

Update Report

September 5, 2020



Rise in electricity uptake and increase in forecasts for 2020; negotiations for a wind project in Scandinavia; acquisition of Noy Fund holdings and a successful storage tender bid in Israel; target price updated to NIS 6.32

Primary Exchange: TASE

Ticker: TLV:ENLT

Sector: Cleantech

Industry: Renewable Energy

Closing price: 5.88 NIS

Market cap: NIS 4.8 B

of shares: 820.5M

Stock performance (3 months): 7%

Stock target price:
NIS 6.32

Conclusion

Enlight has a strong quarter: completion of financial closings and estimates for establishing the company's important flagship projects, including the Genesis wind farm project in Israel and the Gecama wind project in Spain; winning a significant Israel Electricity Authority tender for a solar-plus-storage facility, which will serve as a future growth engine that will act as a force multiplier for the company's projects, due to its ability to combine various technologies (wind, photovoltaic, and storage); and penetration into new markets, including the U.S. market, which is expected to be a future market-level growth engine.

Strategically, we marked a **new direction** of development, while continuing our day-to-day operations, i.e. energy storage. The company's successful tender bid reflects a change in Israel's energy economy, since the combination of renewable energy systems with storage will facilitate a continuous supply of energy, 24/7, at prices that are competitive with gas and coal. In other words, unlike in the past, renewable energy is now an equal or even cheaper alternative—the first tender rate is 0.199 NIS, about 25% lower than conventional production.

We are updating the company's business valuation in light of project progress and goals being met, as well as increasing the company's own forecasts for higher revenues in 2020 (330-350 million NIS). We would like to emphasize that, currently, we are not including the project in Scandinavia (since negotiations are ongoing); however, we are including our successful tender bid in Israel. We estimate that the updated company value is 5.2 billion NIS (as compared to our estimate of 4.77 billion NIS for the first quarter). Below is our forecast for Enlight's earnings and profits before financing costs, tax, depreciation, and amortization (EBITDA) for 2017-2021:

Forecast (NIS 000s)	Revenues	EBITDA
2017A	142,744	124,503
2018A	186,000	158,000
2019A	300,000	256,000
2020E	323,623	265,290
2021E	489,490	391,592

*Company's figures are shown based on 100% holdings for all projects

Specifically, a number of significant developments occurred during the second quarter:

- Advanced negotiations for entry into a large wind project in Scandinavia of approximately 360 MW, the construction of which is expected to commence in the upcoming weeks.
- A significant win in the Israel Electricity Authority's tender for integrated solar-plus-storage systems, at a capacity of 48 MW AC, allowing the construction of a 130 MW DC facility, at an estimated building cost of 410-460 million NIS, which is expected to yield the company annual revenues of 45-55 million NIS.
- A Noy Fund deal for the acquisition of holdings and repayment of subordinated debt in projects in Israel, as the first step in a comprehensive refinancing that the company is examining. The purpose of this move is, inter alia, to add value into the company's profitable projects.
- The appointment of a local manager in the United States, which reflects the company's focus on the North American market as well as the European market.

Financially, the company is in a solid position, with a sufficient cash balance for all future activities until 2021; Enlight has completed capital offering totaling around 290 million NIS and the raising of a bond totaling approximately 250 million NIS. Additional financing when required and given the opportunity in markets, in light of low interest rates coupled with the company's ability to yield projects with high returns. Specifically, during the second quarter:

- Total electricity revenues in the last 12 months were 346 million NIS (300 million NIS at the end of 2019), EBITDA of projects totaled 297 million NIS (256 million NIS at the end of 2019); Total innovation and management fees in the last 12 months were approximately 71 million NIS; Cash balances of around 1.3 billion NIS (following the abovementioned fundraising).

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Investment Thesis

Globally, the renewable energy sector is in a growth momentum in most countries as a result of government decisions and organizations to reduce dependence on polluting fuels and reduce greenhouse gas emissions, which are reflected in governments' actions to meet renewable energy targets they are committed to according to the Paris 2015 agreement.

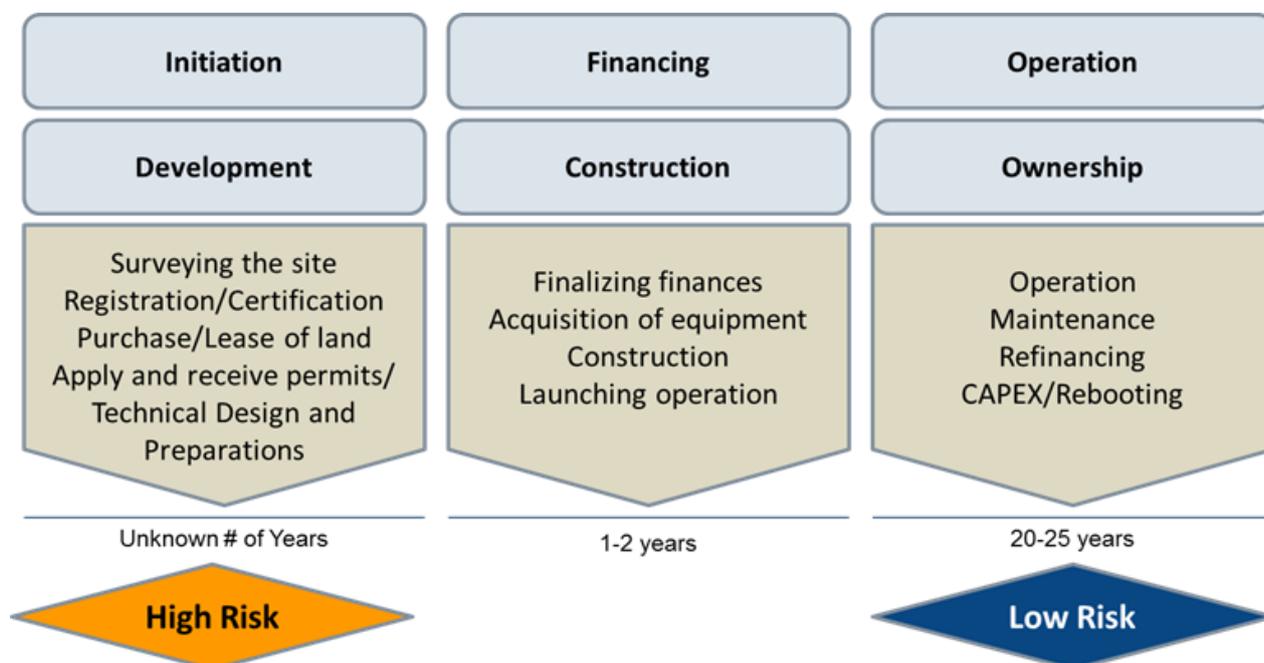
The implementation of government decisions translates into policies, regulations and licensing processes of companies that build renewable energy electricity generating facilities that are supposed to provide electricity over many years in a reliable, safe and economical manner.

Enlight is well respected in its industry, both locally and globally. Their reputation extends across the renewable energy value and supply chains, as well as within their specific business ecosystem. This is demonstrated by the list of Enlight's institutional investors, financing partners and equipment suppliers.

The company has a record of success across all steps and stages of renewable energy projects, including initiation, development, financing, construction, management, operation, ownership and sale of assets.

The company aims to continue creating value by leveraging its proven expertise and experience in identifying, quickly evaluating and exploiting 'under the radar' market opportunities, both through "Greenfield" development in Israel and co-development in international markets. The company's strategy is to select and operate in markets that demonstrate a combination of factors with specific emphasis on; supportive policy, regulations, favorable natural resources, an opportunity to optimize the development, and market size that supports future growth. In international markets the company partners with local entities that provide advantages in the initial early stages of development.

Below is the strategic landscape the company operates in:



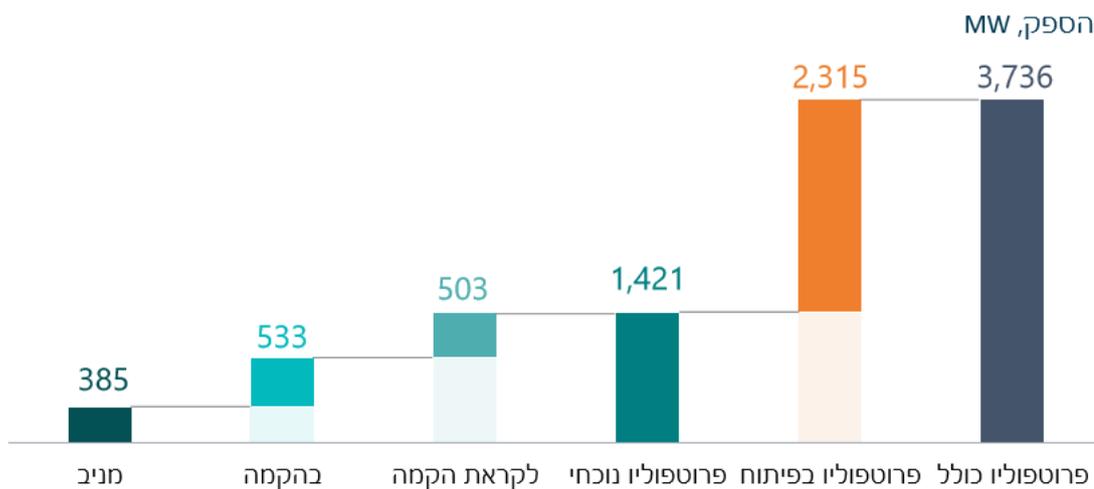
Source: Frost & Sullivan

Value proposition to investors, partners and suppliers include:

- Experience in evaluating projects and uncovering upside opportunities.
- Focus on markets that are mature or maturing in terms of renewable energy policy and regulation, and such markets where renewable energy sources provide competitive electricity prices without the need for subsidies.
- Identify opportunities to optimize projects' capacity or timetables immediately and/or in the long term.
- High likelihood to secure financing due to corporate reputation and industry relations.
- Leveraging experience to generate margins from optimization, development and construction.

Enlight met our expectation for 2019 revenues. We assume Enlight's revenues from projects (representing 100% holdings in projects) would reach NIS 350 million in 2020 and more than 1b NIS in NIS (with the entrance of Gemeca and Bereshit projects).

Estimate of cumulative installed capacity in MW projects and projects under development (source: Enlight)



Valuation Summary

The Company's valuation is based on more than 22 projects included in the company's backlog. These are projects that the company has released detailed information for, which is included in our analysis. We have added to the project value the amount of management fees that the company is entitled to receive. In addition, should the Company succeed in financially closing future projects that we consider to be eligible, it will be eligible for additional success fees that are not included in our valuation due to the preliminary stages in which the projects are currently at. In this regard, the Company reported in its annual report that the total revenues from management, initiation and development attributed to it in the past 12 months amounted to approximately NIS 71 million.

We conservatively estimate that some of these revenues will continue for at least the next 5 years (such as initiation and development fees, which we believe are likely to grow in light of project development) and some will last for 15-20 years (such as management fees), discounted revenues on their own amount to slightly more than NIS 278 million in addition to the value of the company's projects. In terms of expenses, Enlight has general and administrative expenses, as well as sales and marketing expenses. We estimate the expenses reported in the company's financial statements, which are expected to rise at a constant rate of 2% per year to support the company's activities. As of March 30, 2020, the Company's cash balance was approximately NIS 1,300 million, which includes cash and includes recent capital raising. On the other hand, the company has loans and bonds of NIS 816 million.

Future Asset Pricing - Enlight has signed agreements in several locations to collaborate on the development of photovoltaic solar energy projects at a span of more than 400 megawatts. These are going to join the company's development pipeline in the coming years, which is estimated at about 2.3 gigawatts of projects.

We add these assets under a certain probability of realization in light of the Company's activities in recent years, its experience and its success in promoting and closing projects of extensive scope. Specifically, we also had the tender the company won in Israel for energy storage.

Based on the above parameters, we update the value of the company to NIS 5.2 billion and the share price to NIS 6.32 (previous target price was NIS 6.16).

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