EDISON

Ellomay Capital

FY17 results

Reaping the benefits of 2017 investments

Alternative energy

Ellomay Capital's renewable assets portfolio delivered significant growth at the operating level over the course of 2017, with revenue, EBITDA and EBIT up 17%, 10% and 25% respectively (versus 2016). For 2018, we expect the company to reap the benefits of investments made in 2017, with the recently acquired Israeli solar PV assets and the commissioning of two new Dutch waste-to-energy (WTE) plants driving 91% y-o-y EBITDA growth and a positive net income contribution after two years of losses. Several new projects under development could generate additional medium-term growth, in particular the financial close of Talasol, a large solar PV plant project in Spain (potentially by Q318).

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/16	11.6	(0.1)	(0.02)	0.00	N/A	N/A
12/17	13.6	(6.3)	(0.57)	0.00	N/A	N/A
12/18e	22.4	4.5	0.32	0.11	21.3	1.6
12/19e	23.3	5.4	0.39	0.13	17.5	1.9

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

Strong growth in operating results in FY17

Ellomay Capital posted +10%/+25% y-o-y EBITDA/EBIT growth, driven by higher power prices and output in Italian and Spanish solar PV activities, an initial contribution of a waste-to-energy project in the Netherlands, and the acquisition of solar PV activities in Israel (Q417). At the bottom line, the net loss of €6.6m (pre-minority) was mainly the result of one-offs (the effect of €/$ movements on derivatives and marketable securities, and expenses resulting from exchange rate differences).

Reaping the benefits of FY17 investments

For FY18, we expect Ellomay Capital to reap the benefits resulting from the 2017 acquisition (Israeli solar PV) and the new projects (Dutch WTE plants). Although FY17 net debt includes the costs of these new projects (net debt more than doubled to €80.4m in the year), the contribution to FY17 results was negligible. We have made limited changes to our forecasts (FY18-FY20e EBITDA is down -3%-4%, net income moved between -5% and +3%) post the FY results and we have recreated our financial model to change the presentation currency to euro (from US dollar), to align with the company's change.

Valuation: US$11.4/share, stock is currently trading below book value

Our unchanged DCF-based valuation of US$11.4/share implies c 40% potential upside vs the current share price. We note the stock is trading below book value (0.8x FY18e) so appears to be discounting little ability to create value from existing and future development projects. We believe delivery of earnings growth from new projects would provide an opportunity to crystallise the upside potential.

16 April 2018

Price*	**US$8.38**
Market cap	**US$90m**
	€/US$1.23
*Priced at 12 April 2018	
Net debt (€m) at end December 2017	80.3
Shares in issue	10.7m
Free float	31%
Code	ELLO
Primary exchange	NYSE
Secondary exchange	TASE

Share price performance

%	1m	3m	12m
Abs	(9.3)	(5.6)	2.9
Rel (local)	(5.2)	(1.2)	(9.4)
52-week high/low	US$10.6	US$7.7	

Business description

Ellomay Capital is a renewable power and energy infrastructure owner, operator and developer. Its core asset portfolio includes solar PV plants in Italy (22.6MW), Spain (7.9MW) and Israel (9MW). Ellomay owns a stake in a gas-fired plant in Israel and is building biogas plants in the Netherlands.

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FY17 results show strong revenue and EBIT growth

Ellomay Capital announced that it has changed the presentation currency to euro from US dollar as most of its operations are euro-denominated. Management believes that the change will help to minimise fluctuations in its financials due to movements in the €/$ exchange rate. Key highlights of the 2017 results were:

- **Revenues** of €13.6m, +17% y-o-y, driven by higher power prices and output in Italy and Spain solar PV operations (following an abnormally low output year in 2016 due to unfavourable weather conditions), as well as the initial contribution of a waste-to-energy project in the Netherlands (from November 2017). Solar PV assets, which were acquired in Israel, contributed from October 2017.
- **EBITDA** of €7.5m, +10% y-o-y and **operating profit** of €3.0m, +25% y-o-y, both driven by higher revenues, despite an increase in project developments costs.
- **Net loss** of €6.6m (vs a loss of €0.6m in FY16), mostly the result of the €3.2m negative effect of the re-evaluation of €/$ forward transactions and marketable securities and a further €3.6m negative impact due to expenses related to exchange rate differences (both one-off components).
- **Net financial debt** was €80.4m vs €32.4m one year earlier, driven by the acquisition of the Israel solar PV asset (c €20m) and the consolidation of debt associated with the Dutch WTE plants (c €12m).

For **FY18**, the company expects €21.9m cash flow from the sale of electricity and gas (broadly in line with guidance announced in November 2017, now translated into euros) and total net cash flow from projects (including an equity-accounted stake in gas plant Dorad) of €11.8m. The latter is more than 10% higher vs previous guidance (issued in November 2017) to reflect the better than expected cash flow contribution from Dorad in 2018.

Recent acquisition and new projects drive FY18 growth

We expect FY18 to be a key year for project delivery and our forecasts point to very strong profit growth (EBITDA company definition, including associates, up 91% y-o-y), mainly driven by new projects and the contribution of a recent acquisition. While FY17 net debt includes the debt associated with the recent acquisition of solar PV plant in Israel and the debt related to the financing of two WTE plants in the Netherlands, the contribution of these assets to FY17 profits was limited. In more detail:

- We continue to forecast a large pick-up in revenue (+64% y-o-y) entirely driven by the commissioning of two new biogas projects in the Netherlands (the first plant started operations in November 2017, while the second one will be commissioned in Q218 according Ellomay) and full contribution from the recently acquired solar PV assets in Israel (consolidated from October 2017).

Exhibit 1: Updated revenue estimates – we expect a strong pick-up in growth in 2018

€000	2015	2016	2017	2018e	2019e	2020e
Italy	9,567	8,919	10,143	9,911	9,797	9,653
Spain	2,879	2,713	3,007	2,790	2,790	2,790
Israel PV	0	0	183	3,680	3,717	3,754
Dutch WTE	0	0	303	6,017	6,949	6,949
Total	**12,446**	**11,632**	**13,636**	**22,398**	**23,253**	**23,146**
% y-o-y change		*-7%*	*17%*	*64%*	*4%*	*0%*

Source: Company data, Edison Investment Research

- We forecast EBITDA to grow 91% y-o-y and EBIT by 179% y-o-y driven by revenue growth and despite an increase in costs associated with new projects.
- We expect revenue and EBITDA growth to translate into a positive net income from 2018 as we expect the Dutch WTE projects and the recent acquisition in Israel to be accretive at the net income level. We forecast net income of €2.7m, €3.3m and €3.2m in FY18e, FY19e and FY20e respectively vs net losses in FY16-17. The positive net income should allow Ellomay to declare a dividend starting from FY18e (we assume c 33% payout ratio in line with company guidance).
- Net financial debt decreases to €70.6m in FY18 vs €80.4m in FY17 as a result of cash flow generation and as we assume no further acquisitions. Thanks to strong EBITDA growth, we forecast net debt/EBITDA will reduce to 5.7x/4.7x in FY18/19.

Progress on medium-term project Talasol

Beyond FY18, Ellomay has a pipeline of two large projects, which represent significant profit growth opportunities in the medium term and an upside to our forecasts:

- Talasol, a 300MW solar PV plant project in Talaván, Spain; and
- Manara Cliff, a 156MW Israeli pumped-storage plant project.

Exhibit 2: Key pipeline projects are a solar PV plant in Spain and a hydro plant in Israel

Location	Asset	Expected commissioning	Expected capex	Generation	Expected revenue
Talaván, Spain	Talasol: 300MW solar PV in Spain	2020	€200m	490-565GWh/ year	€20-25m/year
Manara Cliff, Israel	156MW pumped-storage hydro plant	NA	NA	NA	NA

Source: Company data

Ellomay announced progress on the Talasol project in January 2018. Ellomay signed a binding term sheet for a power financial hedge (PPA) in relation to the sale of electricity by the plant in Spain, which we believe represents significant positive progress ahead of the financial closure, which is expected in Q318. The power produced by the Talasol project will be sold on the open market. The PPA will prevent project revenues to experience excessive fluctuations: if the market price goes below a certain price, the hedging provider will pay Talasol the difference between the market price and the underpinned price, and if the market price is above the price, Talasol will pay the hedging provider the difference between the market price and the underpinned price.

While our forecasts assume neither further acquisitions nor new projects, it is likely that Ellomay is evaluating several assets and projects which could drive the growth in the medium term, compatibly with the company’s current leverage (we forecast FY19e net debt/EBITDA of 4.7x, before any further projects). We note that Standard & Poors Maalot downgraded the rating of the company and its Series A and Series B Nonconvertible Debentures from "ilA-" with a "Negative" outlook to "ilBBB+" (which corresponds to “B” on an S&P global scale), although the outlook is now "Stable". The downgrade was justified on the basis of the level of estimated FFO to adjusted debt ratio (9-12% in the upcoming years). Maalot said Ellomay Capital’s level of liquidity was appropriate.

Moderate changes to forecasts post FY17 results

We have reduced our FY18-FY20 EBITDA forecasts by 3-4% reflecting higher project development costs (still declining vs 2017 but from a higher level). We have made moderate changes to FY18-FY20e net income forecasts (between +3% and -5%) reflecting lower EBITDA, higher D&A and lower financial expenses and minorities.

Exhibit 3: We have made moderate changes to forecasts

€000s	2017	2018e	2019e	2020e
EBITDA				
New	**7,477**	**14,317**	**14,900**	**14,833**
Old*	8,830	14,739	15,507	15,507
change	(15%)	(3%)	(4%)	(4%)
EBIT				
New	**2,959**	**8,259**	**8,634**	**8,566**
Old*	4,494	8,835	9,521	9,521
change	(34%)	(7%)	(9%)	(10%)
Net income (adjusted for minorities)				
New	**(6,115)**	**2,724**	**3,281**	**3,198**
Old*	(2,902)	2,871	3,193	3,255
change	111%	(5%)	3%	(2%)

Source: Company data, Edison Investment Research. Note: *US$ forecast translated into € at a rate of €/US$1.23.

Key risks are regulatory, operating and currency

We believe the key risks that Ellomay Capital faces are:

- **Regulatory risks:** while we do not expect any political intervention, tariffs for Ellomay Capital's solar PV assets are heavily regulated and, as a result, the company faces the risk of regulatory changes eg Italian and Spanish solar tariffs were cut in 2013/14.
- **Operating risks:** weather conditions may drive higher or lower output than expected (eg 2016 was an unfavourable year for solar PV production) and higher/lower power prices in Italy and Spain can drive higher/lower profits for the company.
- **Currency risks:** Currency risks are now lower than in the past as the presentation currency (euro) is now aligned with the operating currency of most of Ellomay Capital's assets. For euro investors however, we estimate that 16% of FY18e revenues are expressed in Israeli shekel, in addition to the entire equity income (we estimate c €2m P&L contribution in FY18e).

Valuation: Our fair value is $11.4/share

Our valuation is unchanged at $11.4/share based on a DCF of Ellomay's operating assets. We use an average WACC of c 5% and assume an asset life of 20 years for Italian and Israeli solar PV plants, 25 years for Spanish solar PV and 12 years for Dutch WTE plants. The valuation implies an EV of €169m and equity value of €99m, implying €9.2/share or $11.4/share (based on an assumed €/US$ rate of 1.23).

We note the stock is trading below book value (0.8x FY18e) and therefore appears to be discounting little ability to create value from existing and future development projects. We believe delivery on new projects (both the ones launched at the end of 2017 and the upcoming Dutch WTE project in 2018) would provide an opportunity to crystallise the upside potential.

Exhibit 4: Financial summary

Year-end: December, €000s	2015	2016	2017	2018e	2019e	2020e
INCOME STATEMENT						
Total revenues	12,446	11,632	13,636	22,398	23,253	23,146
Cost of sales	(2,571)	(2,082)	(2,549)	(3,592)	(3,804)	(3,804)
Gross profit	9,875	9,550	11,087	18,807	19,450	19,342
SG&A (expenses)	(126)	(657)	(889)	(2,390)	(2,649)	(2,609)
R&D costs	0	0	0	0	0	0
Other income/(expense)	(1,026)	(2,111)	(2,721)	(2,100)	(1,900)	(1,900)
Depreciation and amortisation	(4,428)	(4,411)	(4,518)	(6,058)	(6,267)	(6,267)
Reported EBIT	4,295	2,371	2,959	8,259	8,634	8,566
Finance income/(expense)	(1,116)	(3,070)	(6,072)	(3,754)	(3,207)	(3,278)
Other income/(expense)	3,192	636	(3,156)	0	0	0
Reported PBT	6,371	(63)	(6,269)	4,505	5,426	5,289
Income tax expense (includes exceptionals)	1,739	(569)	(372)	(1,081)	(1,302)	(1,269)
Reported net income (before minority interest)	8,110	(632)	(6,641)	3,424	4,124	4,019
Basic average number of shares, m	10,716	10,668	10,676	10,676	10,676	10,676
Basic EPS (€)	0.78	(0.02)	(0.57)	0.32	0.39	0.38
DPS (€)	0.20	0.00	0.00	0.11	0.13	0.13
Adjusted EBITDA	8,723	6,782	7,477	14,317	14,900	14,833
Adjusted EBIT	4,295	2,371	2,959	8,259	8,634	8,566
Adjusted PBT	6,371	(63)	(6,269)	4,505	5,426	5,289
Adjusted EPS	0.96	(0.02)	(0.70)	0.39	0.48	0.46
Adjusted diluted EPS (€)	0.78	(0.02)	(0.57)	0.32	0.39	0.38
BALANCE SHEET						
Property, plant and equipment	72,564	73,274	78,837	72,779	66,512	60,245
Goodwill	0	0	0	0	0	0
Intangible assets	0	0	5,505	5,505	5,505	5,505
Other non-current assets	39,074	37,096	67,517	66,667	66,817	66,967
Total non-current assets	111,638	110,370	151,859	144,951	138,834	132,717
Cash and equivalents	17,194	22,486	23,962	33,706	33,296	32,952
Inventories	0	0	0	0	0	0
Trade and other receivables	7,552	9,487	10,645	12,485	12,962	12,902
Other current assets	10,930	6,121	11,622	11,622	11,622	11,622
Total current assets	35,676	38,094	46,229	57,813	57,880	57,476
Non-current loans and borrowings	44,210	46,007	95,078	95,078	85,078	75,078
Other non-current liabilities	7,387	7,528	14,227	14,227	14,227	14,227
Total non-current liabilities	51,597	53,535	109,305	109,305	99,305	89,305
Trade and other payables	3,753	4,720	3,536	4,088	4,200	4,200
Current loans and borrowings	5,522	5,838	7,747	7,747	7,747	7,747
Other current liabilities	0	0	0	0	0	0
Total current liabilities	9,275	10,558	11,283	11,835	11,947	11,947
Equity attributable to company	86,686	85,072	78,641	82,065	85,059	87,718
Non-controlling interest	(244)	(701)	(1,141)	(441)	402	1,224
CASH FLOW STATEMENT						
EBIT	4,295	2,371	2,959	8,259	8,634	8,566
Depreciation and amortisation	4,428	4,411	4,518	6,058	6,267	6,267
Share based payments	0	0	0	0	0	0
Other adjustments	(2,195)	3,274	(1,119)	701	843	822
Movements in working capital	984	76	(857)	(1,288)	(364)	60
Interest paid / received	(2,619)	(2,761)	(3,154)	(3,754)	(3,207)	(3,278)
Income taxes paid	(218)	(54)	(42)	(1,081)	(1,302)	(1,269)
Cash from operations (CFO)	4,675	7,317	2,305	8,894	10,869	11,168
Capex	0	(710)	(8,000)	(150)	(150)	(150)
Acquisitions & disposals net	(687)	(231)	(22,207)	0	0	0
Other investing activities	(3,453)	1,520	2,864	1,000	0	0
Cash used in investing activities (CFIA)	(4,140)	579	(27,343)	850	(150)	(150)
Net proceeds from issue of shares	(236)	(11)	(14)	0	0	0
Movements in debt	4,809	(317)	29,684	0	(10,000)	(10,000)
Dividends paid	0	(2,123)	0	0	(1,130)	(1,361)
Other financing activities	(775)	0	0	0	0	0
Cash from financing activities (CFF)	3,798	(2,451)	29,670	0	(11,130)	(11,361)
Currency translation differences and other	(111)	(153)	(3,156)	0	0	0
Increase/(decrease) in cash and equivalents	4,222	5,292	1,476	9,744	(411)	(343)
Cash and equivalents at end of period	17,194	22,486	23,962	33,706	33,296	32,952
Net (debt) cash	(30,092)	(32,375)	(80,391)	(70,647)	(61,057)	(51,401)
Movement in net (debt) cash over period	(30,092)	(2,283)	(48,016)	9,744	9,589	9,657

Source: Company data, Edison Investment Research

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