

Quarterly Report

August 17th 2017**Energix Renewable Energies Ltd.: The revenues in H1 2017 attest the implementation of plans and expected growth in cash flows from projects. Target Price Unchanged.**

Primary exchange: TASE

Symbol: ENRG

Sector: Technology

Sub-sector: Cleantech

Stock target price: NIS 3.41

Data As of August 13th 2017[\(Source: TASE website\):](#)

Closing price: NIS 2.88

Market cap: NIS 1,029 m

of shares: 357.8 m

Stock performance (YTD): 3.5%

Daily-trading-vol.(12 months): NIS 1.02 m

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www.frost.com/EquityResearch**Company overview**

Energix Renewable Energies Ltd. ("Energix") is a renewable energy company and a leading Israeli Independent Power Producers (IPP) active in the field of Solar Photovoltaic (PV) and Wind Energies. The company, under its corporate directorship, initiates, develops, constructs and operates long-term renewable energy projects. Once production rights are secured through government tenders, Energix sells the electricity generated to utility companies and then to end users. Energix shares have been traded on the Tel Aviv Stock Exchange since 2011.

Highlights

On August 10th, the company published its second quarter report for 2017, which noted the following significant events occurring during the course of the report:

- The Company won, through a competitive process, the right to establish nine PV projects in Israel with a capacity of 70MW (approximately 90MWp), under exclusive ownership of the Company. In parallel, the Company continued preparing for construction.
- Project "Aran" - continuation of project promotion. Current forecast for obtaining a conditional license is in the coming months.
- Expansion of financing for "Neot Hovav" project - in August 2017, Energix entered into a final agreement with a consortium to expand financing by up to an additional NIS 80 million.
- In our view, the following facets detailed in the quarterly report are significant:
 - The Company's revenues from sales of electricity increased significantly by more than 27%. Most of the NIS 14.2 million increase in revenues was from connecting to the Phase II electricity grid in the Banie and Hava projects in Poland, which were inactive for most of the corresponding period in 2016. In addition, the strengthening of the Polish currency will have a positive impact on the profitability of the company.
 - The continued recruitment of credit financing for its various projects demonstrates confidence in the Company's strategy and ongoing operations.
 - There is a sense of optimism about regulation in the Polish market and positive momentum in increasing the country's renewable energy quotas.
 - On the other hand, the prices of green certificates sold by the Company have declined significantly by more than 20% in the current period, with a NIS 5.4 million decrease in the value of green certificates in the Q2 financial report.
- In our view, the Company has actualized its planned initiation and construction of wind and solar energy facilities in Israel and Poland. All of its various plans and updates were included in our initial comprehensive report dated 25 June 2017.

In view of these considerations, we estimate the company's value at NIS 1.23 billion (\$347 million), with a target price of NIS 3.41 per share (ranging between NIS 3.2 - 3.7).

Following are some of our key assumptions and estimations:

Year	Revenues	Free Cash Flow
2016A	113,219	21,500
2017E	128,458	53,995
2018E	129,445	58,178
2019E	163,295	67,608
2020E	329,395	135,258

Quarterly Update

On August 10th, the company published its second quarter report for 2017. In the report, the company noted the following significant events that occurred during the course of the report:

- The Company won the competitive process for constructing nine photovoltaic projects in Israel with a capacity of 70MW (approximately 90MWp), fully owned by the Company.
- The Aran project in the north of Israel - the Company continued activities for advancing and developing the project. With an estimated capacity of about 152 MW, it is slated to become the company's leading wind energy project in Israel.
- Expansion of the "Neot Hovav" Financing Transaction - in August 2017, after the date of the quarterly report published by the Company, it entered into a final agreement with a consortium of lenders in the Neot Hovav financing transaction to expand the financing by up to an additional NIS 80 million, as mentioned in an immediate report dated 4 July, 2017.
- Further withdrawal of financing for the Banie project in Poland - In August 2017, after the date of the quarterly report, and following negotiations held in recent months, the Company and a consortium of lenders led by EBRD agreed upon another and final withdrawal in the framework of a project financing transaction, totaling 5.76 million zloty. Most of the withdrawal will be transferred to the Company as a return on capital invested by the Company in the other company's project.

Analysis of the financial report for the second quarter

The Company's revenues from sales of electricity amounted to NIS 64.3 million for the reporting period, compared with NIS 50.1 million for the corresponding period in 2016. Most of the NIS 14.2 million increase in revenues was due to connecting to the Stage II electricity grid in the Banie and Iława projects in Poland, which were not active for the most part of the corresponding period in 2008. Other revenues amounted to NIS 1.5 million, resulting mainly from the amounts received by the Company as compensation for the loss of income in Stage A as a result of the construction work on Stage B of the Banie project.

Operating rental expenses - amounted to NIS 3.2 million in the reporting period, compared with NIS 1.9 million in the corresponding period in 2016. An increase of NIS 1.3 million in rental expenses resulted from the construction of Stage B of the Banie project. Systems maintenance expenses amounted to NIS 12 million in the second quarter, compared with NIS 5.6 million for the corresponding period in 2016. Most of the NIS 6.4 million increase, stemmed from maintenance expenses for wind projects in Poland, which were inactive for most of the same period last year.

Decline in the value of green certificates - during the reporting period. The Company recorded an operating expense of NIS 5.4 million due to the impairment value of green certificates, compared with NIS 2.9 million for the same reason in the corresponding period last year. The trending price erosion of green certificates continues to pose challenges for the Company.

Salary and related expenses, administration and headquarters - amounted to NIS 8.9 million in the reporting period, compared with NIS 8 million in the corresponding period last year. Most of the increase derives from an increase in wage expenses, options for employees and an increase in office expenses. Financing expenses - amounted to NIS 13.6 million during the reported period, compared with NIS 12.6 million in the corresponding period last year. Most of the NIS 1 million increase is explained by increased financing expenses for loans from financial institutions, which totaled NIS 5.9 million, mainly due to sums withdrawn to finance the Banie project. This figure, stood at NIS 0.3 million for the corresponding period in 2016. Most of the NIS 0.8 million increase stems from exchange rate differentials income of NIS 0.4 million and the balance of interest income from loans granted and interest on deposits which were not recognized during the 2016 reporting period.

The Company's balance sheet details cash balances of NIS 31.9 million as of 30 June 2017. The Company's equity as of 30 June 2017 is NIS 612.1 million, compared with NIS 523.9 million at 31 December 2016. The capital growth is mainly derived from raising capital totaling NIS 83.2 million since January 2017. The company has significant financial strength with a ratio of shareholders' equity to assets of 49%, similar to that in recent years.

Regarding regulation in Poland and Israel, which have materially affected the Company, the company has updated that the Polish legislature adopted an amendment to the Renewable Energy Law. The amendment is scheduled to determine the exact monetary penalty imposed on non-renewable energy producers. In other words, there is a higher demand for the green certificates that the company sells. In addition, the company revealed that the Polish Energy Minister announced his intention to increase the quota required for the purchase of green certificates in 2018 from 15% to 17.5% for the same electricity producers. In Israel, the Company announced in July 2017 that the Minister for National Infrastructures would formulate a multi-year plan to implement the Government's targets for generating renewable energy at a rate of at least 13% of total power consumption in 2025 and 17% thereof in 2030.

Analysis

The Company continues its plans for the initiation and construction of wind and solar energy projects in Israel and Poland. All of its various plans and updates were included in the initial comprehensive analysis report we published on June 25th, 2017. Energix has strong capabilities to perform efficient feasibility analyzes (technical and commercial) on forthcoming projects; financial strength, the backing of a leading real estate company - Alony Hetz; successful experience with banks and financial institutions in closing long-term financing transactions, and an experienced project management team working closely with regulators, equipment manufacturers and engineering companies to build facilities and connect them to the electricity grid in record time.

During the reporting period, several events occurred that affected the Company's business. On a positive note, the company's revenues grew relative to the previous quarter and compared to last year, mainly with the connection of their previously inactive systems in Poland. The Company's revenues from sales of electricity amounted to NIS 64.4 million in the first half of 2017, reflecting a half-year of activity which, in our opinion, is in line with the expectations published in the initial analysis report. In addition, the Zloty strengthened against the shekel, and rose from about 0.93 to about 0.99 Zloty per NIS, a positive effect on the company's sales in Poland. The cash held by the company amounted to NIS 31.9 million compared to the previous quarter. The Company's shareholder equity increased by NIS 10 million compared to the previous quarter, which also resulted from growth in the Company's revenues for the current quarter. On the other hand, the price of green certificates decreased, thereby contributing to a decrease in the company's value, however, the Company's inventory increased with the continued production of electricity, and current inventory stands at approximately 486.5 megawatts. In addition, as the business environment in Poland became clearer and with full connection of the Company's systems, we chose to reduce by 0.5% discount rate for Polish projects (a 7.74% discount rate according to our WACC model). This increases the future value of these projects and accordingly affects our estimated value of the company which we rose to NIS 1.23 billion (approximately \$347 million) from our estimation of 17 July 2017 which stood at NIS 1.22 billion. Due to the exercising of options and capital raising, the target price of the Company remains constant at NIS 3.4 per share (a range of NIS 3.2 - NIS 3.7).

Upcoming Potential Catalysts

Project	Event	Significance	Timeline
ARAN - wind farm in Northern Israel	Project, pending permission	High	Q3/ Q4 2017
	Financial closing	High	2018

Appendix - Financial reports

Balance Sheet

In NIS, 000	Audited 31.12.2016	Unaudited 30.6.2017
Current assets		
Cash and cash equivalents	39,114	31,867
Accounts receivable (AR)	28,240	23,126
Green Certificates	9,558	10,309
Total current assets	76,912	65,302
Noncurrent assets		
Cash limited in the Long Term	31,527	32,220
Leasing expenses paid in advance	27,006	26,227
Connected power generation systems	1,057,870	1,052,176
Systems being established	32,391	44,019
Fixed Assets	2,323	2,215
Invest in investee companies (as per the balance method)	14,827	14,797
Other receivables	20,511	11,830
Deferred taxes	3,591	8,093
Total non-current assets	1,190,046	1,191,577
Total assets	1,266,958	1,256,879
Current liabilities		
Suppliers and service providers	52,227	24,661
Short term financing from financial institutions	65,501	0
Current maturities of long-term loans	31,898	32,346
Creditors and credit balances	5,494	8,468
Total current liabilities	155,120	65,475
Noncurrent liabilities		
Loans from financial institutions	552,574	544,198
Deferred tax liabilities	7,034	8,995
Liabilities from terminating relations between employee/employer	347	347
Other long-term liabilities	27,936	25,731
Total non-current liabilities	587,891	579,271
Total Liabilities	743,011	644,746
Total Equity	523,947	612,133
Total liabilities and equity	1,266,958	1,256,879

Profit and Loss Statement

In NIS, 000	31.12.2014	31.12.2015	31.12.2016	30.6.2016	30.6.2017
Total Revenues	12,503	60,035	113,219	51,947	64,411
Expenses					
Leasing	948	2,430	4,202	1,901	3,238
Maintenance of Systems	651	4,945	17,121	5,614	12,047
Reduced value of green certificates	0	0	6,616	2,916	5,369
Costs of establishing facilities	1,769	70	241	223	0
Development expenses	4,391	2,315	1,891	1,141	1,450
Salary and associated expenses	5,830	6,207	7,974	3,670	3,947
Administration and other expenses	3,685	5,881	8,987	4,288	4,936
Total Expenses	17,274	21,848	47,032	19,753	30,987
EBITDA	4,771	38,187	66,187	32,194	33,424
Discharge of financial asset impairment losses	0	0	3,594	0	0
Depreciation and amortization	3,332	15,803	36,400	15,563	20,893
EBIT	8,103	22,384	33,381	16,631	12,531
Financial income	2,677	3,831	478	305	1,070
Financial expenses	1,855	15,040	28,646	12,554	13,571
Loss after Financing	7,281	11,175	5,213	4,382	30

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