

# ESG investment Cielo Waste Solutions has plenty of catalyst(s) for a breakout

For two and a half months now Cielo Waste Solutions Corp. (CSE: CMC | OTCQB: CWSFF | FSE: C36) stock price has been trending sideways in a channel between roughly \$0.70 and \$1.10. Is opportunity knocking for a breakout? I was going to insert a catalyst joke in the context of Cielo's stock price and their underlying business but unless you are familiar with the inner workings of the fuel refining process it wouldn't make much sense and probably wouldn't be that funny. So we'll skip that and take a closer look at what's going on at this green manufacturer of renewable fuel. But trust me, catalyst is important to Cielo's proprietary process.

Cielo has ESG investment written all over it. The Company has developed a proven and patented technology to produce high cetane (a measurement of the quality of diesel fuel where higher is better), ultralow sulfur renewable diesel, kerosene and naphtha fuels. Feedstock (also known as inputs) for the process include the world's most available and inexpensive household, commercial and construction/demolition garbage, wet organics (compost), all plastics, paper, tires, cardboard, sawdust and wood. When one considers that most of this garbage ends up in a landfill where it generates methane emissions while the Cielo process creates virtually no emissions, this goes from a win-win to a win-win-win situation. Then there's the added bonus of reducing reliance on imported biofuels made from agricultural products. So reducing imports and leaving agricultural products for food gets us up to five wins by my math, hence my ESG investment comment.

What makes the story even more interesting from an investment standpoint is that the company believes it can be highly

profitable while saving the world from all this garbage and methane. Obviously, the feedstock is relatively cheap but the finished product also fetches a higher market price than biodiesel because of the quality. You'll note that premium gasoline is significantly pricier than regular unleaded at the local gas pump.

## Advantageous Economics Over Traditional Bio-Diesel

	Traditional Biodiesel	Cielo's Renewable Diesel
Production Cost/L	\$0.36 - \$0.50 (Avg \$0.43)	\$0.50
Feedstock Cost/L	\$0.85 - \$1.32 (Avg \$0.97)	\$0.06 - \$0.11
Total Cost	\$1.21 - \$1.82 (Avg \$1.40)	\$0.56 - \$0.61
Price in Alberta	\$1.25/Liter	\$1.67/Liter*
Gross Margin	-12 %	63.4 %

Source: Estimates by Cielo Waste Solutions.

Source: Cielo Corporate Presentation

Now the stock isn't cheap by any stretch of the imagination. The Company has yet to generate any meaningful revenue yet but has a market cap pushing \$500 million, with 612 million shares outstanding based on yesterday's close of \$0.79. However, that can change quickly if they are running their existing Aldersyde facility (Calgary, AB) at 1,000 litres per hour and grossing \$1.67/l, all of a sudden that's \$3.6 million of revenue per quarter which has already started. Growth plans include doubling Aldersyde to 2,000 litres per hour with commissioning sometime in Q4/21, while the Company foresees production from a facility in Dunmore (Medicine Hat, AB) by Q3/22 and commissioning of a new facility in Edmonton in Q4/22. On March 9<sup>th</sup> the Company announced an MOU to build, and commission, at no cost to Cielo other than internal costs, three renewable fuel facilities, in Winnipeg, Manitoba,

Kamloops, British Columbia and a high-volume location to be determined in the United States. And on March 17<sup>th</sup> announced an MOU for Toronto, Ontario as the site for the first Ontario joint venture facility.

With all the development work, tweaking and fine tuning at the Aldersyde facility, Cielo has a scalable modular model which allows them to install a simple plant manufacturing system that can produce up to 4,000 liters per hour or 32 million liters per annum. Each plant costs approximately \$50 million to build. Pay back on the capital investment is approximately \$28 million annually based on EBITDA. Cielo plans up to 40 locations or plants in the next 5-7 years. I won't go through the math on that because my assumptions will probably be different than almost everybody else but the numbers start to get pretty big.

So there's the catalyst (I couldn't resist) for this stock to move. Although all of this isn't going to happen overnight, one has to consider:

- Cielo holds an exclusive global license from a related party with the process patents having been issued in both Canada and the US
- There are currently no major renewable diesel producers in Canada that can sell into the Canadian market.
- Canadian Regulators have mandated minimum blends of renewable diesel into all transportation grade diesel, almost all of which currently is imported. Currently over 872 million liters per year and growing.
- Cielo is not reliant on government assistance or subsidies. Cielo's model is profitable based on current market rates and prices for the sale of their fuels

I'm not a market timer by any stretch of the imagination. Will news come out today or tomorrow that drives this stock higher? Possibly, but I kind of hope not immediately because that wouldn't look very good for my neutrality on the subject.

Nevertheless, the story is interesting from numerous angles and the math is pretty compelling.