# Security Review:

## MPC Caribbean Clean Energy Ltd. Renounceable Rights Issue

Prepared by:

JN Fund Managers Global Investment Research Unit

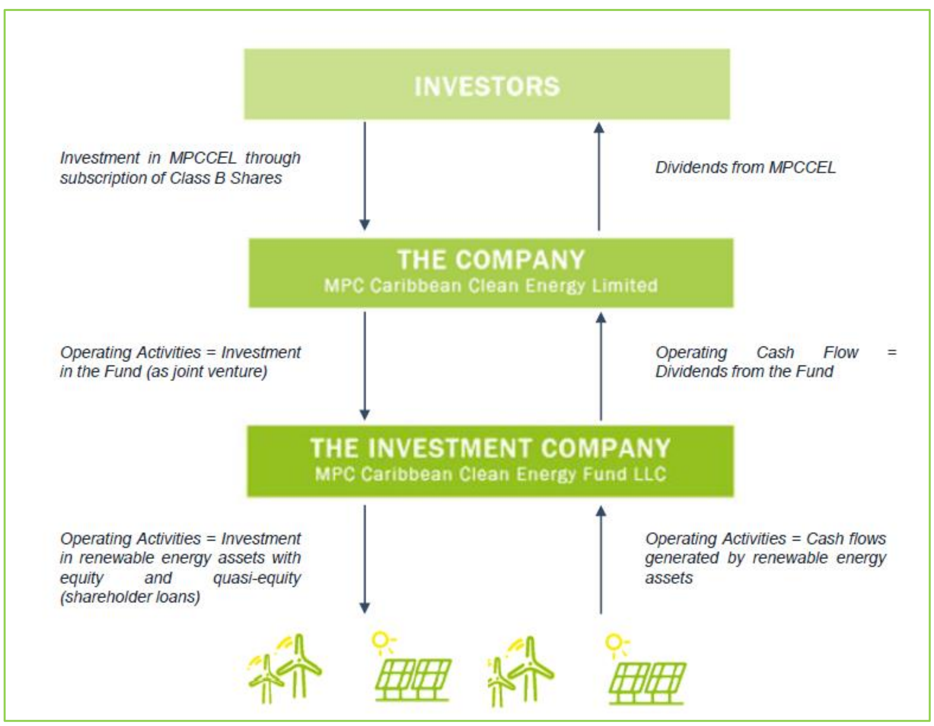
**November 2019**

# Issuer Overview

MPC Caribbean Clean Energy Ltd. (the Company or MPC ) is a Caribbean-based company established in 2017, with the vision of enabling private and institutional investors from Jamaica and Trinidad and Tobago to invest through the Company into the leading specialized investment fund which invests in renewable energy projects in Jamaica, Trinidad and Tobago and the wider Caribbean region: the MPC Caribbean Clean Energy Fund LLC ( the Investment Company or the Fund).

The Company is registered in Barbados and publicly listed on the Jamaica Stock Exchange as well as the Trinidad and Tobago Stock Exchange. The clean energy investment specialist MPC Renewable Energies GmbH (MPC), a 100% subsidiary of the publicly listed German asset and investment manager MPC Münchmeyer Petersen Capital AG ("MPC Capital"), has initiated the Company and the Investment Company based on its extensive renewable energy experience worldwide and after deep research and analysis of the Caribbean market.

# Fund Structure




In the last quarter of 2018 **MPC Caribbean Clean Energy Ltd.** invited **Investors** to purchase Class B shares in the Company's Initial Public Offering (IPO). The proceeds received in the Company's IPO were invested in **MPC Caribbean Clean Energy Fund LLC (CCEF)**.

Having identified the need for sustainable, low cost electricity and clean energy in the Caribbean, the MPC Group saw it fit to establish the MPC Caribbean Clean Energy Fund LLC (CCEF). The MPC Capital team has a wealth of expertise in developing clean energy in emerging markets.

The CCEF aims to provide equity to small and medium-sized construction ready projects in the Caribbean, which may be lacking sufficient sources of domestic capital, as well as to build a portfolio of clean energy assets for investors seeking longer duration, dollar denominated assets. Two current projects, Tilawind Windfarm in Costa Rica and Paradise Park in Jamaica are examples of the investments that the CCEF targets.

Cash flows generated by renewable energy assets are then transferred to the Company as dividends, which may then be paid out to the Company's shareholders. **Please see illustration above.**

## Offer Summary

The Company is seeking to raise **US$22.85M,** from investors in Jamaica and Trinidad & Tobago, through a renounceable rights issue. This involves the issuance of 22,848,320 new ordinary shares at a price of **US$1** or **J$140** each. The distribution will be two (2) new shares for every single (1) existing share held at the record date of the rights offer. Currently, there are 11,424,160 shares outstanding. Thus, at the end of a successful rights issue, there could be a total of 34,272,480 class B shares outstanding.

| | |
|---|---|
| **Issuer** | MPC Caribbean Clean Energy Ltd |
| **Arranger and Lead Broker** | JN Fund Managers Ltd |
| **Exchange** | Jamaica Stock Exchange, Main Market |
| **Opening Date** | November 13th 2019 at 9:00 am |
| **Closing Date** | December 16th 2019 at 4:30 pm |
| **Offer Period** | Early applications may be submitted to JN Fund Managers Ltd. Any such applications will be treated as having been received at the same time, being 9 am on the Opening Date and shall be allocated pro rata. All other applications (that is, not early applications) will be received and processed on a first come, first served basis. |
| **Rights Issue Terms** | Record Date for Entitlement is November 8, 2019. As an eligible sharheolder, the distribution will be two (2) new shares for every single (1) existing share held. The rights of this offer are renounceable. |
| **Offer Price** | J$140.00 per share for applicants in Jamaica and US$1.00 for applicants in Trinidad and Tobago. The minimum subscription for the offer is J$250,000 or the US$ equivalent. |
| **Use of Proceeds** | It is the Company's intention to use the net proceeds (Approx US$22.35M) to invest in the Investment Company which will deploy same in clean energy projects in the Caribbean Basin. |
| **Securities** | The Company is proposing to issue 22,848,320 new shares. |
| **Acceptable Payments Methods** | Either (1) Manager's Cheque payable to "JN Fund Managers Limited" (2) cleared funds held in a JN Managers account or (3) Transfer or Direct deposit to JN Fund Managers (details set out in application form). No cash payments accepted. |

# Corporate Governance

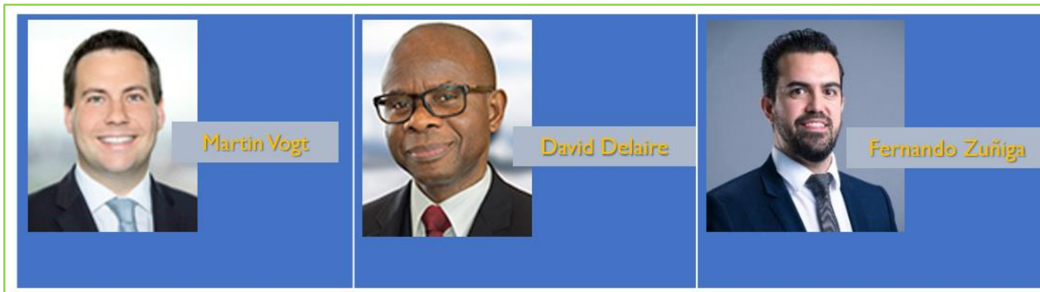
## Board of Directors of the Company

The Board of Directors of the Company comprises six members, five of which are independent. The Chairman of the Board of Directors is Gerard A. Borely who is currently the CEO of Caribbean LED Lighting Inc. The Board also includes Jamaicans Anthony Hart of Caribbean Produces Jamaica Ltd. and Steven Marston of CAC 2000 Ltd.

| Name | Position | Affiliation |
|---|---|---|
| Gerard A Borely | Chairman of the Board | Caribbean LED Lighting, Inc |
| Anthony Mark Hart | Non- Executive Director | Caribbean Producers (Jamaica) Ltd. |
| Alastair B Dent | Non- Executive Director | Orion Consulting Inc. |
| Steven Marston | Non- Executive Director | CAC 2000 Ltd. |
| Jose Fernando Zuniga Galindo | Executive Director | MPC Clean Energy Ltd. |
| Guardian Nominees (Barbados) Ltd | Non- Executive Director | Guardian Nominees (Barbados) Ltd. |

## The Investment Team

The Senior Investment Team of MPC comprises nine professionals with significant amount of experience between them in developing countries (particularly the Caribbean), funds/private equity, clean energy, legal and engineering sectors. In total, the Senior Investment Team has over ninety years of emerging market and clean energy experience.



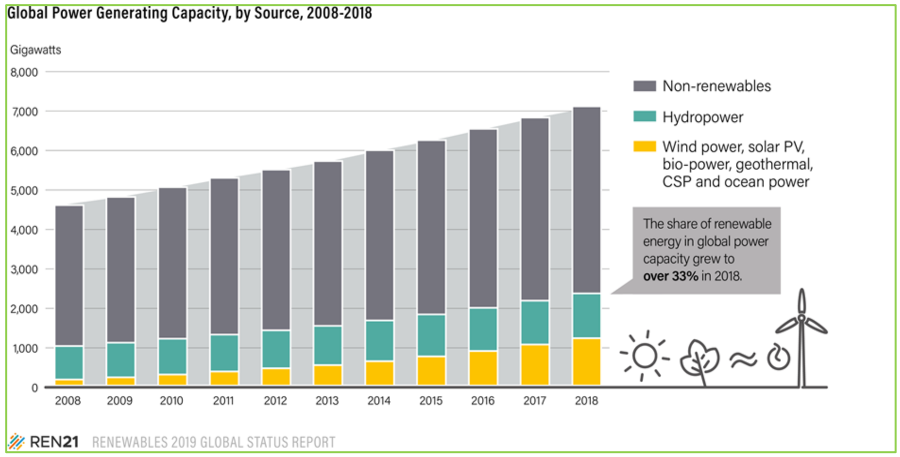

| | | |
|---|---|---|
| Clean Energy – 9 years | Project Develop. & Construction – 17 yrs | Clean Energy – 10 years |
| PE/INFRA – 9 years | Emerging Markets – 14 years | Project Develop. & Construction – 10 yrs |
| M & A - 9 years | PE/INFRA – 9 years | PE/INFRA – 5 years |
| Emerging Markets – 4 years | Asset Management – 9 years | Emerging Markets – 5 years |
| Project Develop. & Construction – 4 yrs | M & A - 4 years | Asset Management – 4 years |

Three Key members of the Investment Team

# Global Energy Overview

In 2018 total renewable power capacity grew at a consistent pace compared to 2017, and the number of countries integrating high shares of variable renewable energy continued to rise. Corporate sourcing of renewables more than doubled compared to 2017, and renewables have spread in significant amounts all around the world[1].

Renewable energy has been established globally as a mainstream source of electricity generation for several years. The estimated share of renewables in global electricity generation was more than **26%** by the end of 2018[2]. Net capacity additions for renewable power were higher than fossil fuels and nuclear combined for a fourth consecutive year, and renewables now make up more than one-third of global installed power capacity. This is due in part to stable policy initiatives and targets that send positive signals to the industry, along with decreasing costs and technological advancements.




Renewable power is increasingly cost-competitive compared to conventional fossil fuel-fired power plants. By the end of 2018, electricity generated from new wind and solar photovoltaics (PV) plants had become more economical than power from fossil fuel-fired plants in many places. In addition, in some locations it was more cost-effective to build new wind and solar PV power plants than to continue to run existing fossil fuel power plants.

Renewable energy targets are in place in nearly all countries, and several jurisdictions made their existing targets more ambitious in 2018. The number of renewable energy support policies increased again during the year, mostly for renewable electricity. In the power sector, a general shift to auctions from feed-in policies and other support mechanisms continued, but feed-in policies remained widely used. No new countries added regulatory incentives or mandates for renewable transport, however some countries that already had mandates added new ones or strengthened existing ones.

The private sector is playing a key role in driving renewable energy deployment through its procurement and investment decisions. By early 2019, 175 companies had joined RE100[3] – committing to **100%** renewable electricity targets – up from 130 companies the year before. These and other private sector targets have supported the expansion

[1] BloombergNEF (BNEF), "Corporate clean energy buying surged to new record in 2018", press release (New York and London: 28 January 2019), https://about.bnef.com/blog/corporate-clean-energy-buying-surged-new-record-2018/.
[2] Marlene Motyka, Andrew Slaughter and Carolyn Amon, "Global renewable energy trends: Solar and wind move from mainstream to preferred", Deloitte Insights, 13 September 2018.
[3] RE100 is a global corporate leadership initiative bringing together influential businesses committed to 100% renewable electricity.

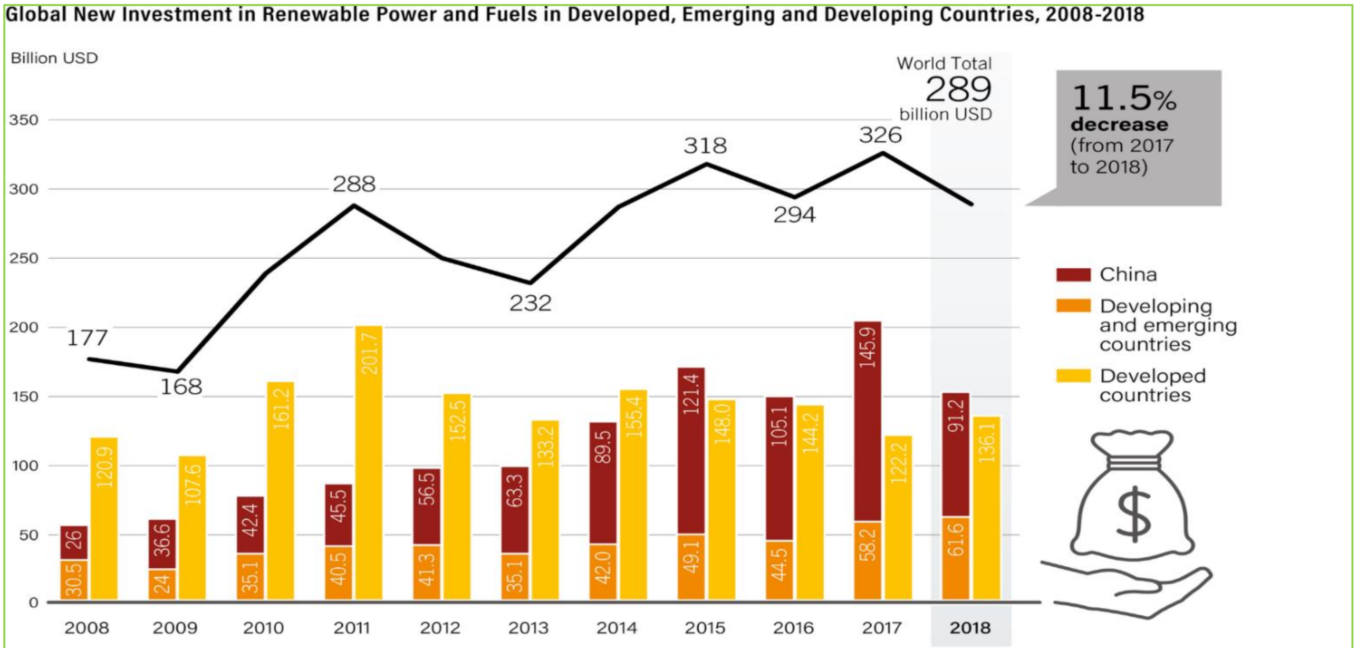
of corporate power purchase agreements (PPAs), which are spreading to new countries and regions but remain concentrated in the United States and Europe.

Shareholder pressure and the rising competitiveness of the renewables sector have resulted in increased investment by the fossil fuel industry – including some large oil corporations – in both renewable energy projects and companies. An increasing number of companies that own, develop or operate fossil fuel power plants shifted away from the coal business during 2018. Some firms are investing more in renewable energy – although still in relatively small amounts – in order to economically and reliably meet their own energy needs, to spread their risk or to become players in the rapidly growing renewables sector.

According to data from Bloomberg NEF (BNEF), global investment in renewable power and fuels in 2018 totalled **US$288.9B** however this was an **~11.50%** decrease from the previous year (largely as a result of a significant fall in China) but the fifth year in a row that investment exceeded the **US$230B** mark. With stable growth in renewable power capacity, the decline in investment reflects to some extent the falling costs of renewables – essentially, more capacity is being installed for less money.

Most of the investment was in solar PV and wind power and developing and emerging economies accounted for **53%** of total renewable energy investment, with China alone accounting for **32%** of the total. Several developing countries are investing equivalent or higher amounts in renewable power and fuels than developed countries on a per gross domestic product (GDP) basis, particularly as energy demand continues to increase at a faster rate in developing markets.

**Global New Investment in Renewable Power and Fuels in Developed, Emerging and Developing Countries, 2008-2018**




Note: Figure does not include investment in hydropower projects larger than 50 MW. Investment totals have been rounded to nearest billion. Data for previous years have been revised since the publication of the *Global Trends in Renewable Energy Investment 2018* report. See BNEF for data methodology and regional groupings.

Source: BNEF.

REN21 RENEWABLES 2019 GLOBAL STATUS REPORT

# Regional Energy Sector Overview

With its consistent wind, sunshine all year-round and marine energy potential, the Caribbean has a tremendous availability of renewable energy source. Notwithstanding this, the region is still facing a heavy dependence on imported fossil fuels, exposures to shocks from volatile oil prices and energy supply that is not sufficiently diversified. The heavy dependence on imported fossil fuels limits economic development and social opportunity, and negatively affects human health and the environment. The Caribbean region requires significant investment in clean electricity generation to meet energy demand growth as well as its carbon emissions reduction targets but lacks sufficient local capital to address this.

The power systems in most CARICOM states share several defining characteristics. Most of the states rely on a single utility supplier that has monopoly control over the transmission and distribution of on-grid electricity while, several multi-island nations, have separate utilities with exclusive rights to operate on specific islands. In many cases, energy regulators have been established to monitor these utilities either under government authority or operating as independent entities.

In some CARICOM member states, independent power producers ("IPPs") are in operation, while in others they are prohibited by law or rely on agreement with vertically integrated utilities. Since most member states are relatively small, with isolated grids and no existing connections to other member states, they have small power systems that require high reserve margins to ensure reliability. In other respects, member states face unique challenges. Although electricity access is generally high across the region, some states face low quality of service and significant unmet demand, as well as deteriorating equipment and high technical and non-technical losses.

In several states, non-payment for electricity services makes electricity more expensive for those who pay and hinders the profitability and sustainability of utilities. Non-payment presents further challenges to utilities because it can discourage investment in new energy infrastructure, making expansion, repair, and development more difficult. Inappropriate tariff levels and a lack of effective regulations in some member states limit both innovation and efficiency.

Many CARICOM member states have set ambitious renewable energy goals that are comparable to, or even exceed, targets being set in developed countries. Generally, countries aim to achieve a specific percentage of energy supply through renewables. For example, Dominica, Grenada and Guyana are targeting meeting more than 90% of their total energy supply through renewable power in the coming decades. CARICOM member states have also implemented, or are considering, national targets for energy efficiency improvements. These targets are often more affordable and more easily implemented than targets for renewable energy supply. Targets set for energy efficiency in CARICOM address either end-use efficiency improvements for consumer appliances or reduced rates of technical and non-technical electricity grid losses.

# The Investment Company's Investment Strategy

MPC Caribbean Clean Energy Fund LLC (the Investment Company or the Fund) seeks to invest in renewable energy generation, as well as energy efficiency and storage projects in the Caribbean basin. The Investment Company targets investments mainly during the final stages of the development period and will not bear any development risks as at these final stages the projects are significantly de-risked and are with the main contracts and permits in place. These typically include land leases, power purchase agreements, construction and operation contracts, insurance and project finance, as well as environmental, building, interconnection and operational permits.

Due to its growing electricity demand, high cost of energy, enabling environments and relatively low levels of competition, the Investment Company has specifically targeted the member states of the Caribbean Community (CARICOM) and Costa Rica, Columbia, El Salvador, Guatemala, Honduras, Nicaragua and Panama and prioritises investment in solar PV and wind projects ranging from 5MW to 100MW in size. Solar and wind are each expected to account for **40%** to **60%** of the Investment Company's clean energy generation assets. CARICOM member countries are aiming to add over 5.3 GW of renewable energy capacity in the next eight years.

The Investment Company also seeks to invests in energy efficiency projects and energy storage, whether as standalone investments or to complement the Investment Company's clean energy generating assets. Energy efficiency and energy storage projects offer tremendous growth potential but are generally avoided by investors seeking utility scale. As such, there is potential for higher yields which, unlevered, can provide strong cash generation.

Each investment is expected to be between **US$5M** to **US$25M** of equity plus co-investment. The assets will generally be held for 6-8 years until the end of the Fund term. The Investment Company also seeks to consider single asset sales if market conditions are favourable. The fund ultimately aims to build a portfolio of 12-15 projects over its operating tenor.

# Existing Projects

## Paradise Park Project - Westmoreland, Jamaica

In April 2018, the Investment Company acquired an effective shareholding of **34.4%** in its first seed asset 'Paradise Park', a 50 MWp solar PV park in Jamaica. The solar PV park was energized on June 6, 2019 and Jamaica Public Service Co. (JPS) confirmed its acceptance on June 23, 2019. The construction was completed in time and budget. At the peak of its construction activities, 'Paradise Park' employed more than 300 personnel. Over **70%** of workers were from Jamaica, mainly from the surrounding communities. The asset is now a revenue generating facility which is projected for at least the next 20 years, to be using solar energy to produce green electricity at **~US$0.085** per kWh. At the time of production start, Paradise Park was the cheapest source of power generation in Jamaica.

| PROJECT SUMMARY | |
|---|---|
| Project | Paradise Park |
| Technology | Solar Photovaltaic |
| Country | Jamaica |
| Energy Production | Yearly Output 82K MWh |
| Total Investment | ~US$64M |
| Total Equity | ~US$15.5M |
| Project Finance Lender | Proparco. FMO |
| Ownership | 34.40% |

Jamaica is well-positioned in terms of solar irradiation, with more than 1,800 kWh/m2 received from the sun annually. This level of irradiation places the country amongst tier-1 countries within the tropical belt. This site was selected because of its ideal features for the construction and operation of a ground mounted PV power plant. The asset site offers excellent irradiation conditions and an attractively indexed long-term US$ denominated PPA has been secured.

The solar resource is among the strongest in the island. Paradise Park is in Western Jamaica which has a lower hurricane impact risk than the rest of the country. Paradise Park has direct access to a 69kV transmission line and is less than 1km away from a sub-station and is a flat site. Flatness is a key measure of suitability for solar development as it reduces the chance of shading and allows for plant optimization[4].

[4] Source: Neon via PV Magazine , https://www.pv-magazine.com/2019/10/04/solar-delivers-cheapest-power-in-jamaica/

## Paradise Park's Performance

The technical connection to JPS network occurred on June 6, 2019 and the administrative process of the Power Purchase Agreement (PPA) began on June 23, 2019. According to the PPA, JPS is obliged to pay for all power produced starting from the time that the physical connection occurred. Therefore, JPS has compensated for every kWh produced since the beginning of production on June 6, 2019. The revenues of Paradise Park amount to **US$1.99M** as of September 30, 2019. The investment Company's Share in Paradise Park is **34.38%.**

## Tilawind- Tilaran, Guanacaste, Costa Rica

Tilawind which has been operational since 2015, has 7 turbines and operates in wind conditions that are supportive of strong energy output. These conditions create the backdrop from steady revenue to be generated from the project. Additionally, the operation benefits from a long-term US Dollar denominated PPA which increases the predictability of future cashflows.

In April 2019, the Investment Company closed the acquisition of a **50%** interest in its second seed asset 'Tilawind', the 21 MW wind farm in Costa Rica. The Investment Company and ANSA McAL Limited from Trinidad and Tobago have jointly acquired this wind farm with an enterprise value of approximately **US$50M.**

| PROJECT SUMMARY | |
|---|---|
| Project | Tilawind |
| Technology | Wind |
| Country | Costa Rica |
| Energy Production | Yearly Output 81.3K MWh |
| Total Investment | US$50M |
| Project Finance Lender | Banco Nacional |
| Ownership | 50% |

The project also offers the opportunity for an ~21 MW extension in the near future. MPC Renewable Energies has performed the transaction management and coordinated the due diligence with external advisors on behalf of CARE[5]. MPC Renewable Energies is providing asset management services to CARE.

[5] . Investment Company and ANSA McAL Limited both hold 50% in the joint holding company CCEF ANSA RENEWABLE ENERGY HOLDING LIMITED ("CARE"), which owns 100%

## Tilawinds Performance

Tilawind reported a profit of **US$2.10M** for the 9-Months period from October 1, 2018 and June 30, 2019. Tilawind financial year end is Sept 30th each year. However, the cash flow generated was higher and the proceeds account showed a balance of **US$2.89M.** As outlined above, the Investment company's share in CARE is 50% and at the same time, CARE owns 100% of the economic rights of Tilawind. The Investment Company was able to finance the dividend payment made August 30, 2019, with cash flows generated by the Tilawind Project.

## Use of proceeds and Indicative Pipeline

The Company's intention is to use the net proceeds of the rights issue **(~US$22.85M)** to provide to the Investment Company, which will then invest in the other clean energy projects and facilities with a focus in the Caribbean Basin. The primary sector focus will continue to be solar PV and wind farm projects as the CARICOM member states are expected to add over 5.3 GW of renewable energy capacity in the next eight years.

In order to arrive at an attractive priority pipeline of projects for the Investment Company, the Team has reviewed a variety of solar PV, wind and energy efficiency projects in the Caribbean region. In addition to the 50 MWp 'Paradise Park' solar PV plant in Jamaica and the 21 MW Tilawind wind farm in Costa Rica, the current priority pipeline comprises 14 projects accounting for 320 MW and require a total investment in the region of **~US$0.5B**. These projects are intended to be pursued as priority opportunities for the Investment Company and include the projects below.

| Project | Use Of Proceeds | Name | Technology | Capacity MW | Investment | Operational |
|---|---|---|---|---|---|---|
| El Salvador I | US$2M | San Isidro | Solar PV | 6.5 | 2019 | 2020 |
| El Salvador II | US$2M | Michapa | Solar PV | 6.5 | 2020 | 2020 |
| Jamaica II | US$2M | EE Tender | Energy Efficiency | N/A | 2020 | 2020 |
| Jamaica III | US$1M | MICO | Energy Efficiency | N/A | 2020 | 2020 |
| Barbados I | US$2M | Stewart Hill | Solar PV | 5 | 2020 | 2021 |
| Dominica Republic | US$10M | Los Guz | Wind | 110 | 2020 | 2020 |
| Costa Rica II | US$6M | Tliawind II | Wind | 21 | 2020 | 2022 |

MPCCEL's selected priority projects

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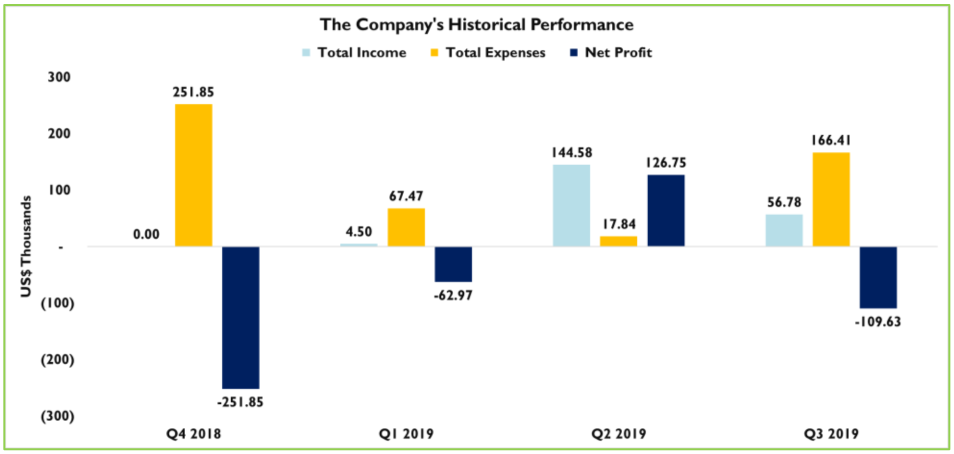
# Historical Performance




In Q4 2018, MPC recorded **US$251.85K** of expenses which were largely in connection with its IPO**.** As the Company only became an investor into the Investment Company in March of 2019, with the net proceeds of **US$10.65M** raised in its IPO in December 2019, no revenues were recorded for MPC in Q4 2018. As a result, the Company realized a net loss of **US$-251.85** that quarter.

In Q1 2019 MPC realized a small income of **US$4.5K** which was the Company's share of profits from the Invesment in which MPC had invested into in the the last month of the quarter. In the same quarter, the Company posted expenses of **US$67.97K** which was led by Legal and professional fees and Adminstrative fees of **US$34.68K** and **US$24.02K** respectively. As a result the Company posted a loss of **US$-62.97K** which was an improvement over the amount posted in the last quarter in 2018.

In April 2019, the Investment Company closed the acquisition of a **50%** stake in Tilawind. As a result MPC saw improved share of profits, as income, from the Investment Company in the quarter ending June 30, 2019. The knock-on effect of the strong income of **US$144.58K** and a reduction in expenses was that the Company posted its first quarter of net profits of **US$126.75K.**

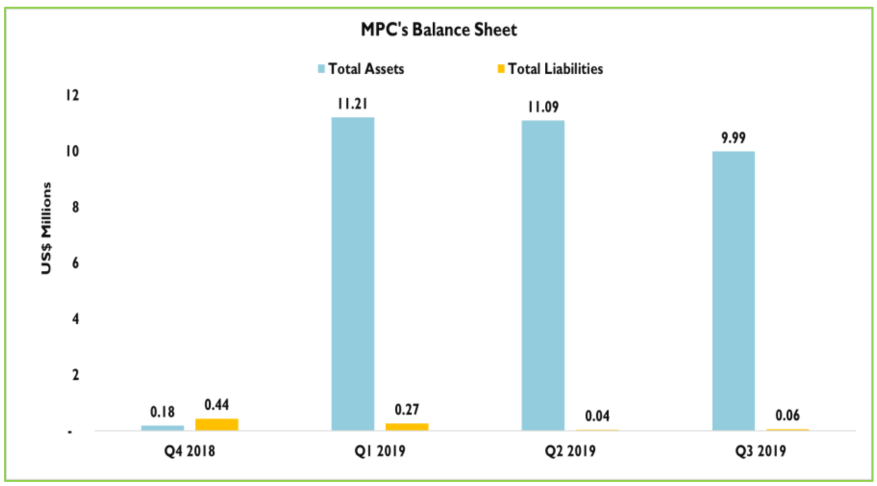
For Q3 2019 MPC's income amounted to **US$56.78K** while total expenses came in at **US$166.41K.** The lion's share of the Company's total expenses was due to a **US$87.02K** spend on advertising costs as the Company preapred for its rights issue and other activities. Net loss for the quarter amounted to **US$-109.63K.**

## Asset Quality and Solvency

The Company's Total Assets rose from **US$0.18M** in Q4 2018 to a high of **US$11.21M** at the end of Q1 2019 due to a succesful IPO where over **US$11.42M** were raised and subsequently invested in MPC Caribbean Clean Energy Fund LLC (the Investment Company). The investment into the Investment Company was recorded under the equity method of accounting[6]. At the end of Q2 2019 MPC's Total Assets declined to **US$11.09M** due to a **US$269.17K** dip in Cash and Cash equivalents.

MPC reported Total Assets of **US$9.99M** at the end of Q3 2019 which reflected a decline of **US$1.10M**. The decline reflected in Q3 2019 was due to the dividend payment the Company received during that period. The return of funds to the shareholders had the effect of reducing the carrying value of the investment made in the Investment Company that was reflected on the Company's Balance Sheet. At the end of Q3 2019, the value of the investment in the Investment Company stood at **US$9.84M** down from **US$10.65M** at the end of Q1 2019.

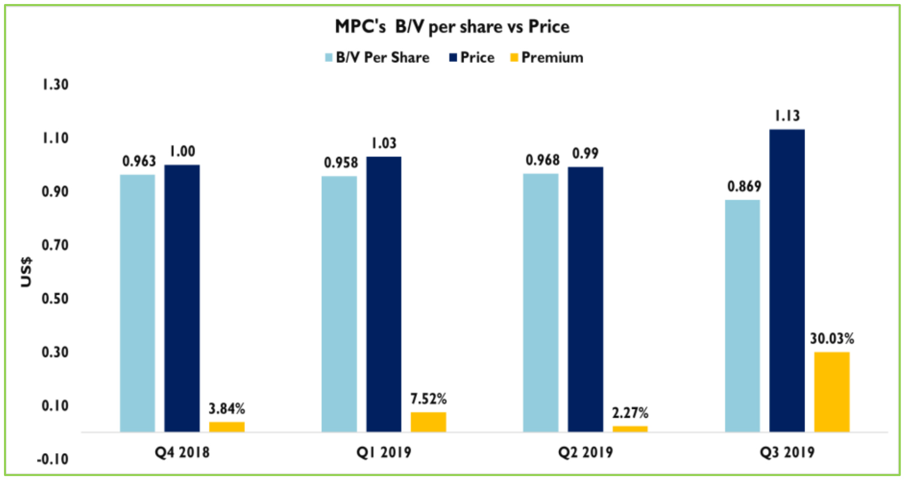
MPC's Total liabilities declined from **US$0.44M** in Q4 2018 to **US$0.04M** in Q2 2019 due to a **US$0.13M** decrease in Accounts payable, a **US$0.13M** dip in accruals and a **US$0.15M** fall in liabilities due to related parties. However, in Q3 2019, Current Liabilities increased by **62.27%** to end at **US$0.06M.** The increase in liabilities of **US$24.93K** was due to the increase in Accounts payable.




[6] CFA Institute, Reading 21 – Intercorporate Investments. Under the equity method of accounting, the equity investment is initially recorded on the investor's balance sheet at cost. In subsequent periods, the carrying amount of the investment is adjusted to recognize the investor's proportionate share of the investee's earnings or losses, and these earnings or losses are reported in income. Dividends or other distributions received from the investee are treated as a return of capital and reduce the carrying amount of the investment and are not reported in the investor's profit or loss.

## MPC's Book Value of Equity[7]

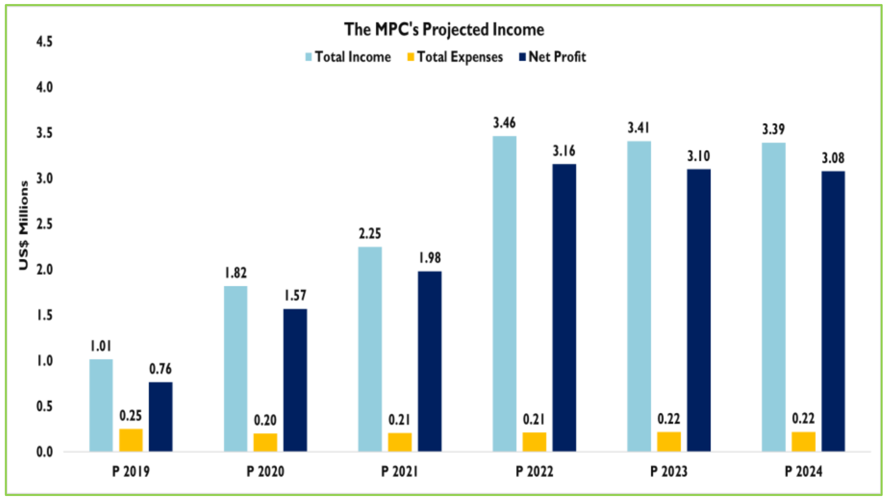
MPC's historical share price has remained at a premium to the Book Value of Equity over the review period. Though trading has been relatively inactive for much of the review period, the premium stood at **3.84%** in Q4 2018 then rose to **7.52%** in Q1 2019 due to a decline in the Book Value of Equity and slight increase in the share price. In Q2 2019, MPC's stock price increased significantly upon the announcement of the rights issue, while the Book Value of Equity increased due to the increased share profits from the Investment Company. As a result, the premium narrowed to **2.27%**. However, upon the declaration of a dividend in Q3 2019, the price increased further, and the dividend payment which fallowed the announcement reduced the carrying value of the investment during the period and in turn decreased the Book Value of Equity. These factors combined resulted in the premium being increased to **30.03%** in Q3 2019.




The continued execution of the investment strategy by the Investment Company will see additional income flowing from the current projects in its portfolio as well as the new projects to be undertaken as the proceeds of the rights issue are deployed. As the Fund increases its profitability, the Company will benefit from the knock-on effects of increased share of profits flowing from the Fund which will lead to an increased Book Value of Equity of the Company.

[7] As a measure of per share price, book value per share has been viewed as appropriate for valuing companies composed chiefly of liquid assets, such as finance, investment, insurance and banking institutions (Wild, Bernstein, and Subramanyam 2001, p.233)

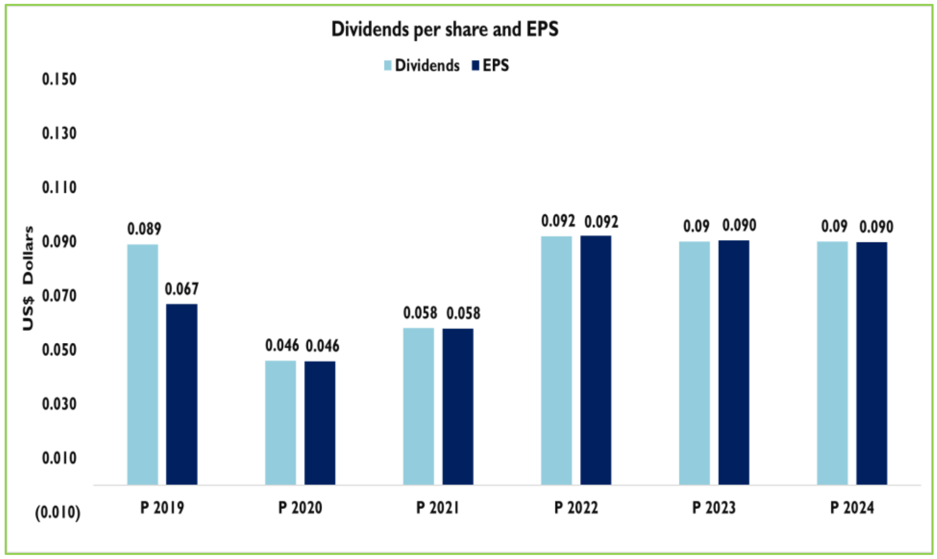
# Financial Projections




The Company's Operating Income is projected to grow from **US$1.10M** in FY 2019 to **US$3.39M** in FY 2024 at a CAGR of **8.48%**. Operating income for the Company represents share of profits from Investment Company. As a result, the projected growth in income is based on an increase in the assets under management for the Fund which is expected to produce new earnings in addition to increased earnings from existing energy projects such as Tilawind and Paradise park. The projections reflect a marginal decline in income in years 2023 and 2024. The marginal decline is due to the expectation that the Solar Photovoltaic projects in the portfolio will see a decline in the power output due to the degradation in the solar panels. On average, solar panel degradation average about **0.50%** per year but the level of degradation is expected to decrease and level off over time[8]. Total Expenses are projected to remain flat over the period, hovering between **US$0.25M** and **US$0.22M**. The average expense ratio for The Company over this period will be **8.48%**. As shared by management, Net profit is projected to increase from **US$0.76M** in FY 2019 to **US$3.08M** in FY 2024 at a CAGR of **32.16%**. This expected profit of **US$3.08M** in FY 2024 would represent a return of **9.42%** over the expected capital base of **US$32.69M** assuming a successful close of the rights issue on offer. This estimated return is in keeping with the target IRR of the Investment Company **12.5%** including a cash yield of **9.40%** on USD.

[8] https://www.nrel.gov/docs/fy12osti/51664.pdf

MPC's Earnings Per Share (EPS) is projected to be totally paid out as dividends to shareholders between FY 2020 and FY 2024. Earnings per share is projected to decline from **US$0.067** in 2019 to **US$0.046** in 2020 as the additional shares offered in the rights issue lead to a dilution of the Company's earnings. However, the Company's EPS is then projected to rise to **US$0.092** in 2022 as existing and new energy projects generate higher income. From 2022 to 2024, EPS is expected to marginally slow to **US$0.09** due to the slight decline in income as a result of the yearly degradation in the solar panels used at the solar photovoltaic plants in the Fund.



# Investment Positives and Risks

## Investment Positives

**Experienced Clean Energy Investors:** MPC is a listed German asset manager with over EUR 5 billion across real asset sectors globally, including EUR 450 million of renewable energy assets. The team has several decades of combined experience which lowers execution risk and builds credibility.

**Attractive Return Profile:** The region offers clean energy projects that are expected to provide dollar denominated returns, giving rise to a target net Fund IRR of +12% with a possibility of further upside gains. Additionally, as cash becomes available, it is intended that an annual cash yield of at least 6% will be paid to investors. Thus far, investors who participated in the IPO in Q4 2018 have seen a share price appreciation of **~77%.**

**Strong Growth Prospects:** CARICOM's target of a 47% share of total energy production by renewables, strengthens the argument for a steady and growing demand for alternative energy. CARICOM's target is expected to require close to 5.3 GW of clean energy capacity additions and approximately **US$8.4B** over the next decade.

**Diversification Benefits for Investors:** MPC provides exposure to alternative energy as a sector, which provides diversification benefits to an investment portfolio due to the scarcity of these options.

**USD Exposure:** MPC provides investors with exposure to USD generating assets. As a result, this investment provides a store of value against a depreciating Jamaican Dollar as earnings of the Company are based in US Dollars and dividends are US based[9].

**Contractual Power Purchase Agreements (PPA's):** MPC has already organised PPA's with key government and corporate partners in the target countries. These PPA's range from 20-25 years and ensures steady, high quality, predictable cash flows through the life of the projects.

[9] Dividends are declared in USD and paid in either USD or JMD depending on the Jurisdiction in which the investment was made. Investors in Jamaica will receive the JMD equivalents of the USD dividends at the time of payment

## Investment Negatives/Risks

**Increased Competition:** MPC operates in an increasingly competitive space in which players such as Wigton Windfarm, Portland JSX and other investment entities are active. However, a key advantage is a strong and experienced team with international reach which can allow the leveraging of relationships and experience to raise further capital and scale projects over time.

**Liquidity Risk:** MPC's investments have a relatively long-time horizon due to its nature as a private equity fund. Hence, at the Investment Company's level there is notable illiquidity. This could be problematic in the case of a failing project where an 'emergency' exit may be necessary. However, the listing of the equity on the JSE mitigates this somewhat at the Company level.

**Disaster Risk:** There is some risk that the Company's projects may be materially affected by natural disasters. In turn this could significantly compromise income generation and returns by extension. However, the Company has acquired comprehensive insurance against such risks and the facility will be built to withstand hurricane forces.

**Currency Risk:** The Company's investment in the Investment Company will be denominated in USD but will be funded by the proceeds of the Offer which will partly be denominated in Jamaica Dollars through Applications received in Jamaica. Therefore, the Company's ability to invest in the Investment Company will be subject to exchange rate movements. However, the Company proposes to enter into arrangements with authorised dealers in foreign exchange to mitigate such risk as much as possible.

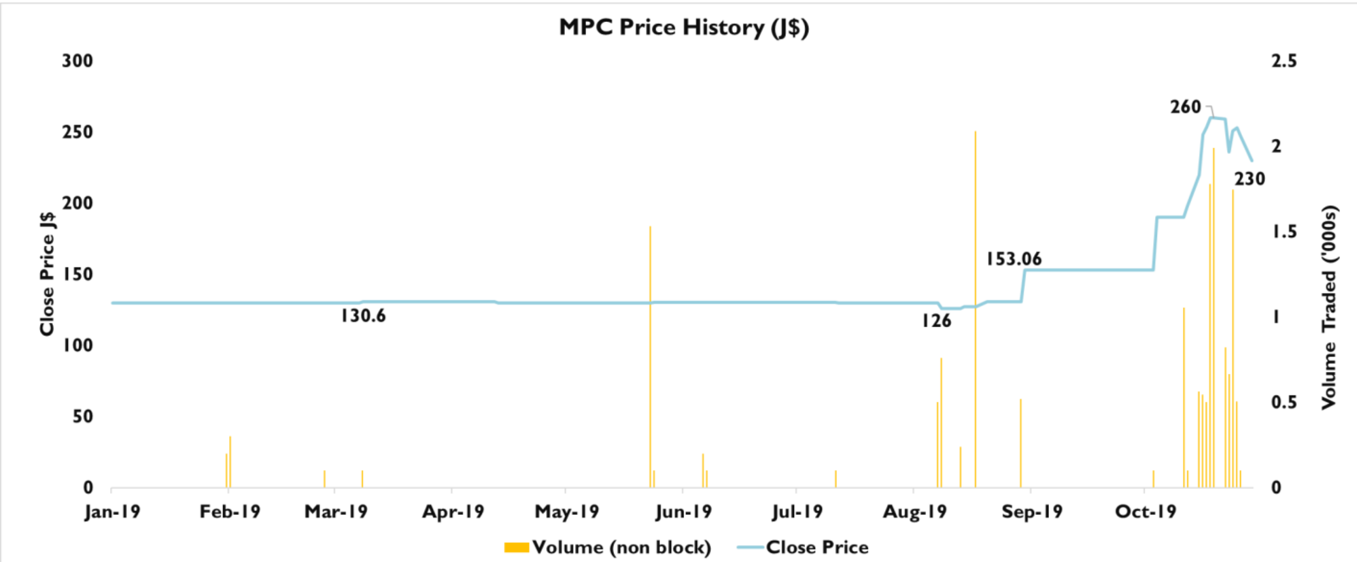
**Price Risk:** Over the period January 14, 2019 to November 11, 2019 MPC's shares has traded infrequently. During the period, the shares of the Company was only traded 28 days out of a possible 209 days and the average daily trade was 12,965 shares. As the shares are infrequently traded, investors may experience a long delay if they require an exit or may have sell the shares at a discount.

## Conclusion

We are of the view that MPC Clean Caribbean Energy Ltd. provides an opportunity for steady cash flows through dividend income over the long term. The investment strategy, due to the illiquidity of the assets and notable reliance on the increased uptake of alternative energy requires a long term time horizon. While we acknowledge that the pricing of the shares in this rights issue are at a premium of **13.69%** from a Price to Book Value of Equity perspective, we are of the view that the premium will narrow over the medium term as the current projects become fully operational and due to the investment in new projects which are expected to be value accretive investments of the Investment Company and ultimately for the Company.

On this basis, we rate the MPC Clean Caribbean Fund a suitable **BUY** with a **Moderate** risk rating for long term investors seeking a store of value given the Company's US Dollar earnings.

# Appendix



MPC Price History (J$)
Close Price J$
Volume Traded ('000s)
300
250
200
150
100
50
0
2.5
2
1.5
1
0.5
0
130.6
126
153.06
260
230
Jan-19
Feb-19
Mar-19
Apr-19
May-19
Jun-19
Jul-19
Aug-19
Sep-19
Oct-19
Volume (non block)
Close Price