Ellomay Capital

Generating capital to allocate

Initiation of coverage

Utilities

Ellomay Capital invests in international power generation assets on the basis of value and cash yield. Its asset mix comprises solar plants in Italy and Spain as well as an investment in an Israeli gas-fired power plant. The company enjoys a high level of cash generation (FY16e FCF yield 8.4%), which management allocates between debt repayment, shareholder returns and investment in new projects. Our fair value per share is $11.50.

Year end	Revenue ($m)	PBT* ($m)	EPS* ($)	DPS ($)	P/E (x)	Yield (%)
12/14	15.78	2.46	0.21	0.00	42.9	N/A
12/15	13.82	1.86	0.35	0.00	25.7	N/A
12/16e	14.19	3.29	0.23	0.23	39.2	2.6
12/17e	14.32	4.72	0.32	0.23	28.2	2.6

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Generating assets, with high earnings visibility

Ellomay owns 30.5MWp of solar photovoltaic (PV) assets in Italy and Spain and a 9.4% equity stake in Dorad, an 850MW Israeli gas-fired power plant. Its international portfolio of generation assets offers investors exposure to a strong range of technologies and end markets. A key plank of the story is the strong recurring cash flow provided by high-visibility regulated earnings on its solar activities.

Future value decided by capital allocation

Surplus cash produced by Ellomay's operating assets is either used to pay down debt, for shareholder returns or for new power investments. Management has extensive experience in energy and finance. Capital discipline is the key long-term driver of value for Ellomay shareholders, and management has shown itself to be highly accomplished at acquiring assets at attractive prices and delivering strong cash yields.

Power investments depend on availability and price

Management has strict investing criteria when assessing new opportunities. When it sees value, such as that witnessed in the Italian and Spanish solar PV markets between FY12 and FY14, it acquires in scale: over $50m in FY12-14. However, in recent years as asset prices have recovered, it has instead allocated capital to shareholder returns: $2.4m dividend and $3m buyback. Currently, Ellomay is planning the development of a pumped storage project at Manara Cliff.

Valuation: Sum-of-the-parts of $11.50

Given the differing markets in which Ellomay operates, we value its solar activities and its stake in Dorad separately in arriving at our fair value of $11.50/share (NIS43/share). We use a sum-of-the-parts comprising discounted cash flow (DCF), EV/EBITDA and EV/KWp in arriving at our fair value. We also compare Ellomay to its closest listed peers on several key valuation measures.

28 September 2016

Price	**$9.01/ NIS33.89***
Market cap	**$96/ NIS363m**

*Priced at 26 September 2016
NIS3.79/US$

Net debt ($m) as at FY15	33.6
Shares in issue	10.7m
Free float	31%
Code	ELLO
Primary exchange	NYSE
Secondary exchange	TASE

Share price performance

%	1m	3m	12m
Abs	(0.3)	16.5	(7.3)
Rel (local)	0.7	12.6	(0.2)
52-week high/low		$9.59	$7.11

Business description

Ellomay Capital owns an international portfolio of power generation assets comprised of solar plants in Italy and Spain and a gas-fired power plant in Israel. It operates principally in regulated markets.

Next events

9M and Q3 results	December 2016

Analysts

Jamie Aitkenhead +44(0)207 3077 5700

Roger Johnston +44(0)207 3077 5722

industrials@edisongroup.com

Edison profile page

Investment summary

Company description: International power generation

Ellomay Capital is an international power and infrastructure investor with a dual listing on the Tel Aviv and New York stock exchanges. It owns 22.6MWp of photovoltaic (PV) solar generating capacity in Italy (in Puglia, Marche and Veneto) and 7.9MWp of solar PV assets in Spain. It has exposure to conventional thermal generation in the form of a 9.4% stake holding in Dorad Energy, an 850MW gas-fired power plant in Israel, which began operating in 2014. As an investor in power generation, Ellomay continually assesses potential investment opportunities such as Manara Cliff, a 340MW pumped-storage project in Israel that has just received a conditional licence.

Financials: Strong cash, balance sheet capacity, expansion planned

We forecast Ellomay will generate in excess of $6m (FY16e) in free cash flow (operating free cash flow less capex), which equates to a 8.4% yield. With a low level of indebtedness, at 21% net debt to EV, Ellomay has a strong financial platform from which to make growth investments in the coming years. Crucially, 84% of Ellomay's revenues come in the form of regulated earnings from its Spanish and Italian solar assets, which qualify for subsidies. Ellomay's strategy is to use the cash flow from these businesses, in tandem with its conservative balance sheet, to finance expansionary generation projects.

Valuation: Sum-of-the-parts

We use a sum-of-the-parts model for Ellomay comprised of different DCF models, EV/EBITDA multiples and per KWp multiples for the solar business and a DCF for the Dorad investment in arriving at our fair value (FV) of $11.50 per share (NIS43/share). We do not include value from new projects.

Sensitivities

Ellomay is subject to several risks beyond its control and some further stock-specific factors investors should be aware of:

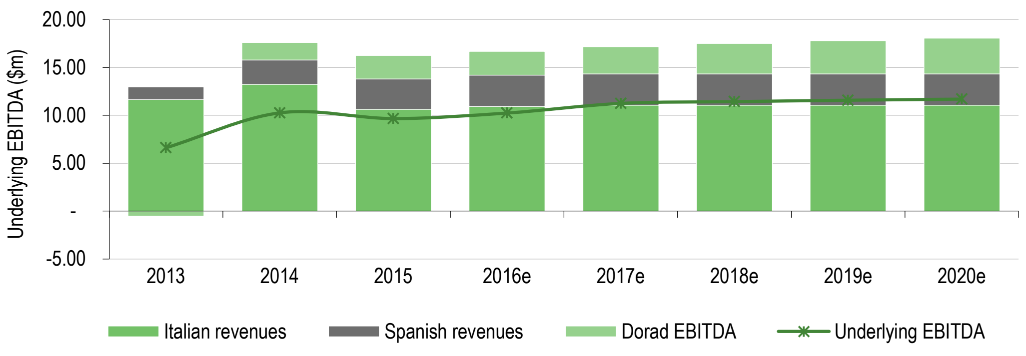
- Regulatory risk: Ellomay has already been subject to regulatory interference with permanent subsidy reductions imposed on its Spanish and Italian solar assets in 2013 and 2014. In Italy, the reductions lowered the subsidy by 8.0%. Dorad also experienced a 6.8% tariff reduction in 2015.
- Currency risk: Ellomay earns the bulk of its revenues in euros, reports in US dollars and issues debt in Israeli shekels. Therefore the company is subject to short-term, currency-related fluctuations in earnings. Ellomay does use hedging instruments to mitigate currency risk. Technical factors: Given its low free float of 31% (the equivalent to $30m) and low daily traded volume, many investors are precluded from holding the stock.
- Execution risk: Especially in the case of greenfield investments such as Manara Cliff, investors should be aware that there is potential for projects delays and cost overruns in common with all power generation projects. In the case of larger projects, these could have a meaningful impact on Ellomay's valuation.

Company description: In the power business

Ellomay made its first acquisition in the Italian solar PV market in 2010 and subsequently expanded its solar operations by acquiring assets in Spain from 2012. It purchased an equity stake in Dorad, a gas-fired power plant in Israel in 2010, which started yielding cash flow in FY14. Over the course of this period, Ellomay has shown itself to be an astute purchaser of power generating assets across geographies, with a keen entrepreneurial sense of making value-enhancing investments.

The bedrock of the business is the $14.5m (FY17e) revenue generated from Ellomay's 12 solar PV assets in Italy and four solar PV assets in Spain (see Exhibit 9). Despite suffering reductions in power price subsidies in both countries in FY13 and FY14, these operations remain profitable for Ellomay, require minimal maintenance and are therefore a cash cow for Ellomay. The company has licences for its plants in Italy until 2031 and in Spain until 2040-41 although it is likely solar energy will be at least as important a contributor to low carbon generation in both countries thereafter.

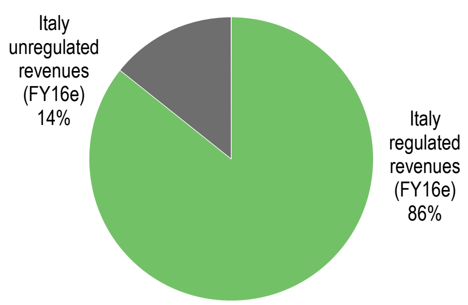
Exhibit 1: Ellomay adjusted EBITDA composition (less bargain purchase, other income and associates)



Source: Ellomay Capital accounts, Edison Investment Research estimates

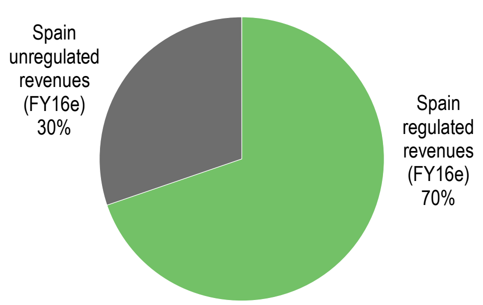
86% of Ellomay's revenues in Italy and 77% of its revenues in Spain are regulated. In each country, the company has minimal exposure to spot prices. Our assumption is that solar subsidies in Italy and Spain remain constant. This means that, if we assume increases in operating costs in line with inflation, EBITDA from these operations will slightly decline.

Exhibit 2: Italian solar revenue split



Source: Edison Investment Research estimates

Exhibit 3: Spanish solar revenue split



Source: Edison Investment Research estimates

The FY15 $2.45m contribution from the Dorad investment (accounted for as an associate) equates to 25% of group EBITDA. The 850MW combined cycle gas turbine (CCGT) is located in Ashkelon, became operational in FY14 and made a full contribution in FY15. The plant is licensed until 2034 and, as one of only a handful of power plants in Israel (producing between 6% and 8% of Israel's power), is a strategic asset for the economy; it was declared a strategic infrastructure project by the government. Ellomay has a 9.4% equity stake in the plant. It sells power (based on regulated tariffs and regulated fuel costs) to a range of private and public sector clients.

Regulations: Steady subsidised cash flows (with some risk)

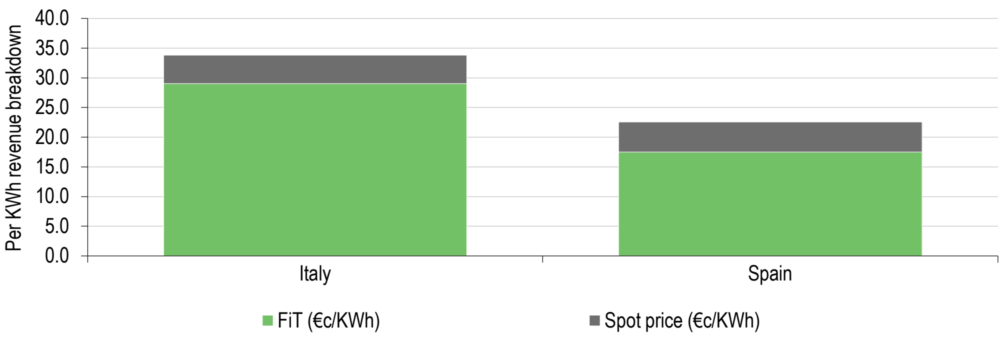
Italy and Spain – Solar PV

Various renewable subsidies have been in place across Europe for several years. Across the EU, the target for electricity generated from renewable sources has long been 20% by 2020 and more recently the 2030 target was set at 27%. National governments put in place various schemes to meet their renewables targets usually involving subsidies or other incentives to encourage investment. Each country is free to skew investment to technologies that suit their natural environment – solar power in the case of Italy and Spain or wind power in the case of the UK.

Energy regulators have to balance the requirement to meet their national CO_2 targets with the political imperative of keeping energy cheap. With subsidised power prices often multiples of market prices, these two goals were always likely to be difficult. The fiscal squeeze associated with the eurozone crisis brought matters to a head and both the Italian and Spanish authorities announced reductions in the subsidies available for solar generators in 2013 and 2014. While Ellomay's operations remain comfortably profitable, this episode highlights how political interference can alter the economics of renewable generation. While we assume subsidies remain flat in the coming years, we highlight further reductions as a potential risk.

This risk should be acknowledged by investors given the large percentage of regulated revenues Ellomay receives in Italy and Spain. While each country has contrasting subsidy mechanics (for instance Spain has a mixture of subsidy per installed unit of capacity and unit KWh produced, while Italy subsidises only power sold to the grid), there is one obvious commonality: namely that regulated feed-in-tariffs (FiTs) outweigh Ellomay's revenues from the spot market several times over (see Exhibit 4).

Exhibit 4: Ellomay solar per KWh revenue split



Source: Ellomay, Edison Investment Research estimates

Israel

Israel's power market is regulated by the Israeli Public Utilities Authority. The regulator imposed a 6.8% reduction in electricity tariff across the Israeli power market in September 2015. Although complex, the tariff regime in theory is a reflection of the fuel cost environment in Israel so tariff decreases do not necessarily eat into profitability. We therefore forecast a steady increase in the income from Dorad over our forecast horizon.

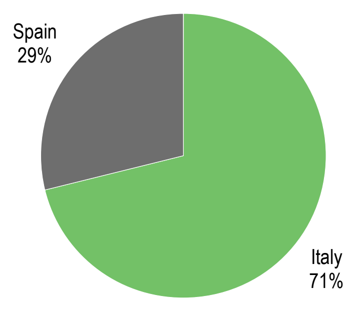
Operations

Italy and Spain

Italy accounts for the lion's share of capacity, output and revenues

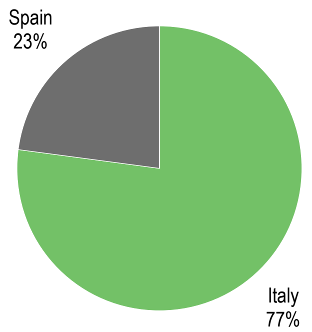
Ellomay's Italian operations account for approximately 71% of Ellomay's solar PV output and 77% of our forecast FY16e revenue for Ellomay's solar units. The average achieved selling price in Italy, at €0.337/KWh, is substantially higher than the equivalent figure in Spain (€0.226/KWh).

Exhibit 5: Ellomay solar PV power output by geography



Source: Ellomay Capital, Edison Investment Research estimates

Exhibit 6: Ellomay solar PV revenues by geography



Source: Ellomay Capital, Edison Investment Research estimates

Ellomay acquired the majority of its Italian and Spanish solar PV assets often when the plant's operators were either insolvent or loss-making, thus offering Ellomay the opportunity to purchase discounted assets. By bringing operations onto a larger-scale platform, Ellomay has been able to reduce costs at the plant level and improve profitability.

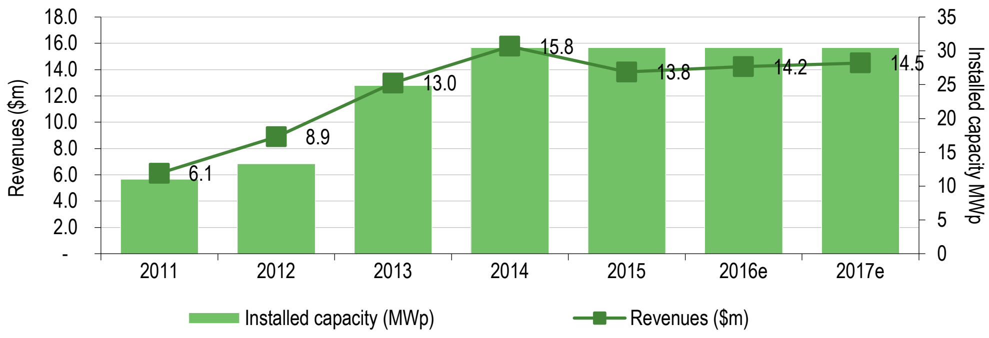
Exhibit 7: Ellomay acquisition history

Year	Asset (s)	Country	Total consideration	Capacity (KWp)	Per KWp multiple	Notes
2014	Murcia	Spain	€9.8m	5,614	€1,745	Three plants bought out of insolvency
			$13.3m		$2,369	
2013	Veneto	Italy	€23.4m	11,823	€1,979	Two plants bought out of insolvency
			$30.7m		$2,597	
2012	Rinconada II	Spain	€5.8m	2,275	€2,533	
			$7.3m		$3,208	FY12 net loss of $2.27m

Source: Ellomay Capital, Edison Investment Research estimates

As illustrated in Exhibit 8, Ellomay's revenues tripled in the space of four years as it acquired its solar and gas interests. However, revenues decreased in FY15 as solar subsidies were reduced and also due to currency effects. We do not include inorganic cash flows so our capacity and revenue estimates stay broadly flat in the coming years.

Exhibit 8: Ellomay solar PV installed capacity (MWp) and revenue ($m) evolution



Source: Ellomay Capital, Edison Investment Research estimates

Ellomay's most important single plants by revenue are Pedale (13% of FY16e revenues), Soleco (16% of FY16e revenues) and Tecnoenergy (16% of FY16e revenues) in Italy, while Rodriguez II (8% of FY16e revenues) and Rinconada II (7% of FY16e revenues) are the most important single unit In Spain. So while the largest single risk to the business is regarding subsidy levels at government level, investors should also be aware that power output is concentrated and therefore subject to asset-specific risk.

Exhibit 9: Ellomay solar PV plant-by-plant

Plant	Location	Capacity (KWp)	Output (MWh)	FY16e revenues ($000)
Italian operations				
Troia 8	Puglia	996	1,446	606
Troia 9	Puglia	996	1,483	622
Del Bianco	Marche	734	956	405
Giaché	Marche	730	966	409
Costantini	Marche	734	1,015	430
Massaccesi	Marche	750	934	396
Galatina	Puglia	994	1,387	581
Pedale	Puglia	2,993	5,311	1,902
Acquafresca	Puglia	948	1,313	473
D'Angella	Puglia	931	1,316	474
Soleco	Veneto	5,924	7,797	2,361
Tecnoenergy	Veneto	5,900	7,664	2,321
Italy total		**22,628**	**31,588**	**10,980**
Spanish operations				
Rinconada II		2,275	3,355	915
Rodriguez I		1,675	2,837	674
Rodriguez II		2,691	4,513	1,114
Fuente Librilla		1,248	2,032	545
Spain total		**7,889**	**12,737**	**3,247**
Solar PV total		**30,517**	**44,325**	**14,227**

Source: Ellomay Capital, Edison Investment Research estimates

Israel: Dorad investment – low visibility into an important national asset

As an associate, and despite reporting in detail, there is minimal operating data for Dorad at plant level and specific details on cash paid to Ellomay are elusive. Given that it is a modern plant and an important contributor to the Israeli generation mix, we believe the plant will continue to make an economic return.

In FY15, its first full year of production, Dorad produced an operating profit of NIS356.8m and net income of NIS102,8m ($91.9m and $26.5m, respectively). The 9.4% equity stake proportionally consolidated by Ellomay contributed $2.45m to group FY15 results. Dorad's balance sheet shows an equity to EV of 15.4% at FY15.

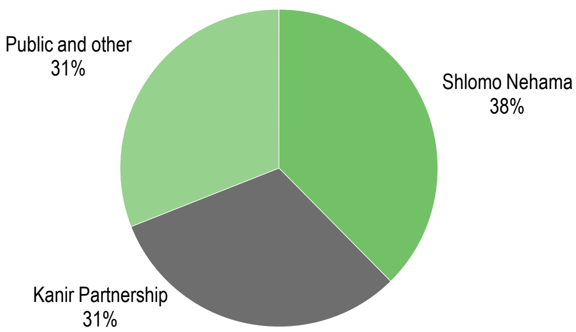
Management and ownership

Two shareholders, Shlomo Nehama and the Kanir Partnership, between them own 69% of Ellomay. Shlomo Nehama is chairman of Ellomay and the Kanir Partnership is managed by Mr Ran Fridrich, Ellomay CEO and director, and Mr Hemi Raphael, a director of Ellomay.

Several senior Ellomay executives benefit from experience in banking and asset management. The 2015 annual report states that Ellomay only directly employed 10 employees. All but one of these individuals were based in Israel. The nature of the directors' experience plus the fact that all employees are in management, administration and finance shows that Ellomay is an investment firm first and foremost and an asset operator second.

The fact that the chairman, chief executive and another director, Hemi Raphael, between them beneficially own a significant percentage of Ellomay gives us confidence shareholder value will continue to be the key driver behind capital allocation, although this must be tempered by the fact that equity holders outside this group are minority holders and therefore have minimal influence in group strategy and major financing decisions.

Exhibit 10: Ellomay ownership structure



Source: Ellomay Capital, Bloomberg data. Note: Kanir Partnership includes holding from Ran Fridrich (CEO).

Ellomay's management team is comprised of several individuals with experience in financial services, law and the corporate world. The most common background for Ellomay executives is investment and financial services. Far more than specialist operators of generation assets, Ellomay's leadership has more experience in evaluating new opportunities.

- **Shlomo Nehama, chairman of the board:** As chairman of Bank Hapoalim, a leading Israeli bank, between 1998 and 2007, Mr Nehama oversaw the expansion of the bank into new markets around the world while growing the bank's balance sheet by over 50% and growing its returns. A graduate of Technion Institute of Technology in Haifa, Mr Nehama has also received an honorary doctorate for his contribution to the Israeli economy.
- **Ran Fridrich, director and CEO:** Mr Fridrich has deep expertise in financial and corporate roles as well as a track record as an entrepreneur. He co-founded the Oristan Group in 2004, manages the Crystal Funds program of CDO equity funds and has launched an investment advisory business. In the corporate world, Mr Fridrich has been general manager of two packaging companies. He is a graduate of the Senior Executive Program at Tel Aviv University.
- **Hemi Raphael, director:** Initially a lawyer with Goldberg Raphael & Co, Mr Raphael later moved into real estate and finance. He is Ellomay's representative on the board of Dorad and has sat on the board of Cargal, a packaging enterprise. Mr Raphael has an LLB from the School of Law at the Hebrew University of Jerusalem and is a member of the Israeli and California Bar Associations.

- **Kalia Weintraub, chief financial officer**: Ms Weintraub joined Ellomay in 2007 as corporate controller, and is responsible for all treasury and finance functions at the group. Before this Ms Weintraub worked in in the high-tech practice of Israeli accounting firm Kost Forer Gabbay and Kasierer. She trained at Brightman Almagor Zohar, having earnt a BA in economics and accounting and an MBA from Tel Aviv University. She is a licensed Certified Public Accountant (CPA) in Israel.
- **Ori Rosenzweig, chief investments officer:** Mr Rosenzweig joined Ellomay in 2014. Previously he was head of cash management at Bank Leumi Le-Israel B.M. and had roles at AFI Investments and GSE Financial Consulting. He has an MBA from Tel Aviv University and a BA in business and international relations from the Hebrew University.

Strategy: Power investing

Ellomay continually assesses power investments in which to invest. Up to now, its track record has been successful in producing strong cash yields to reinvest and distribute to shareholders. Beneath we outline a couple of potential investments Ellomay has discussed. For now, there is not enough information to accurately model and value these potential investments and we would not include the additional value at this stage anyway. We are confident that as the investments gain certainty, Ellomay will communicate more detailed financial projections to the market.

Manara Cliff: Pumped storage

Ellomay has a 75% interest in the Manara project – the other 25% being owned by Sheva Miskarot – a planned pumped storage hydroelectric generation project in Israel. The company estimates that the 340MW project would take 72 months to construct. Recently, the project was re-awarded a conditional licence, which increases the likelihood of the project winning planning approval.

The Netherlands: Waste-to-energy

On 9 August, Ellomay announced it had entered into an agreement with Ludan Energy in connection with waste-to-energy (WTE) projects in the Netherlands. Ludan (parent company: the Ludan Group, an engineer and project manager listed on the Tel Aviv Stock Exchange: LUDN IT) has been involved with 14 WTE projects in Spain and according to the agreement with Ellomay both companies will co-invest in future WTE plants in the Netherlands provided they are awarded a Sustainable Energy Production Incentive from the Dutch government. Ellomay will take a 51% stake in each project. The expected overall cost of the projects is €200m.

Financials: Profitable, but must invest for growth

In the absence of regulatory interference, Ellomay's solar PV revenues are the main driver behind the group's high level of recurring cash flow. We forecast an EBITDA margin of 54.7% for FY16, although we note that group EBITDA will be broadly flat across our forecast horizon due to the lack of subsidised revenue indexation. The decline in profitability in solar given rising costs, solar panel degradation and fixed revenues from incentives means Ellomay will have to rely on increasing profitability at Dorad to drive EBITDA growth.

Given its high profitability and cash conversion and low level of indebtedness, there is no immediate pressure on Ellomay to grow EBITDA, but it is reliant on new projects it is assessing, such as Manara Cliff or Dutch WTE investments, to deliver the next wave of growth. Exhibit 11 contains our headline earnings, cash flow and debt forecasts for Ellomay.

Exhibit 11: Ellomay headline financial forecasts

	2015	2016e	2017e	2018e	2019e	2020e	Commentary
Underlying EBITDA ($000	7,218	7,754	8,393	8,245	8,093	7,938	Rises initially as Manara costs are capitalised but declines thereafter as costs increase.
Underlying EPS ($)	0.35	0.22	0.32	0.38	0.42	0.47	Improves due to falling depreciation as capex and therefore assets decline, also interest charge drops with net debt.
Capex ($000)	0	(250)	(250)	(250)	(250)	(250)	Management guides to a very low level of maintenance capex on existing assets. No new investments assumed.
Net debt/(cash) ($000s)	33,636	31,454	27,203	21,885	16,334	10,428	High cash flow assumptions and minimal capex spend; we forecast a sharp decline in net debt.

Source: Ellomay Capital, Edison Investment Research

Earnings: Profitable but stagnant EBITDA, earnings attractive

Our forecast underlying FY17e EBITDA for Ellomay is $8.4m. As we do not explicitly forecast expansionary capex, the bulk of cash generated flows through to the balance sheet. Ellomay's cost base is almost entirely head office costs – administration, finance, general management – with additional expenses for new projects. We forecast these will grow by low single-digit percentage points each year.

Cash flow: A mixture of yield and growth

Ellomay currently is a cash flow yield story, with high growth potential through the combination of an under-geared balance sheet and a management track record of investing at the right point in the cycle. Our cash flow forecasts only take into consideration existing activities and we acknowledge that future cash flow may be different to our forecasts as Ellomay finds the right investment opportunities.

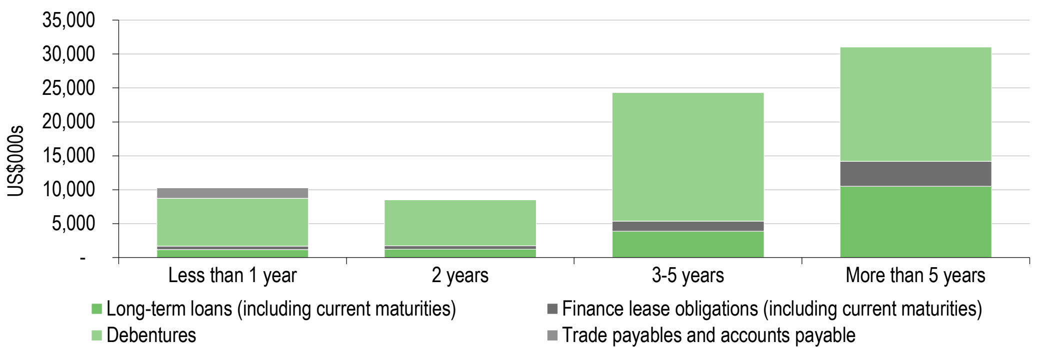
Based on our forecasts Ellomay will produce enough cash flow to pay down gross debt by $25m by 2020, while still growing its cash position by $10m over the same period. This is a function of the $35m of operating cash generated (FY16-20) by Ellomay according to our estimates, which include cash generated by Dorad.

Ellomay announced it first dividend payment of $0.225/share in March FY16, implying a total payout of $2.4m. This followed on from the May FY15 announcement of a $3m share buyback programme. Despite the fact that Ellomay is still an early-stage enterprise with several growth projects to consider, we believe the dividend policy is sensible given the company is sitting on nearly $20m of cash and $6.5m of marketable securities, plus it will be a year or two before its next significant capital investment. The 2.6% yield offered by Ellomay is attractive in a market context, especially within the small- and mid-cap space.

Balance sheet: Low debt to EV, higher debt to EBITDA

At 25% net debt/EV, Ellomay is well positioned to take on further investment obligations in the coming years. The fact that it is distributing earnings and sitting on nearly $20m in cash shows the balance sheet has capacity to underwrite new projects. Net debt to reported EBITDA looks safe. Over the last three years, the range has been 1.5-3.5x, which is conservative for a business that derives the bulk of its revenues from regulated activities. However, we should highlight that when we strip out exceptionals and earnings from associates to be conservative, the numbers look a little more stretched, at 3.5-4.7x EBITDA also over the last three years. This is towards the top end of the range, even for regulated businesses, and could restrict Ellomay's ability to invest in assets not producing immediate cash flow.

Exhibit 12: Ellomay liquidity requirements at FY15



Source: Ellomay, Edison Investment Research estimates

In FY14, Ellomay issued two debentures of NIS120m ($34.4m) and NIS80.3m ($23.3m) to fund expansion. The Series A debentures are traded on the Tel Aviv Stock Exchange (TASE) and, on 1 February 2016 Standard and Poor's Maalot confirmed the ilA- rating (the equivalent to B+ on S&P's international ratings) on the instruments. The debentures carry a fixed interest rate of 4.6%, with the majority of the principal falling due after three years. Covenants on the debentures state that net financial debt to equity shall not exceed 65% and equity to balance sheet shall not decrease below 20%. The debentures are non-convertible and place restrictions on shareholder distributions.

Valuation

Our fair value for Ellomay is $11.50 per share (NIS43). We divide the business into two parts – Solar Operations and the Dorad Investment – which we value separately. We value the solar assets through a blend of EV/EBITDA multiple, DCF and a dollar per KW of installed capacity multiple. The average of each of these produces an EV of $93.0m. We value Dorad by DCF, which produces an EV of $63.3m for Ellomay's 9.35% equity stake in the plant. After taking net debt into account, our valuation implies a fair value per share of $11.50.

Exhibit 13: Ellomay sum-of-the-parts valuation

Segment		EV ($000s)
Solar Operations	Blended: 10x FY17e EBITDA, DCF (WACC 4.7%), $3,500/KWh installed capacity	93,034
Dorad Investment	DCF (WACC 7.6%, terminal growth 1%)	63,264
Group enterprise value		**156,298**
Less: FY15 net debt		33,636
Less: pensions and other		0
SOP valuation		122,662
Current number of shares (m)		10.7
Current price ($/share)		9.25
Fair value per share ($/share)		11.45
Upside/(downside) to FV (%)		23.8%
Dividend yield (%)		2.4%
Total return (%)		26.2%

Source: Edison Investment Research estimates

Peer comparison: Regulated assets trading at a premium

Regulated assets across the world trade at a premium. Dependable cash flows in comparatively stable political environments, coupled with the general downwards trajectory in the typical cost of capital used to value these cash flows make these stocks attractive.

Ellomay's closest peers in the table beneath are Solarparken and Etrion, both European-listed solar owners and operators. At first glance, Ellomay seems to be trading at a premium to both names.

However, the multiples in Exhibit 14 are calculated based on headline EBITDA and valuation. For Ellomay, one should subtract the Dorad investment from the EV and strip out the associates from the headline EBITDA. Based on our calculations (subtracting Dorad at our FV of $63m and stripping out FY17e associates of $2.85m), Ellomay's adjusted one-year forward EV/EBITDA is 8.1x, at a discount to its closest peers. The average forward EBITDA multiple across Ellomay's closest listed European regulated and renewable peers is 9.5x, comparable to the 10x forward EV/EBITDA multiple we use for Ellomay's solar business in our sum-of-the-parts valuation.

Exhibit 14: Ellomay peer comparison

	Share price (local)	Market cap (local m)	Current EV/ EBITDA	Next EV/ EBITDA	FCF yield (%)	Dividend yield this year (%)
7C Solarparken AG	€2.4	103	10.3	9.4	14.42	1.64
Etrion Corp	SEK2.3	772	15.2	11.5	-10.44	0.00
EDP Renovaveis SA	€7.1	6,228	8.2	7.6	-5.79	0.76
National Grid PLC	1080.5p	40,678	11.3	11.1	3.75	4.11
Terna Rete Elettrica Nazionale SpA	€4.6	9,190	11.8	11.2	-6.44	4.59
Snam SpA	€4.9	17,223	11.7	11.4	7.71	5.08
Enel SpA	€4.0	40,240	5.5	5.4	7.03	4.55
Iberdrola SA	€6.0	38,071	8.5	8.3	2.97	4.93
Average			10.3	9.5	1.65	3.21
Ellomay Capital	US$9.09	98	12.8	11.7	8.40	2.50

Source: Edison Investment Research, Bloomberg. Note: Prices as at 27 September 2016.

Sensitivities

The most important risk to Ellomay's earnings, based on its current operating assets, is a potential reduction in the subsidies received by its solar PV assets in Italy and Spain. Given that the overwhelming amount of revenue in this business comes from Italy, it is to this government that Ellomay's earnings are most linked. Exhibit 15 shows that a 10% decrease in Italian subsidies would reduce Ellomay's FY17 EBITDA by 11%, whereas a reduction in Spanish subsidies of the same amount would only reduce FY17 EBITDA by 3%. In common with regulated assets globally, our solar PV WACC assumption, at 4.7%, is low, so we include a sensitivity to a 0.5% move in WACC.

Exhibit 14: Solar PV business: EBITDA and valuation sensitivities ($)

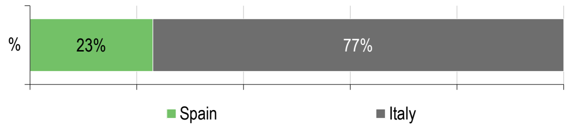
	Underlying EBITDA ($000)		
	Group FY17 base	Group FY17 flexed	% difference
Spanish FiT down 5%	8,537	8,442	-1%
Spanish FiT down 10%	8,537	8,303	-3%
Italian FiT down 5%	8,537	8,102	-5%
Italian FiT down 10%	8,537	7,625	-11%
	Solar PV NPV ($)		
WACC (%)	NPV ($m)	% difference	$/share
Base: 4.7%	87.1		
Low: 4.2%	98.2	13%	1.04
High: 5.2%	79.3	-9%	-0.73

Source: Edison Investment Research estimates

Exhibit 15: Financial summary

US$000s	2013	2014	2015	2016e	2017e	2018e	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	12,982	15,782	13,817	14,185	14,318	14,318	14,318	14,318
EBITDA (company definition)	16,807	15,694	9,685	10,242	11,248	11,433	11,581	11,696
EBITDA (Edison definition, excluding associates)	7,152	8,442	7,218	7,754	8,393	8,245	8,093	7,938
Operating Profit (before amort. and except.)	3,131	2,990	2,306	3,367	4,236	4,305	4,358	4,396
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	10,195	5,433	21	0	0	0	0	0
Other	1,543	(1,048)	3,485	0	0	0	0	0
Operating Profit	14,869	7,375	5,812	3,367	4,236	4,305	4,358	4,396
Net Interest	(3,997)	(2,347)	(2,893)	(2,568)	(2,375)	(1,895)	(1,664)	(1,234)
Share of assocs/jvs gains/(losses)	(540)	1,819	2,446	2,488	2,855	3,188	3,487	3,758
Forex gains/(losses	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
Profit Before Tax (norm)	(1,406)	2,462	1,859	3,286	4,716	5,597	6,181	6,920
Profit Before Tax (FRS 3)	10,332	6,847	5,365	3,286	4,716	5,597	6,181	6,920
Tax	(245)	(201)	1,933	(871)	(1,250)	(1,483)	(1,638)	(1,834)
Profit After Tax (norm)	(1,651)	2,261	3,792	2,416	3,466	4,114	4,543	5,086
Profit After Tax (FRS 3)	10,068	6,658	7,553	2,416	3,466	4,114	4,543	5,086
Average Number of Shares Outstanding (m)	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7
EPS - normalised ($)	(0.15)	0.21	0.35	0.23	0.32	0.38	0.42	0.47
EPS - normalised and fully diluted ($)	(0.15)	0.21	0.35	0.22	0.32	0.38	0.42	0.47
EPS - (IFRS) ($)	0.94	0.62	0.70	0.23	0.32	0.38	0.42	0.47
Dividend per share ($)	0.00	0.00	0.00	0.23	0.23	0.23	0.23	0.23
EBITDA Margin (%)	55.1	53.5	52.2	54.7	58.6	57.6	56.5	55.4
Operating Margin (before GW and except.) (%)	24.1	18.9	16.7	23.7	29.6	30.1	30.4	30.7
BALANCE SHEET								
Fixed Assets	124,395	129,273	126,814	125,165	124,112	123,609	123,611	124,077
Intangible Assets	0	0	0	0	0	0	0	0
Tangible Assets	93,671	93,513	78,975	74,838	70,930	67,239	63,754	60,462
Investments	24,601	27,237	33,970	36,458	39,313	42,501	45,988	49,746
Other	6,123	8,523	13,869	13,869	13,869	13,869	13,869	13,869
Current Assets	22,535	29,814	33,513	30,910	30,240	30,559	31,109	32,016
Stocks	0	0	0	0	0	0	0	0
Debtors	4,491	6,143	8,218	8,433	8,512	8,512	8,512	8,512
Cash	7,238	15,758	18,717	15,899	15,150	15,468	16,019	16,925
Other	10,806	7,913	6,578	6,578	6,578	6,578	6,578	6,578
Current Liabilities	(26,919)	(10,924)	(10,103)	(9,858)	(9,775)	(9,701)	(9,633)	(9,573)
Creditors	(7,465)	(5,363)	(4,092)	(3,847)	(3,764)	(3,690)	(3,622)	(3,562)
Short term borrowings	(19,454)	(5,561)	(6,011)	(6,011)	(6,011)	(6,011)	(6,011)	(6,011)
Other	0	0	0	0	0	0	0	0
Long Term Liabilities	(20,250)	(54,037)	(56,159)	(51,159)	(46,159)	(41,159)	(36,159)	(31,159)
Long term borrowings	(11,050)	(44,081)	(48,117)	(43,117)	(38,117)	(33,117)	(28,117)	(23,117)
Other long term liabilities	(9,200)	(9,956)	(8,042)	(8,042)	(8,042)	(8,042)	(8,042)	(8,042)
Net Assets	99,761	94,126	94,065	95,058	98,418	103,309	108,928	115,361
CASH FLOW								
Operating Cash Flow	8,390	7,317	9,989	7,294	8,232	8,170	8,026	7,877
Net Interest	(1,788)	(3,721)	(2,904)	(2,568)	(2,375)	(1,895)	(1,664)	(1,234)
Tax	(213)	(260)	(2,174)	(871)	(1,250)	(1,483)	(1,638)	(1,834)
Capex	(9,152)	(709)	0	(250)	(250)	(250)	(250)	(250)
Acquisitions/disposals	(30,742)	(13,126)	0	0	0	0	0	0
Financing	0	0	0	0	0	0	0	0
Dividends	0	0	0	(2,411)	(2,411)	(2,411)	(2,411)	(2,411)
Other	(2,885)	(2,230)	(4,485)	2,488	2,855	3,188	3,487	3,758
Net Cash Flow	(36,390)	(12,729)	426	3,682	4,801	5,319	5,550	5,907
Opening net debt/(cash)	(12,960)	23,892	32,932	33,636	31,454	27,203	21,885	16,334
HP finance leases initiated	0	0	0	0	0	0	0	0
Other	462	-3689	-461	1500	550	0	0	0
Closing net debt/(cash)	23,892	32,932	33,636	31,454	27,203	21,885	16,334	10,428

Source: Ellomay Capital accounts, Edison Investment Research estimates

Contact details	Revenue by geography
Ellomay Capital 9 Rothschild Boulevard Tel Aviv +972 3 7971111 www.ellomay.com	

Management team

Chairman of the Board: Shlomo Nehama	Director and CEO: Ran Fridrich
As chairman of Bank Hapoalim, a leading Israeli bank, between 1998 and 2007, Mr Nehama oversaw the expansion of the bank into new markets around the world while growing the bank's balance sheet by over 50% and growing its returns. A graduate of Technion Institute of Technology in Haifa, Mr Neham has also received an honorary doctorate for his contribution to the Israeli economy.	Mr Fridrich has deep expertise in financial and corporate roles as well as a track record as an entrepreneur. He co-founded the Oristan Group in 2004, manages the Crystal Funds program of CDO equity funds and has launched an investment advisory business. In the corporate world, Mr Fridrich has been general manager of two packaging companies. He is a graduate of the senior executive program at Tel Aviv University.
Chief Financial Officer: Kalia Weintraub	**Chief Investments Officer: Ori Rosenzweig**
Ms Weintraub joined Ellomay in 2007 as corporate controller, and is responsible for all treasury and finance functions at the group. Before this Ms Weintraub worked in in the high-tech practice of Israeli accounting firm Kost Forer Gabbay and Kasierer. She trained at Brightman Almagor Zohar, having earnt a BA in economics and accounting and an MBA from Tel Aviv University. She is a licensed Certified Public Accountant (CPA) in Israel.	Mr Rosenzweig joined Ellomay in 2014. Previously he was Head of cash management at Bank Leumi Le-Israel BM and had roles at AFI Investments and GSE Financial Consulting. He has an MBA from Tel Aviv University and a BA in business and international relations from the Hebrew University.

Principal shareholders	(%)
Nehama Shlomo	37.62
Kanir Partnership	31.40
Raphael Hemi	4.26
Yelin Lapidot	3.62
Sifra Capital	3.17
Ran Fridrich	1.10

Companies named in this report

7C Solarparken AG (HRPK GY), Etrion Corp (ETX SS), EDP Renovaveis SA (EDPR PL), National Grid (NG/ LN), Terna Rete Elettrica Nazionale SpA (TRN IM), Snam SpA (SRG IM), Enel SpA (ENEL IM), Iberdrola SA (IBE SM)

Edison, the investment intelligence firm, is the future of investor interaction with corporates. Our team of over 100 analysts and investment professionals work with leading companies, fund managers and investment banks worldwide to support their capital markets activity. We provide services to more than 400 retained corporate and investor clients from our offices in London, New York, Frankfurt, Sydney and Wellington. Edison is authorised and regulated by the Financial Conduct Authority. Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison and is not regulated by the Australian Securities and Investment Commission. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

EDISON ISRAEL DISCLAIMER

Disclosure regarding the scheme to enhance the awareness of investors to public companies in the technology and biomed sectors that are listed on the Tel Aviv Stock Exchange and participate in the scheme (hereinafter respectively "the Scheme", "TASE", "Participant" and/or "Participants"). Edison Investment Research (Israel) Ltd, the Israeli subsidiary of Edison Investment Research Ltd (hereinafter respectively "Edison Israel" and "Edison"), has entered into an agreement with the TASE for the purpose of providing research analysis (hereinafter "the Agreement"), regarding the Participants and according to the Scheme (hereinafter "the Analysis" or "Analyses"). The Analysis will be distributed and published on the TASE website (Maya), Israel Security Authority (hereinafter "the ISA") website (Magna), and through various other distribution channels. The Analysis for each participant will be published at least four times a year, after publication of quarterly or annual financial reports, and shall be updated as necessary after publication of an immediate report with respect to the occurrence of a material event regarding a Participant. As set forth in the Agreement, Edison Israel is entitled to fees for providing its investment research services. The fees shall be paid by the Participants directly to the TASE, and TASE shall pay the fees directly to Edison. Subject to the terms and principals of the Agreement, the Annual fees that Edison Israel shall be entitled to for each Participant shall be in the range of $35,000-50,000. As set forth in the Agreement and subject to its terms, the Analyses shall include a description of the Participant and its business activities, which shall inter alia relate to matters such as: shareholders; management; products; relevant intellectual property; the business environment in which the Participant operates; the Participant's standing in such an environment including current and forecasted trends; a description of past and current financial positions of the Participant; and a forecast regarding future developments in and of such a position and any other matter which in the professional view of the Edison (as defined below) should be addressed in a research report (of the nature published) and which may affect the decision of a reasonable investor contemplating an investment in the Participant's securities. To the extent it is relevant, the Analysis shall include a schedule of scientific analysis of an expert in the field of life sciences. An "equity research abstract" shall accompany each Equity Research Report, describing the main points addressed. The full scope reports and reports where the investment case has materially changed will include a thorough analysis and discussion. Short update notes, where the investment case has not materially changed, will include a summary valuation discussion. The Agreement with TASE regarding the participation of Edison in the scheme for the research analysis of public companies does not and shall not constitute an approval or consent on the part of TASE or the ISA or any other exchange on which securities of the Company are listed, or any other securities' regulatory authority which regulates the issuance of securities by the Company to the content of the Report or to the recommendation contained therein. A summary of this report is also published in the Hebrew language. In the event of any contradiction, inconsistency, discrepancy, ambiguity or variance between the English Report and the Hebrew summary of said Report, the English version shall prevail; and a note to this effect shall appear in any Hebrew summary of a Report. Edison is regulated by the Financial Conduct Authority. According to Article 12.3.2, Chapter 12 of the Conduct of Business Sourcebook, Edison, which produces or disseminates non-independent research, must ensure that it: 1) is clearly identified as a marketing communication; and 2) contains a clear and prominent statement that (or, in the case of an oral recommendation, to the effect that) it: a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and b) is not subject to any prohibition on dealing ahead of the dissemination of investment research. The financial promotion rules apply to non-independent research as though it were a marketing communication.

EDISON INVESTMENT RESEARCH DISCLAIMER

 This report has been prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Aus and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2016. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.