coro (15%) and Empyrean Energy (8.5%) which have a joint operating agreement. Coro has a seat on the technical committee and along with Empyrean can veto certain key matters should they wish. These two smaller partners apparently had a large say in the appraisal drilling programme.

### Commercial viability

The Mako Gas Field has been penetrated by a total of six wells. In addition, there is excellent seismic definition with strong amplitude signature and good resolution which really serves to define the architecture of this reservoir. Three wells were drilled on the main Mako structure before the 2007 award of the PSC to Conrad Petroleum. The field had not been tested by prior operators of the acreage and the commercial viability had not demonstrated until the Mako South-1 well drilled was in 2017. This well was drilled to core to test the Mako reservoir, which reassuringly flowed up to 10.8 MMscf/d of dry gas on test. Results from this well clearly demonstrated that there was good porosity at 20%, along with multi-Darcy permeability. Importantly, this is dry gas at over 97% methane with no H<sub>2</sub>S and only minimal CO<sub>2</sub>.



*Large areal extent of the field, showing all the wells drilled on the structure.  
 Source: Company*

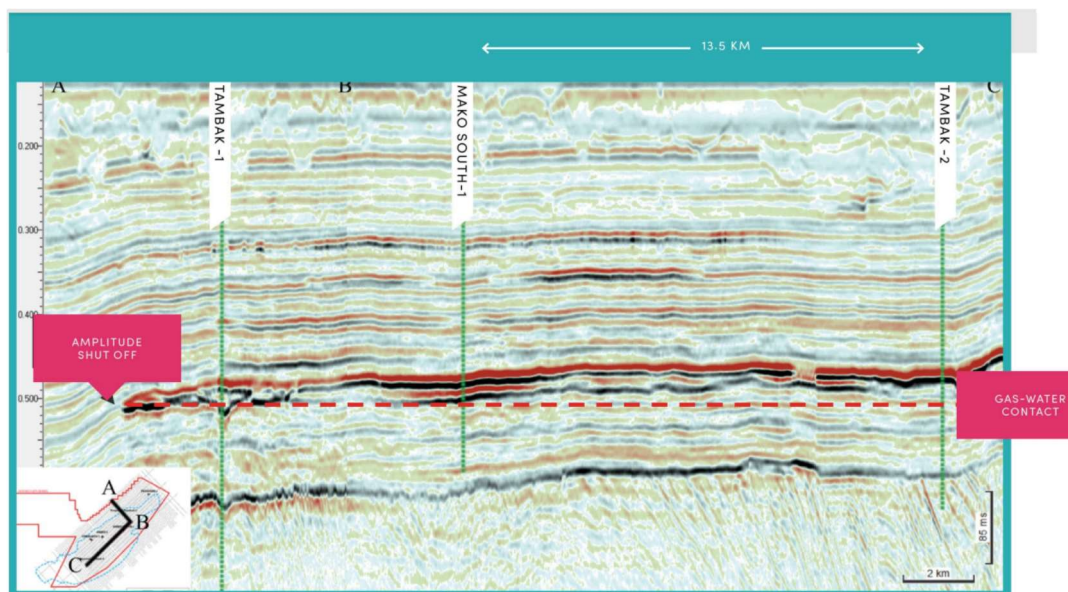


Gaffney Cline and Associates (GCA) prepared a resource assessment in 2018 with 2C gross (full field) recoverable reserves of 276BCF. At the stage, GCA modelled a POD which involved an initial four well development with a small platform to house compression facilities. The plateau production rate was planned to be 90MMscf/d, which was proposed to be maintained by the drilling of an additional four wells in a second phase later in the life of the field. The Mako POD was approved by the Indonesian authorities in February 2019.

### Successful appraisal campaign

A two well appraisal drilling programme was undertaken in Q4 2019. The Tambak-1 well was planned to test the Tambak exploration prospect and appraise the central area of the Mako gas field. The Tambak-2 well was designed to evaluate the reservoir properties and deliverability of the intra-Muda sandstones in the southern area of the Mako field. Tambak-2 represented a large step out, with this exploratory well drilled 13km outside of the reservoir in the search for an extension of the reservoir.

This proved to be a highly successful drilling campaign which saw the both Tambak-1 and Tambak-2 wells highlight the presence of well developed, high quality reservoir sandstones with a common gas water contact across the Mako structure. The Tambak-1 well intersected a 24m intra-Muda sandstone section with a well-defined GWC at 393m True Vertical Depth SubSea (TVDS), which similar to the other wells drilled on the structure. The Tambak-1 well flowed 11.4MMscf/d on test.



*Appraisals wells Tambak-1 and Tambak-2 along with the Mako South-1 well drilled by Conrad in 2017. Source: Company*

Following this successful appraisal campaign, Gaffney Cline and Associates (GCA) was commissioned to update its view of the Mako field which saw the resource estimates significantly upgraded, with Gaffney Cline also recognising significant 3C upside to the field.

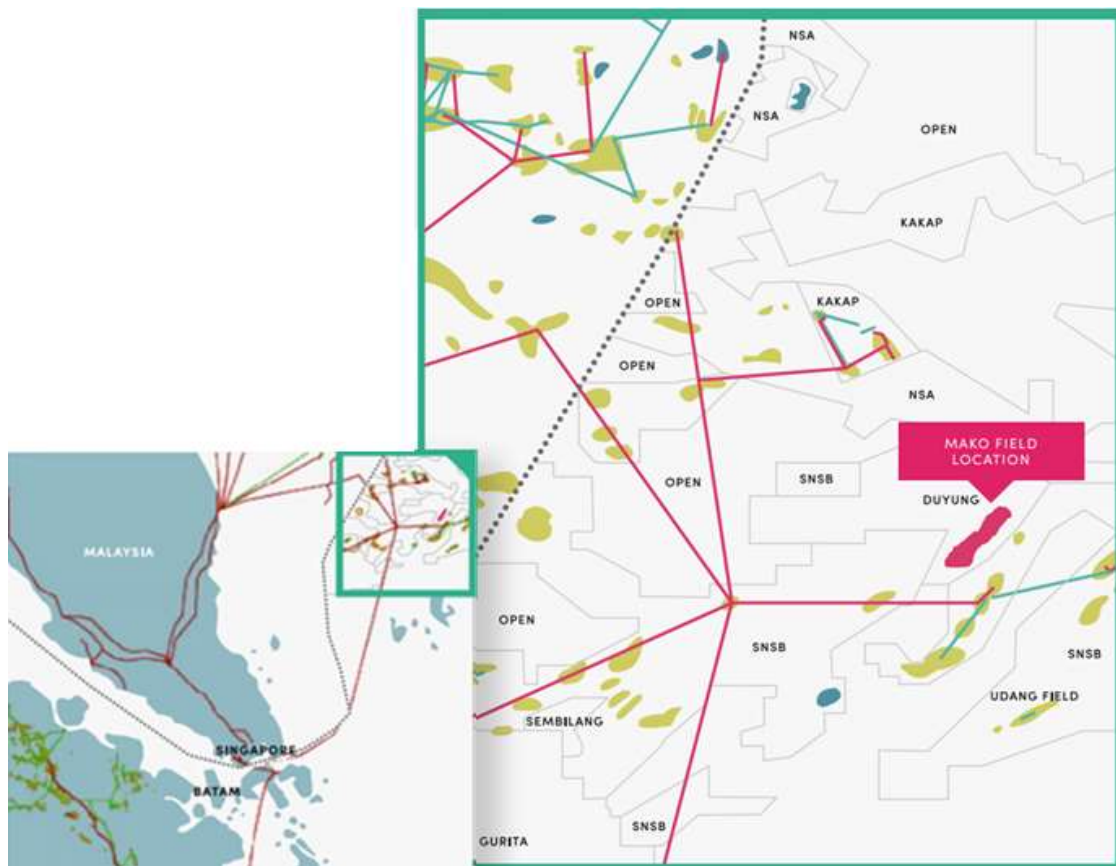
	1C Bcf	2C Bcf	3C Bcf
January 2019 GCA Audit - pre-drill	184	276	392
May 2020 GCA Audit - post-drill	287	495	817
Increase	+56%	+79%	+108%

*Contingent Resource Estimates (full field) of the Mako gas field.*

*Source: GCA Independent Resource Audit May 2020.*

### Access to Singapore gas market

Importantly, the field lies close to the West Natuna Transportation (WNTS) with the project being located just 16km from Kerisi platform which is operated by PT Medco Energi Internasional Tbk, a publicly listed Indonesian oil and gas company. The WNTS provides the potential to sell gas into the Singapore market, which offers favourable gas pricing as gas piped from West Natuna competes with Liquefied Natural Gas (LNG) imports. Higher gas prices have historically been available in Singapore as the country is a trading hub which lack its own gas production and so has remained heavily reliant on energy imports.



*Location of the Mako Field and its access to the Singapore gas market via the WNTS gas pipeline. Source: Company*

The WNTS is operated by ConocoPhillips on behalf of the basin operator groups including Medco, Premier and Star. This pipeline has spare capacity and already the partners in the Duyung PSC have signed Heads of Agreement with a Singapore buyer and negotiations concerning a Gas Sales Agreement are in progress.

## **Development**

At the moment the partners in Duyung PSC are focused on the commercial workstream, namely POD revision and finalisation of GSA negotiations. Although the POD was approved by the Indonesian authorities, since that time, given the significantly larger resource numbers that have been estimated by GCA, revisions to the plan are expected to be required. Currently, the operator's field development plan involves an initial six well development scheme (5 producers and 1 back up) along with a small platform housing the compression facilities which would be tied into the WNTS pipeline. Beyond that, a second phase is planned which would involve two or three additional wells which would be drilled later on in the life of the field to maintain plateau production rate which is planned to be up to 150MMscf/d.

The operator's preferred scenario seems to be for the processing facilities to be leased which would serve to substantially reduce the capex taking the total down from US\$395 million to US\$265 million. Phase 1 drilling is estimated to cost US\$115 million and Phase 2 drilling US\$30 million. Based on using leasing, the compression and processing facilities plus the pipelines are estimated come in at US\$120 million.

Further upside potential exists at the southern end of the field, over the structure's crest, where the Mako Shallow prospect lies. Seismic coverage of this area also shows very strong direct hydrocarbon indicators along with closure provided by the shallow Muda sandstones. The Mako Shallow prospect has been estimated to have a mid-case resource potential of around 100Bcf and chances of success of 75%. In addition, there are also deeper stratigraphic exploration prospects that have been mapped on 3D seismic data elsewhere in the PSC, which are in the process of being matured to a drillable status.



## Italy - Gas

Non-core gas assets in Italy were used as a platform to grow in South East Asia, as the operational track record and production of these assets was used to provide Coro with the credentials to successfully become involved in hydrocarbon projects elsewhere in the world.

Asset	2P MMscm
Sillaro	63.3
Bezzecca	65.9
Sant'Alberto	58.9
Rapagnano	25.8
Casa Tiberi	2.5
Total	216.4

*Coro's Italian gas assets. Source: Company*

There are four main projects in this portfolio. The Sillaro Gas Field lies within the Sillaro Licence, which is located in the Emilia Romagna region, 30km east of Bologna, in northern Italy. Production commenced in 2010 from two wells (one dual completion and one single completion) and daily gas production of gas from this field had been around 9,000scm/day (318Mcf/day). The level of production could be increased by a workover on one of the existing wells, which would probably involve a side-track.

The Bezzecca Gas Field is located within the Cascina Castello Licence which lies 35km east of Milan. An enlargement of the existing Cascina Castello Licence led to the Bezzecca Field being awarded production concession status in 2014. Gas production commenced in 2017 and this field had been producing at a rate of 16,000scm/day (550Mcf/day).

The Sant'Alberto field is located the San Vincenzo permit that lies in the Email-Romagna region. October 2017 saw the awarding of the production concession and the current development plan involves seeing the first year's production delivered via a low-pressure connection which is located just 260m from the well head. Meanwhile, the Rapagnano Gas Field is in the Fermo Province, in the Marche region, and was producing at a rate of 8,000scm/day (275Mcf/day).

A collapse in the gas price last year in Italy led to these operations becoming shut in, with the exception of Rapagnano which is profitable even at low gas prices. There was a deal to dispose of these interests to Zenith Energy which was not completed. It is more than likely that these assets will be disposed of over the coming months. The board is in talks with a couple of parties and the operations are capable of being restarted if there is an improvement in the gas price. The portfolio also has significant potential in the right hands, as there is potential for significant increases in production with some investment in the Sillaro and Bezzecca fields and completion of the Sant Alberto development. These operations are currently loss making and so the disposal price is unlikely to be material to the company.

## Renewables

Coro has an ambitious regional growth strategy in South East Asia, a region which is forecast to see 150% growth in energy demand by 2040. The management team has been evaluating a number of opportunities in the clean energy sector within this region. In September 2020, the board announced a broadening of the strategy to include renewables. The move away from coal towards electrification across this region will require a significant investment in renewables. This in turn is set to increase demand for battery storage to support grid imbalances as well as the growth in renewables.

## ion Ventures

The company's first clean energy investment was the acquisition of a 20.3% stake in ion Ventures, announced in November 2020 for an investment of £500,000. ion is a modern utility and energy storage infrastructure specialist, developing clean energy projects in the UK and South East Asia. Energy storage assets are vital flexibility tools for managing volatility by balancing periods of peak supply and demand. Additionally, batteries can also be used to support off-grid power systems in rural areas and across the myriad of islands in South East Asia.



*Example of an energy storage project. Source: Business Wire*

The company was founded in 2018 by two principals who between them have been responsible for a gigawatt of developments between them. ion has grown rapidly to now have a total pipeline of battery storage projects which are being financed ahead of project execution. The pipeline totals more than 250MW, which consists of some twenty projects (grid-connected and off-grid solutions) totalling 50MW across the South East Asian region along with 200MW of at or near shovel-ready grid connected storage asset projects in the UK/Ireland.

Following this investment, Coro is now the joint largest shareholder in ion and has been able to put its CFO Peter Christie on the board. Importantly, in this move Coro has immediately gained access to a pipeline of more than twenty high quality clean energy projects across South East Asia, along with the first right of refusal to invest in each of ion Ventures' projects across the ASEAN region.

Energy storage bears all the hallmarks of being the next major frontier in electrification. ion is involved in originating such projects and acts as developer taking on the early development risk. The team looks after the planning and development processes and so will deal with planning authorities, local stakeholders, utility connection and finding a suitable location to site the project.

### **Business model**

ion's business model involves originating and developing energy storage projects. ion deals with early stage development including negotiation with landowners and securing grid connections. Once these key development milestones are achieved, external investment is sought at financial close, with the construction financier taking an equity position in the project. ion generates earnings through yield from its carried interest in projects and management fees earned through its continuing role as asset manager.

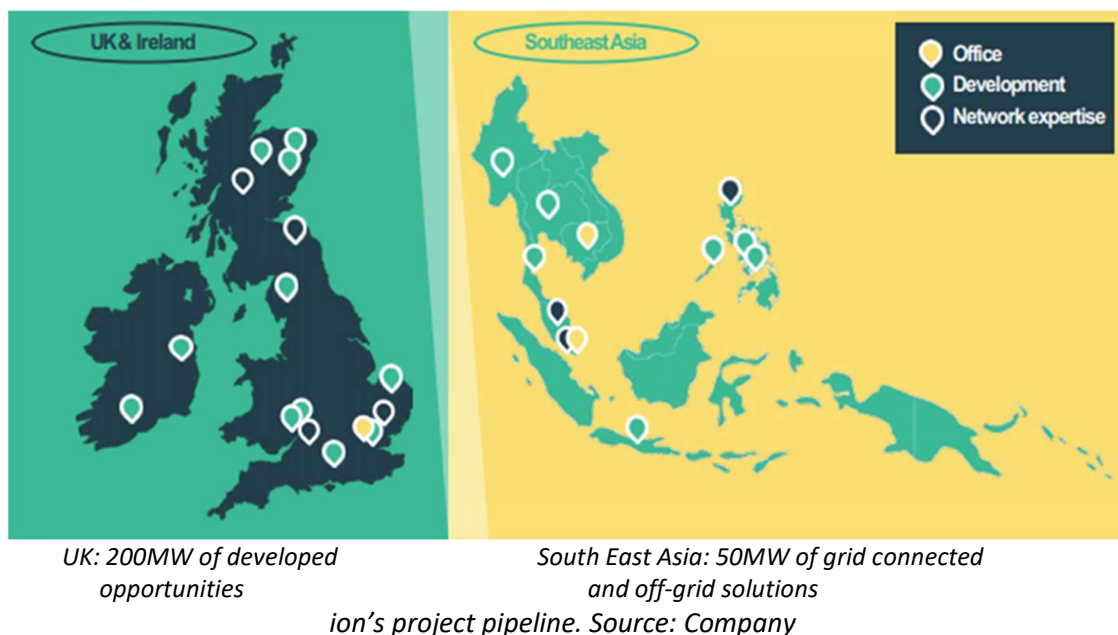
To date, the company has generated its income through a number of engagements with other developers, members of the supply chain and work with utilities. However, the company's core focus continues to be on origination, development and operation of its projects.

Moving ahead, the £500,000 that has been invested is earmarked to allow ion to mature its pipeline of energy storage projects to financial close. Mature projects are expected to be cash generative within 12 months of financial close, reflecting a short development cycle.

### **UK/Ireland**

The projects that the team is working on in the UK/Ireland tend to be grid scale projects that are located on their own, so not collocated with a wind or solar farm. These are standalone operations in a field that from a distance looks like a series of shipping containers within a fenced enclosure about the size of a football field. These containers house the required standard equipment along with racks of lithium-ion batteries which have a 10-15 year life but are repowered as necessary based on degradation profile and use.





Energy storage projects can generate revenue from the arbitrage of electricity and through participation in various other power or energy markets. Power is drawn from the grid at times of high supply and low prices, and then discharged at a time of higher wholesale pricing. Power markets can see large price swings over the course of a day, where power can, at times, be purchased at a negative price and sold for in excess of £100/MWh.

In the UK, ion has in excess of 200MW of sites in the region which are either shovel ready or in the latter stages of development. There is a ready market for the sale of such shovel ready projects, however ion's objective is to secure financing for construction while retaining a carried interest in the project and continuing to benefit from managing the assets through their life cycle, earning management fees and Operations and Maintenance (O&M) fees in the process.

### South East Asia

ion is working with a series of local partners to develop such projects in Indonesia, Cambodia, Philippines, and Thailand. Initially the focus is primarily on off-grid solutions, which are generally of a smaller size than grid-connected projects in the UK.

In South East Asia, ion benefits from an early mover advantage and the plan is to grow substantially in this region which has a vast and growing market for power, with a need for energy storage solutions to support increasing renewable energy generation, intermittency of grid supplies, and enhancement of existing off grid schemes.

With a sandbox project in Thailand, ion sees an opportunity with their local partner to reduce reliance on imported fuel and diesel powered electricity generators – an expensive air quality issue in an otherwise idyllic location. Together with a local utility, it is planned to put in place a 20 MWh battery system on the edge of the island which will require an investment of £6 million. This will support security of supply on interconnected island systems, as well as a reduction in use of diesel fuel locally.

ion was recently invited to support the British Embassy in Jakarta and the UK Department of International Trade at the 9th Indonesian Renewable Energy Summit, Indo EBTKE ConEx. At this virtual ion's Co-Founder, Dan Taylor, gave a presentation on modern energy systems and the use of energy storage across Indonesia. Following this successful event, it has been confirmed that ion has entered into a non-binding memorandum of understanding (MOU) with PT Inovasi, an Indonesian social enterprise with a portfolio of rural and off-grid energy assets.

This MOU looks to pave the way for ion to bring capital and expertise into an energy storage venture in Indonesia. Scope here looks large as PT Inovasi have been working in the micro and minigrid sector in Indonesia since 2016, developing solutions, delivering O&M services and improving quality of life and mobility through their social enterprise. PT Inovasi has already completed inspection, impact assessments and surveys of over 500 existing minigrids and rural communities across Indonesia. ion's team know what can be financed and so are able to pick out the best projects to be the initial focus of attention.

The archipelago of South Asia does look like a tremendous place to grow an energy storage business providing the sort of off-grid power systems used in rural areas elsewhere in the world. It is estimated that 50GW of new storage is required in South East Asia by 2040 to support increasing renewable investment. Across this region there is strong governmental support. In 2018, ASEAN gave a commitment to meeting some 23% of its primary energy needs from renewables by 2025.

## Strategy for growth

In recent months, Coro's board has recommitted itself to South East Asia and now has a broader corporate strategy of hydrocarbons and lower carbon technology. The prior corporate strategy was really focused on an institutional story. Under previous CEO James Menzies, and in a different macro climate, Coro was positioning itself to acquire a mature portfolio from the majors who have always seen South East Asia as being non-core and were exiting en masse.

The plan was to replicate the sort of deals that have been seen in the North Sea where Coro would pay full NPV with little cash paid up-front and the acquisition price deferred and paid out of cash flow. In March 2019, the company was unveiled as being a potential bidder for Ophir Energy. Coro's then CEO James Menzies knew these assets well as he put them into Ophir from Salamander Energy. Such a move would probably have required a US\$700 million deal (part cash and part equity) which would have been massively transformational. This does provide some idea of the size of the board's ambitions prior to the onset of COVID-19, the deterioration in market conditions and the Executive changes implemented by the Board. Indeed the Board should be credited with acting quickly and decisively to reduce costs in Q1 2020 at the onset of the pandemic. The decision to move on from CEO James Menzies was a courageous move aimed at securing the existing cash balance and adapting to the rapidly changing macro climate. After emerging from the depths of the pandemic with cash remaining in the bank and a new, expanded regional energy strategy including clean energy, a fresh face will be welcome as CEO and the Board's decision appears to have been vindicated.

Duyung is a tremendous gas asset which is reasonably close to Singapore and linked by a transport system which all makes for it being a highly marketable asset. On a 2C resource basis, the Mako Gas Field has been shown to be one of the largest gas fields ever discovered in the West Natuna Basin. This is a shallow single tank deposit that is not only well understood and technically low risk but also boasts step out prospectivity of some 100BCF which could be drilled in future. The highly successful appraisal drilling programme at Duyung dramatically increased the gas resource which has led to the Mako plan of development needing to be upgraded which also ushers in thought of better returns. The operator's preference seems to be for leasing the processing facilities which could allow the capex to be reduced by US\$130 million to US\$265 million. In fact, there is fast appearing an even cheaper alternative, of piping the gas to an existing Medco-owned platform which has compression and under-utilised capacity which would allow the gas to be compressed on a tariff basis. Under either scenario there would still be a 45 cents per Mcf cost to use the WNTS pipeline. With some other projects in the area in decline, Duyung would be able to use the spare capacity in this pipeline. Obviously, the gas price is the key, but this is a very bankable project even at relatively low gas prices.

Undoubtedly, the flagship Duyung PSC is an impressive gas asset which moving ahead looks as though it will serve to act as a platform for this regional growth. The last twelve months have seen some big changes at Coro which has adapted rapidly to a world of lower oil prices and now can be seen as a very lean organisation where administration charges have been shrunk down to US\$1.3 million a year. We believe the board can deliver the deals seen here because Non-Executive Chairman James Parsons and NED Andrew Dennan are really doing a lot more work than might normally be expected from a NED. Today, Coro is now primed to make the most of opportunities that benefit from the strong growth in energy demand along with the urgent need to de-carbonised South East Asia which currently is heavily dependent on coal. In the short term, a really relevant CEO will be needed who can help steer the business into its lower carbon future. This will be a very interesting key appointment which looks like being made in early 2021.



There are many ways Coro could fund its share of the development of the Duyung PSC. James Parsons and Andrew Dennen have plenty of confidence in funding with their proven institutional connections. Operator Conrad Petroleum's current 76.5% holding might be a larger stake than they would want to finance in the development of the project, which could well result in a farm out deal with another E&P company. In such a farm out Coro might well tag along and perhaps get a development carry if they liked the valuation. Or the company might raise fresh capital at the stage and perhaps restructure its debt. These days there are increasing methods of financing such a development which includes reserve-based lending at the project level, and initial discussions to explore this possibility have commenced. If there was a farmout, if Coro tagged along and if the development was project financed on a 40% equity and 60% debt basis, the sort of investment required by company would most likely be in the region of US\$10 – 15 million and not US\$20 – 40 million. Obviously, this is all dependent on the development concepts and the market will get a lot more clarity over the coming 6-9 months.

It looks as though 2021 will firmly see Duyung back on investor's radar. After a busy year in 2019 at Duyung, it has been a bit quiet since with no drilling and only limited technical work. We were a bit surprised that the major new resource upgrade did not get the sort of impact that it really deserved. However, it looks as though investors' patience will be well rewarded in 2021 with a decent news flow coming from this gas play. There is likely to be the signing of the Gas Sales Agreement (GSA), there is Heads of Agreement with gas buyer in Singapore already in place. This does need a better understanding of the volumes so the revised PoD needs to come first, as there may be some domestic production obligation and then the partners will have a proper understanding of the gas volumes that can be exported. It has to be pointed out that trying to agree a pricing formula in 2020 would have been a nightmare, but hopefully in 2021 it should be much easier to take a view on future gas prices. With FID likely to be taken by the year-end, after a 2-year development, gas production could begin at the start of 2024.

The first deal in the alternative energy and battery storage space in South East Asia has been a small investment of £500,000 for a 20.3% stake in ion Ventures, a company which has a substantial pipeline of battery storage projects which are rapidly being matured towards financing and project execution. Renewables and energy storage are much like the oil industry and there are three stages of development. Firstly, pre-development, which requires dealing with permitting, grid connection and managing the regulatory risk. Secondly, there is the construction stage which is low risk as the technology (solar panels or wind farms) are proven and there are lower returns but higher costs. Lastly, the operational stage, which is the target of players that have the lowest cost of capital. Coro is getting involved in the first stage – the pre-development /pre-construction stage - where there is a higher risk but where a decent return look to be on the cards from a meaningful but small investment. Importantly, at this stage there is less interest from the major infrastructure funds and utilities.

ion is South East Asia focused and both the founders have lived and worked there but also have good credentials from being involved in a stack of projects in Europe as well as sitting on various trade bodies. The market in renewables is at a much earlier stage in South East Asia than the UK where the market is becoming mature. ion's founders appreciate the sheer scale of the opportunity for early adopters in South East Asia. This is where they see their company's long-term future and where far larger equity stakes can be gained for successfully developing such projects. With their background in conceiving and developing alternative energy projects, ion's co-founders are probably less experienced in raising capital and financing projects. With its first right of refusal to finance all of ion's projects in South East Asia, the stage looks set for Coro to fulfil this need and make the most of such funding opportunities. It is worth bearing in mind that in the UK, these sorts of energy storage projects are debt fundable as the banks really appreciate the earnings profile and early cash returns with the infrastructure funded on a 70% debt and 30% equity basis just like project financing. Coro and ion could be a match made in heaven.

The share price of Coro has fallen to almost uncharted depths where today we believe the stock offers tremendous value. It is really not that long ago that the shares were merrily trading in excess of 4p. These days, it does look as though the market is concerned about debt and probably also worried about the lack of obvious progress as there has not been that much news. James Parsons has a proven track record of renegotiating debt and the company's €22 million Eurobond issue is in friendly hands. As far as news is concerned, we believe the revised POD and the signature on the GSA could trigger a strong re-rating of the stock. Certainly, a GSA with a favourable gas price from the gas market moving up is a value catalyst that does not seem to be priced in. All this is happening at the same time as the scale of the opportunities from the company's first move into South East Asian renewables and battery storage look like they could rapidly begin to be unveiled through the exciting growth story that is the partnership with ion Ventures.

## Financials & current trading

Since its IPO, under its old guise as Saffron Energy, the company benefited from gas production in Italy ahead of being shut in so that capital and management attention could be focused on the opportunities in the South East Asia.

Y/E 31 December US\$'000s	2016A <sup>1</sup>	2017A <sup>1</sup>	2018A	2019A
Revenue	701	1,389	-	-
Pre-tax profit/loss	-6,472	-7,027	-4,485*	-7,862*
Net profit/loss	-5,996	-7,027	-13,897**	-17,192**

<sup>1</sup> €'000

\*From continuing operations - Italian operations have been classified as discontinued in the group income statement since 2018, due to the ongoing divestment process

\*\*Includes loss from discontinued operations (Italy)

*Coro Energy four-year trading history. Source: Company accounts*

### 2019 results

Financial results for the twelve months ended 31<sup>st</sup> December 2019 represented a busy period for the company which saw Coro securing a 15% interest in the Duyung PSC followed by the participation in the drilling of two successful appraisal wells which was all made possible by the issue of a €22.5 million Eurobond. Plus, there was the continued technical evaluation of Block 2A in Malaysia along with the general and administrative costs for the year totalling to US\$5.102 million resulting in a loss from operating activities of US\$5.264 million. After US\$2.598 million of net finance expenses, the loss before and after tax came out at US\$7.862 million as there was no tax paid. The total loss for the year was US\$16.635 million after US\$8.773 million of losses from discontinued operations. Exchange differences on translation of foreign operations gave rise to a loss US\$0.577 million resulting in a total comprehensive loss for the period of US\$17.192 million. The basic and diluted loss per share from continuing operations was US\$0.010.

### 2020 interim results

Results for the six months to 30<sup>th</sup> June 2020 covered a period when COVID-19 stalked the planet and there were unprecedented challenges for junior E&P companies as the oil price dropped. The company moved quickly to dramatically reduce corporate overheads and prepare for renewed growth at the Duyung PSC once the initial phase of the pandemic was over. General and administrative costs in this period were reduced to US\$1.903 million, which resulted in a loss from operating activities of US\$1.976 million. After US\$2.941 million of net finance expenses, the loss before and after tax came out at US\$4.917 million as no tax was payable. The total loss for the period came out at US\$6.712 million after US\$1.795 million of losses from discontinued operations. Exchange differences on translation of foreign operations of US\$1.042 million resulted in a total comprehensive loss for the period of US\$5.670 million. The basic and diluted loss per share from continuing operations came out at US\$0.006.



## **Recent developments**

In September 2020, the board announced a revised South East Asian strategy to include renewables/other low carbon energy sources and energy storage assets. At this time, Coro announced the acquisition of a 20.3% stake in Ion Ventures Holdings Limited, a South East Asia and UK focused developer of clean energy projects, including renewables and battery storage, for £500,000. This move provided Coro with a good deal flow of already high graded investment opportunities in the company's target region along with access to a team of regional experts.

## **Risks**

### **Geological risks**

There are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the reservoirs being targeted and the distribution and magnitude of the indicators that have been identified in exploration work.

### **Political risk**

There are political risks involved in companies operating in Indonesia and other countries in South East Asia. The oil and gas industry, along with the whole energy market, is arguably the most susceptible sector of the market to political risks largely due to its importance to the host country's economy.

### **Gas price risks**

Oil and gas prices are highly cyclical and changes in the gas price could have a negative or positive impact on the valuation of the company's projects and revenue from the sales of hydrocarbons.

### **Exchange rate risks**

Movements in the value of currencies will have an effect on the company's accounts on translation from Indonesia Rupiah and other local currencies in South East Asia into US dollars. Fluctuations in the value of such currencies against the pound may have an effect on the valuation Coro is awarded by the UK stock market.

### **Future funds**

The market for raising funds for small cap companies look to have had improved from the worse conditions a couple of years ago, however the global spread of COVID-19 has meant that equity markets have become extremely difficult. This is especially so for oil and gas companies where lockdown has resulted in a glut which has had a severe impact on the prices. Even ahead of the arrival of the pandemic and the fall in oil and gas prices, some fund raisings in the small cap oil and gas market have seen share prices being undermined by incoming investors demanding substantial discounts to provide the necessary capital.

## Board of Directors

### **James Parsons – Non-Executive Chairman**

James is currently Executive Chairman of Corcel Plc and Ascent Resources Plc, and Non-Executive Chairman at Echo Energy Plc. James has over 20 years' experience in the fields of strategy, management, finance and corporate development in the energy industry. He started his career with the Royal Dutch Shell Group where he spent 12 years working in Brazil, the Dominican Republic, Scandinavia, the Netherlands and London. James was previously Chief Executive at Sound Energy Plc for 8 years, is a qualified accountant and has a BA Honours in Business Economics.

### **Andrew Dennan – Non-Executive Director**

Andrew has many years' experience unlocking growth across AIM-listed companies as a corporate financier and investment manager. Throughout his career he has been involved in stockbroking and asset management in prominent roles leading proprietary investment decisions, capital raising, risk oversight and portfolio management. He has worked closely for many years with key members of Coro's board and brings a wealth of capital markets and corporate transaction experience to the team.

Andrew is currently a Non-Executive Director of Nu Oil & Gas plc and Chief Executive Officer of Ascent Resources plc.

### **Marco Fumagalli – Non-Executive Director**

Marco is Managing Partner at Continental Investment Partners SA, a Swiss-based fund and cornerstone shareholder in Sound Energy and Echo Energy. Marco is a well-known Italian businessman who was previously a Group Partner at 3i. Marco is a qualified accountant and holds a degree in Business Administration from Bocconi University in Milan. He is a Non-Executive Director at Sound Energy and Echo Energy.

### **Fiona Macaulay – Independent Non-Executive Director**

Fiona has over 30 years of experience in the oil and gas industry, she was the former Chief Operating Officer & Technical Director of Rockhopper Exploration PLC. A Chartered Geologist Fiona started her career with Mobil North Sea in 1985 and has subsequently held senior roles in a number of leading oil and gas firms including Amerada Hess and BG. She has held the position of European President of the American Association of Petroleum Geologist and sits on the Geological Society Investment Committee.

Fiona is also Chair of Independent Oil and Gas plc and a Non-Executive Director of Ferrexpo plc, Chemring Group plc, and EPI Group Ltd.

## Forecasts

We initiate coverage of Coro with forecasts for the full years ending 31<sup>st</sup> December 2020 and 2021. In the year to 31<sup>st</sup> December 2020, general and administrative expenses are expected to fall substantially to US\$2.600 million following the move by the board to non-executive roles which is forecast to result in a loss from operating activities totalling US\$2.750 million. The loss before income tax is expected to be US\$6.200 million after US\$3.500 million of finance expenses, which is largely the interest payable on the €22.5 million Eurobond issued in April 2019. There is a loss on discontinued operations of US\$1.795 million following the decision for a full divestment of the company's Italian operations. The loss per share from continuing operations for the year came out \$0.008.

Year End 31 December (\$'000s)	FY 2018a	FY 2019a	FY 2020e	FY 2021e
<b>Continuing operations</b>				
General and administrative expenses	(4,815)	(5,102)	(2,600)	(1,500)
Depreciation expense	(6)	(125)	(150)	(150)
Impairment losses	-	(37)	-	-
<b>Loss from operating activities</b>	(4,821)	(5,264)	(2,750)	(1,650)
Finance income	336	54	50	20
Finance expense	-	(2,652)	(3,500)	(4,000)
Net finance (expense)/income	336	(2,598)	(3,450)	(3,980)
<b>Loss before income tax</b>	(4,485)	(7,862)	(6,200)	(5,630)
Income tax benefit/(expense)	-	-	-	-
<b>Loss for the period from continuing operations</b>	(4,485)	(7,862)	(6,200)	(5,630)
<b>Discontinued operations</b>				
Loss for the period from discontinued operations	(7,204)	(8,773)	(1,795)	-
<b>Total loss for the period</b>	(11,689)	(16,635)	(7,995)	(5,630)
<b>Other comprehensive income/loss</b>				
<i>Items that may be reclassified to profit/loss</i>				
Exchange differences on translation of foreign operations	(2,208)	(557)	(1,400)	500
<b>Total comprehensive loss for the period</b>	(13,897)	(17,192)	(6,595)	(5,130)
<b>Loss attributable to:</b>				
Owners of the company	(11,689)	(16,635)	(7,995)	(5,630)
<b>Total comprehensive loss attributable to:</b>				
Owners of the Company	(13,897)	(17,192)	(7,855)	(4,730)
Basic loss per share from continuing operations (\$)	(0.008)	(0.010)	(0.008)	(0.007)
Weighted average number	578,376,890	768,697,359	792,981,033	793,322,635
Total shares plus options and warrants	883,339,000	1,263,161,000	1,266,879,635	1,324,897,635

Source: Company/Align Research

In 2021, we expect that the final investment decision will be made at the Duyung PSC. General and administrative expenses are expected to fall substantially to US\$1.500 million as the full-year of directors' salaries at the reduced rate following the move by the board to non-executive roles is realised. We also assume an additional amount to cover the appointment of a CEO. This would result in a loss from operating activities totalling US\$1,650 million. The €22.5 million Eurobond issued in April 2019 has a three-year life and so will be maturing in April 2022. This has been a useful facility which was backed by key institutions which are big supporters of the company and we expect that the board might restructure borrowings at this time and perhaps look at a bigger facility. In the current very low interest rate environment, it is anticipated that a larger facility may provide a lower cost of borrowing and we have assumed financing expenses for the period of US\$4.000 million. On this basis, with no tax payable, the loss before and after income tax is expected to be US\$5.630 million. With no losses on discontinued operations, the total loss for the period would come out at US\$5.630 million. The loss per share from continuing operations for the year came out \$0.007.



## Valuation

We have set out to determine a meaningful valuation of Coro to set a realistic target price which makes sense in today's equity market. Our focus of attention has been on the gas interests in offshore Indonesia. A lot of value has been created at Coro over the last couple of years, which, in our opinion, seems to not yet be at all reflected in the share price.

It was just in April 2019, that the company acquired a 15% interest in the Duyung PSC which has become the flagship asset and looks as though it will provide a strong platform on which to embark in a significant investment in alternative energy and energy storage across the energy hungry South East Asia archipelago. In our analysis, we have sought to place a creditable valuation on these gas interests along with the embryonic renewables arm.

### Indonesia - Gas

Valuing Coro's stake in the Duyung PSC has been based on the cash flow derived from the company's 15% interest in this project. Our model has been conservatively formulated based on studying management's plans, the cash flow forecast based on Coro's most recent outlook for the project and a discussion with management. Below we have outlined some of the key assumptions that have been made in the creation of this financial model.

**Resources** – The updated resource following the successful appraisal drilling campaign in 2019, which was audited by GCA were used as the basis of the model.

	1C Bcf	2C Bcf	3C Bcf
May 2020 GCA Audit	287	495	817

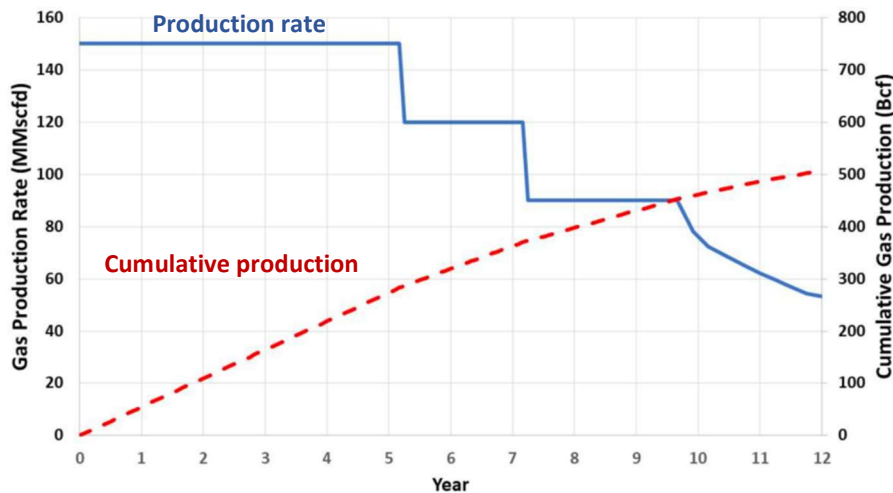
*Gross full field recoverable resources for the Mako gas field.*

*Source: GCA Independent Resource Audit May 2020.*

**Development plan** – We have modelled the development plan that had been discussed on page 10, where a total of 6 wells are planned to be drilled initially (2022 – 2023) with produced gas being piped to a small platform housing providing in-field processing and compression facilities that would be tied into the WNTS via a new 100km pipeline. The WNTS would transport the gas directly to Singapore. Plateau production is planned at 150MMscf/d, with 2-3 additional wells being drilled in a second phase (2027) with production modelled for the period until the Duyung Gross Split contract with the Government of Indonesia expires in 2037.

**Capex** – The leasing route for the processing facilities was selected as it dramatically lowers capex. On this basis, capex for the facilities and pipeline was assumed to be US\$120 million. Phase 1 drilling was estimated at US\$115 million and Phase 2 drilling at US\$30 million, which all adds up to US\$265 million for the total development.

**Production** – Based on the FID being taken by the end of 2021, first gas production has been assumed at the beginning of 2024 with the production profile shown below.



*Production forecast for the Mako Gas Field. Source: Company*

**Gas price** – The domestic market obligation (DMO) was assumed to be 25% with the remainder of the gas being exported to Singapore. For both the DMO volume and the gas destined for Singapore, a long-term flat price of US\$7/mmbtu has been used in this analysis. There is already Heads of Agreement (HOA) in place with Sembcorp which has a pricing formula related to Brent and US\$7 gas, reflecting a long-term Brent price of US\$50/bbl.

**Operating costs** – Fixed annual operating costs were assumed to be US\$32.1 million along with a US\$0.45 per Mscf WNTS tariff charge for transporting the gas to Singapore.

Item	US\$ million
Leased processing and compression facility	14.6
Offshore (Manning US\$2 million, maintenance US\$2 million, Chemicals & fuel US\$0.4 million, compressor US\$1.9 million and other US\$0.5 million)	6.8
On shore support	2.5
Logistical base	0.5
Share helicopter	3.6
Shared vessel	2.6
Well workover allowance	1.5
<b>Total</b>	<b>32.1</b>

*Breakdown of fixed annual operating costs*

**Decommissioning costs** – A figure of 20% of the development cost was used in the analysis as this seems to be in line with other similar projects.

**Taxes** – An effective tax rate of 40% was assumed which represented corporate income tax rate (25%) on taxable income followed by the branch profits tax (20%) on the resultant income after corporate taxes.

We determined the Net Present Value using a 10% and 12% discount factor which gives figures of US\$48.5 million and US\$40.8 million respectively. In our analysis we chose to use the NPV determined with a 12% discount factor rather than the more commonly applied 10%, 8% or even 5%. This was in order to more heavily risk the project as we wished to remain conservative and this figure was carried through into the SOTP calculation.

Discount rate	Net Present Value US\$ million
10%	48.5
12%	40.8

*Coro's Net Present Value.*

As mentioned earlier, there is now a fast-emerging alternative to the partners having to fund compression facilities which could have the scope to significantly lower operating costs in the leasing scenario which we have used in our analysis. The leasing of processing and compression facility represents some 45% of operating costs. The move to using an existing facility with payment on a tariff basis would meaningfully boost annual earnings and the project's NPV and so underlines the conservative nature of this analysis.

## Renewables

The new arm of Coro first saw the light of day in September 2020 with the sensible broadening of the corporate strategy in its core South East Asian market to include the rapidly growing renewable energy sector. The pace of energy growth in this region is something like double the global average. That, combined with region's serious renewables target and the dominance on coal for electricity generation, is providing a highly compelling investment opportunity.

The first move was to take a 20.3% stake in ion Ventures for £500,000. Coro will benefit from ion's strong pipeline of high-quality clean energy projects across South East Asia. ion's business strategy has evolved to taking equity position in such projects (and in this region they are estimated at between 7-40%), in which Coro will share moving forward. Earnings from a growing portfolio of renewable projects spread across this archipelago look destined to create a growing long-term stream of quality earnings.

In addition, the company has the first right of refusal to invest in each of ion's projects in South East Asia. Helping to fund such renewable projects really plays into the strengths of the board. James Parsons and Andrew Dennen have a track record of transactions in international oil and gas as well as proven access to capital and impressive relationships with key financial institutions. In total over the last 6 years or so they have raised £500 million for AIM companies. Investors should be prepared to see Coro take enhanced equity positions in these South East Asian projects which could serve to substantially enhance earnings.

It is early days in the move into renewable energy where Coro has the benefit of aligning itself with a team of regional experts that know this business inside out. For the moment we have chosen to put a valuation which purely reflects the price paid for the stake in ion. As details of the initial deals are shared with investors, we look forward to being able to outline the sort of quantum of earnings that this new arm could provide over the coming years and put a proper number into SOTP table for the valuation of this new exciting play.

## Total

Our SOTP valuation totalled US\$15.75 million or £11.91 million. Based on the number of shares currently in issue (793,322,635) the per share valuation would come out at 1.50p. Looking on a fully diluted basis (1,266,897,635), we have added the funds that would result from the options being exercise of £18.92 million which gives a total of £30.85 million which equates to a share price of 2.44p.

Asset	U\$ million
Duyung PSC NPV(12)	40.8
Ion Ventures (£500,000 investment at acquisition price)	0.67
Debt €22.5 million using current FX rate 1.22	(27.22)
Cash	1.50
<b>Sub-total</b>	US\$15.75 million
At current FX rate 1.32	£11.91 million
<b>Per share</b>	
Based on the number of shares in issue (793,322,635)	1.50p
<b>Fully diluted basis</b>	
Funds coming from options being exercised	£18.94 million
<b>Total</b>	£30.85 million
Based on the number of shares on a fully diluted basis (1,266,897,635)	2.44p

*Sum-of-the-parts valuation. Source: Align Research*

Normally we would leap on the fully diluted number as our target price. However, in the case of Coro, the total of 473.575 million options that were issued to bondholders at 4p are well underwater. On that basis we have chosen to use a target price of 1.50p.



## Conclusion

Coro offers a highly impressive play on strong growth in energy demand in South East Asia along with the region's necessity to move to a low-carbon environment. There is no doubt that the world's transition to low energy systems is well and truly underway. This important region, that is home to 10% of the world's population, might currently lag behind but it has big ambitions for de-carbonisation. The fundamentals for growth in renewables are hugely compelling due to the sheer scale of investment in electricity generation and battery storage required to allow the electrification of transport, homes and industry globally. There are tremendous opportunities out here that need financing – which the board is awfully good at.

Truth is that there seems to be a lot of money looking for a home in energy storage projects. November 2020 saw £389 million market cap Gresham House Energy Storage Fund (LSE:GRID) successfully raise £120 million at 105p to finance the acquisition of six new near-term energy storage projects totalling 245MW. This finance serves to unlock a significant first step in GRID's portfolio growth in a programme that was recently been established to develop a total of further ten projects of around 485MW of battery storage over the next 12-18 months. This really provides compelling evidence that there is strong investor support from these storage portfolio funds and this is just what ion/Coro will be looking to tap into.

Such renewable projects provide an enviable opportunity to generate a long-term stream of growing and reliable earnings stretching many years into the future. Such earnings are deemed to be high quality earnings which investors are prepared to pay a premium for. Early signs are that the tie up with ion could generate a bumper newsflow, with myriad projects which all need financing. It is not hard to see dramatic growth in Coro's renewables arm rapidly leading to a highly balanced company with the value spread more evenly between the two prongs of the corporate strategy based on the growth of energy demand in South East Asia.

This ambition is no pipe dream as the company's 15% interest in the Duyung PSC is well positioned to provide the solid foundation on which Coro can develop into well-balanced regional energy company. We are confident in the development of this low-risk gas project with its large gas resource and relatively low costs by industry standards. It looks well-positioned to supply the Singapore market which historically has paid premium prices due to its lack of domestic production. At the same time, importantly, the other partners seem to have good access to capital. Conrad Petroleum is a well-backed private company, while Empyrean Energy is LSE-listed with oil and gas with interests in China, Indonesia and the US and has been raising money and also appears well-backed.

Moving into the New Year, investors look like they will be rewarded with a rapidly improving newsflow which should allow the stock to once again attract attention. We look forward to being given the chance to update our valuation going forward as the move into renewables really begins to take shape. **We initial coverage of Coro Energy with a Conviction Buy stance and a share price target of 1.50p.**

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