Carbon Streaming is cashed up and ready to save the world

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You may have heard numerous companies around the world talking about setting net-zero carbon emissions goals, in fact over 1,500 companies have announced plans to be carbon net-zero by 2050 or sooner. But how will they get to net-zero? In the interim, the plan is to offset the carbon they put into the atmosphere by buying carbon credits. A carbon credit represents one tonne of carbon dioxide or the carbon dioxide equivalent of another greenhouse gas (defined by the amount of heat it traps in the atmosphere) that is prevented from entering into or being absorbed from the atmosphere. Carbon credits are anticipated to be integral to meet global net-zero goals, especially in hard-to-abate sectors such as oil, aviation, steel and cement.

No matter how you slice it, the carbon credit world is big now and destined to get a lot bigger. The estimated size of the compliance/regulated market was US$261 billion in 2020, a five-fold increase from 2017. The voluntary carbon market was a much more modest US$473 million in 2020, although UN Special Envoy for Climate Action, Mark Carney, the former Governor of the Bank of England, has said that the voluntary market "needs to be $50-100 billion per annum." And that's where Carbon Streaming Corporation (NEO: NETZ) comes to the rescue, so to speak. Carbon Streaming is a unique, ESG principled, investment vehicle offering investors exposure to carbon credits. Its stated business model is to focus on acquiring, managing and growing a high-quality, diversified portfolio of investments in projects and/or companies that generate or are actively involved with carbon credits. The Company invests capital through carbon credit streaming arrangements, with project developers and owners, to accelerate the creation of carbon offset projects by bringing capital to projects that might not otherwise be developed.

Carbon Streaming has been raising capital and signing up projects to build up an inventory of carbon credits. In fact, in July the Company was able to raise an impressive US$104.9 million based on the momentum they had been gaining over the first half of 2021. The latest information from the website shows the Company has a near term opportunity pipeline of 16 projects around the world totaling roughly US$200 million in investments. Longer term the deal pipeline is over US$700 million and the best part is, the target IRR for these projects is greater than 15%.

Source

The value proposition at Carbon Streaming is three fold:

1. Enter into streaming agreements with individuals, companies, and governments to stream carbon credits from their asset or property that can be sold in either the voluntary or in the compliance markets;
2. Purchase carbon credits in the voluntary and compliance markets for long-term price appreciation with selective trading as opportunities arise; and
3. Invest in or acquire companies, assets or properties involved in the origination, generation, monitoring or management of carbon credits (in other words M&A).

Strategy #1 is pretty straight forward, you simply sell your earned carbon credits to whatever market is willing to pay the most. Strategy #3 is probably similar to almost every publicly traded company on the planet. However, strategy #2 intrigues me the most from an upside potential. Having spent plenty of time in the trenches of commodity trading, I know that being long a commodity that is in demand can be very lucrative. If you are of the opinion that demand for carbon credits is potentially going to grow faster than supply, then having an enormous pipeline of carbon credits coming on stream (targeting 100 million per annum by 2025), can be a very good thing. A modest price swing can create huge leverage. Just look at natural gas prices over the last 4 months as an example for a much more than modest price swing.

The carbon emission contract that trades on the Intercontinental Exchange (ICE) known as EUAs (European Union Allowance) has a 52 week trading range of €23 to just under €66 on a per tonne of CO_2 equivalent basis. If you have an inventory of 100 million of annual credits being generated each year, imagine if you keep 5% to float with the spot price (preferably with a floor in place to assure breakeven). A $5 move could add $25 million to your top line. That’s why I think Carbon Streaming could be in the right place at the right time, depending on how they manage their “selective trading”.

Upon the exercise of the special warrants issued to raise the above noted US$105 million, the Company will have roughly 231 million shares outstanding. Based on yesterday’s close of $2.38 that puts the market cap at $550 million with approximately $141 million (US$112) in cash at the end of August. Back of the envelope math suggests that with 20 million in carbon credits by year end, that could generate roughly $1.7 billion (US$1.36 billion) in top line revenue based on yesterday’s EUA close of €59. I don’t know what carbon price assumption Carbon Streaming is using to calculate their 15%+ IRR but it might be worth digging a little deeper to find out.

ESG Alert: No matter how you slice it, the carbon credit world is big now and destined to get a lot bigger…

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With the current focus on climate change and the need to reduce our global carbon footprint it would probably make sense to have an economic way for nations and companies to commoditize carbon in order to better track and deal with this problem. Well there is and it may come as a surprise to learn that there has been a fungible carbon emissions trading market since 2005 – the EU Emissions Trading System. Also known as EUAs (European Union Allowance), similar to other commodities, EUAs trade on the Intercontinental Exchange (ICE). The carbon emission contract trades in Euro on a per tonne of CO_2 equivalent basis, with yesterday's closing price at just over €52 and a 52 week range of €23 to just under €57.

There are many companies around the world, including financial institutions, utilities, fossil fuel companies, and others, that actually have dedicated carbon emission trading desks transacting things like EUAs and have done so for a long time. However, today we are going to look at a different perspective on this market, one would suggest a natural evolution for a commodity, a streaming company that gives investors exposure to the world of EUAs. Carbon Streaming Corp. (OTC: MXVDF) is a unique ESG principled investment vehicle offering investors exposure to carbon credits, a key instrument used by both governments and corporations to achieve their carbon neutral and net-zero climate goals. The Company intends to invest capital through carbon credit streaming arrangements with project developers and owners to accelerate the creation of carbon offset projects by bringing capital to projects that might not otherwise be developed.

You may have heard several companies around the world talking about setting net-zero emissions goals, in fact over 1,500 companies have announced plans to be net-zero by 2050 or sooner. Obviously, that is going to prove to be very difficult for those involved in resource extraction, manufacturing and even bitcoin mining that require more energy than is presently available on a renewable basis. But how will they get to net-zero? In the interim the plan is to offset the carbon they put into the atmosphere by buying offsets like EUAs. This can become a pretty complex circle of (carbon) life so we'll try to keep it simple here. You can break down carbon markets into two basic categories: compliance or regulated, where markets for carbon credits are created by the need to comply with a regulatory act; and voluntary, where corporations, governments and even individuals volunteer to offset their emissions by purchasing carbon credits.

No matter how you slice it, the carbon credit world is big now and destined to get a lot bigger. The estimated size for the compliance/regulated market was US$261 billion in 2020, a five-fold increase from 2017. The voluntary carbon market was a much more modest $320 million in 2019, although UN Special Envoy for Climate Action Mark Carney has said the voluntary market "needs to be a $50-100 billion per annum." And that's why Carbon Streaming has been raising capital and signing up projects to build up an inventory of carbon credits.

Since the start of 2021, Carbon Streaming has raised $46 million including $32.5 million in March and another $11.6 million in May. But the Company is not just sitting on that cash having recently announced commitments to invest in the MarVivo Blue Carbon Conservation Project in Magdalena Bay in Baja California Sur, Mexico, an exclusive term sheet to develop two carbon credit projects within the Bonobo Peace Forest located in the Democratic Republic of Congo and a strategic joint-venture partnership with an established First Nations business in British Columbia to source and finance investment opportunities in collaboration with First Nations and develop projects within their territories to combat climate change through the reduction of greenhouse gas emissions. In all, Carbon Streaming has sourced a potential deal pipeline of over US$500 million with its near-term pipeline valued at approximately US$170 million at target IRRs of 15%+.

Source: Corporate Presentation

So unless you happen to have a working model of a cold fusion generator that you've been keeping from the world, carbon credits are going to be with us for a while and likely to become even more commoditized than they already are. Carbon Streaming represents one of the few opportunities to participate in this space in today's market without having to set up your futures trading account and transacting EUAs.