

## NEWS

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### **Independent Clean Energy Producer Econergy Is Poised To Ramp Up Capacity**

By Rue Swabey

**US-based, Aim-traded Econergy is an independent clean energy power producer with a focus on Latin America. It is developing a portfolio of wind and hydro assets using the £60 million it raised on flotation in 2006. Latin America's attraction is its fast growth pace. On the downside, political risk remains relatively high.**

Most of the company's assets are still under development. Three plants are due to come on stream in 2008 and a further two in 2009. These development activities are underpinned by one operational asset - a 50 per cent stake in Corani, a 147MW hydroelectric plant in Bolivia, acquired by **Econergy** early in 2007. **Econergy's** business model is straightforward: projects are backed by long-term power purchase agreements, averaging 20 years in length, engineering, procurement and construction contracts, and, with certain projects, an annual stream of certified emissions reductions (CERs) which can be realised in the carbon markets.

**Econergy** bought Corani from Duke Energy for US\$20 million. The acquisition appeared risky in light of ongoing concerns that the Bolivian government might nationalise the country's energy infrastructure. But so far so good and Corani booked gross revenues of US\$21.6 million in 2007 in line with expectations. Earnings before tax, interest and accountancy deductions came in at US\$14.2 million, delivering a gross profit of US\$6.6 million. In April shareholders will authorise the 2007 dividend.

There's been good progress, meanwhile, on the other projects. **Econergy** has signed a long-term power purchase agreement (PPA) with Costa Rica's national electric company for its 50MW Proyecto Eolico Guanacaste (PEG) wind project. It also secured long-term project debt for PEG from

German commercial bank Nord/LB. And it's also closed project financing for a 19.8MW hydroelectric plant in Brazil.

Although Latin America is **Econergy's** main market, and the estimated source of 85 per cent of future revenues, the company does have a foothold in the US where it is developing the Cambria project to capture methane from disused coal mines. That project is scheduled to start commercial operations at the end of the first quarter 2008, and will generate revenues from gas sales of the order of 300 million cubic feet per year and from the sale of carbon credits in the voluntary emissions reductions (VER) market.

During 2008 **Econergy** will bring three plants into commercial operation, thereby increasing installed capacity from a gross 147MW to 198MW. Two more projects are scheduled to begin production in 2009, bringing a further 43.2MW on stream, with 24.3MW scheduled for 2010. Additionally, there are three projects in late-stage development totalling 60MW.

The company's carbon strategy is conservative. It has shifted away from agency relationships with the Kyoto-sponsored Clean Development Mechanism (CDM) to a focus on direct investments and forward purchases of CERs from project sponsors. It's also expanding its regional focus outside Latin America. Like other players in this space, **Econergy** is experiencing regulatory difficulties in Brazil where recent developments are hurting the company's ability to fulfil existing contracts. **Econergy** has put aside a portion of the CERs already acquired to cover its obligations on its CER loan from **Trading Emissions** [link].

**Econergy's** technologies are proven and returns in excess of 20 per cent should be realised once projects are commissioned. This year is crucial as the company makes the transition from developer to operator. Latin American political risk will remain but is already priced in. At June 2007 **Econergy** had US\$68 million in cash. While there is sufficient cash to meet near-term needs, over the longer term additional funding will be required.

Since the release of the January trading update the share price has been stuck at around 40p, a long way down from the float price of 100p. Although the latest update was upbeat enough, and projects are progressing as envisaged the market may well be concerned about funding for the longer dated projects. But analyst Agustin Hochschild at broker Dawnay, Day is not overly concerned and points out that "clean energy projects are in high demand and the value of these projects is considerably in excess of the company's current market capitalisation."

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