

Q2-2018 Update

29 August, 2018



Favorable regulatory changes in Poland support the continued growth of the company's operations; Expectation of regulatory progress in the company's flagship project - the Aran project in the Golan Heights; all projects in development are progressing according to schedule; target price remains at NIS 4.61.

Primary Exchange: TASE

Ticker: TLV: ENRG

Sector: Cleantech

Industry: Renewable Energy

Data as at 29 August, 2018

(Source: TASE)

Closing price: NIS 4.17

Market cap: NIS 1.58B

of shares: 377.1M

Stock performance (12 mos.): 40.4%

Daily-trading-vol. (12 mos.): NIS 1.1M

Stock target price: NIS 4.61

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Company Overview

Energix Renewable Energies Ltd. (hereinafter "Energix" or "the Company") is a renewable energy company, currently active in the field of Solar Photovoltaic (PV) and Wind Energies. As one of the largest Israeli Independent Power Producers (IPPs), the company initiates, develops, constructs and owns long-term renewable energy projects. Once it has secured production rights through government tenders, Energix sells the generated electricity to utility companies who distribute electricity to end users. Energix shares have traded on the Tel Aviv Stock Exchange since 2011.

Highlights & Analysis

Regulatory changes in Poland support continued growth of the company's Polish operations.

- In June 2018, an amendment to the Renewable Energy Law was published in Poland, effectively regulating future tenders in which a tariff will be guaranteed to the winning applicant for 15 years. This has provided regulatory clarity in the Polish market.
- Economic growth continues in Poland; consequent increases in electricity consumption have, and are expected to continue to, lead to greater returns from Polish projects.

Energix published its quarterly report on August 19, 2018 with the following highlights:

The company hedged about 80% of its electricity sales in May-December 2018

- Future prices indicate that the market will begin to stabilize toward the end of the second half of 2018, with prices for electricity from independent power producers fluctuating between 180 and 200 Polish zloty.
- To our understanding, this is a strategic step taken by executives which have demonstrated a comprehensive understanding of the market and have a strong track record of long-term planning.

After the publication of the quarterly update of the Company for the reporting period ending March 31, 2018, Energix reported a significant milestone (see our immediate report from the 4th of June, 2018).

Energix announced that it had increased its stake in the Ilawa wind energy project in Poland from 75% to 100%. Increasing Energix's share in the facility's operating capacity from 9.9MWp to 13.2MWp.

- As a result of the acquisition, the Company will report an additional one-time profit of NIS 7 million (before taxes) in the second quarter of 2018.
- The purchase price paid for an additional 25% stake in the facility is NIS 3.6 million.

We retain our previous estimate of the company's value at NIS 1,731 million (\$467M), corresponding to a target price ranging between NIS 4.38 and NIS 4.88; an average of NIS 4.61.

- Revenues from the sale of electricity amounted to NIS 58.9 million in the reporting period, similar to the company's revenues in the corresponding period last year.
- Revenues from the production of green certificates amounted to NIS 13.2 million, compared with NIS 5.6 million for the corresponding period last year. This change resulted from a significant increase in the price of certificates over the past 12 months.

Revenue Forecast (NIS 000s)	Revenue	EBITDA	FCF	Capacity (MW)
2016A	113,219	66,187	21,500	109
2017A	141,367	88,871	50,000	168
2018E	164,134	127,932	79,647	258
2019E	189,800	149,173	86,700	369
2020E	356,228	272,665	154,249	500

Source: Frost & Sullivan Analysis

Q2-2018 Financial Results

Revenues from the sale of electricity totaled NIS 28 million in the reporting period, compared with NIS 27 million in the corresponding period for 2017. Most of the NIS 1 million increase in revenues was derived from an increase in the exchange rate of the zloty.

Revenues from the sale of electricity amounted to NIS 58.9 million in the reporting period, similar to the company's revenues of NIS 58.7 million in the corresponding period last year.

Revenues from the production of green certificates amounted to NIS 13.2 million, compared with NIS 5.6 million in the corresponding period last year. This change is due to the increase in the price of green certificates over the past 12 months, which increased the revenues from these certificates.

Other income and expenses include mainly a gain from the sale of green certificates inventory, in excess of its cost by NIS 3.5 million, compared with the corresponding period in 2017. Other expenses for the corresponding period in 2017 include mainly impairment of green certificates in the amount of NIS 5.4 million.

Maintenance expenses of systems decreased by NIS 1.6 million to NIS 10.2 million due to a decrease in operating expenses in the Neot Hovav project.

Financing expenses totaled NIS 17.8 million, a decrease compared to NIS 13.6 million in the corresponding period last year, due to an increase in the financing expenses for loans from financial institutions, against amounts withdrawn from the financing of the Banie project in Poland and the Neot Hovav project.

Financing income from the acquisition of loans during the reporting period amounted to NIS 6.9 million due to the purchase of loans from the partners in the Ilawa project in Poland comprising approximately 25% of their holdings prior to the acquisition.

Shareholders' equity attributed to the owners amounted to NIS 697.3 million, compared with shareholders' equity of NIS 609.7 million as of June 30, 2017. Most of the increase is derived from profit (NIS 31.9 million), from issuance of shares (NIS 44.7 million), and other increases in shareholders' equity (NIS 11 million).

Key Developments

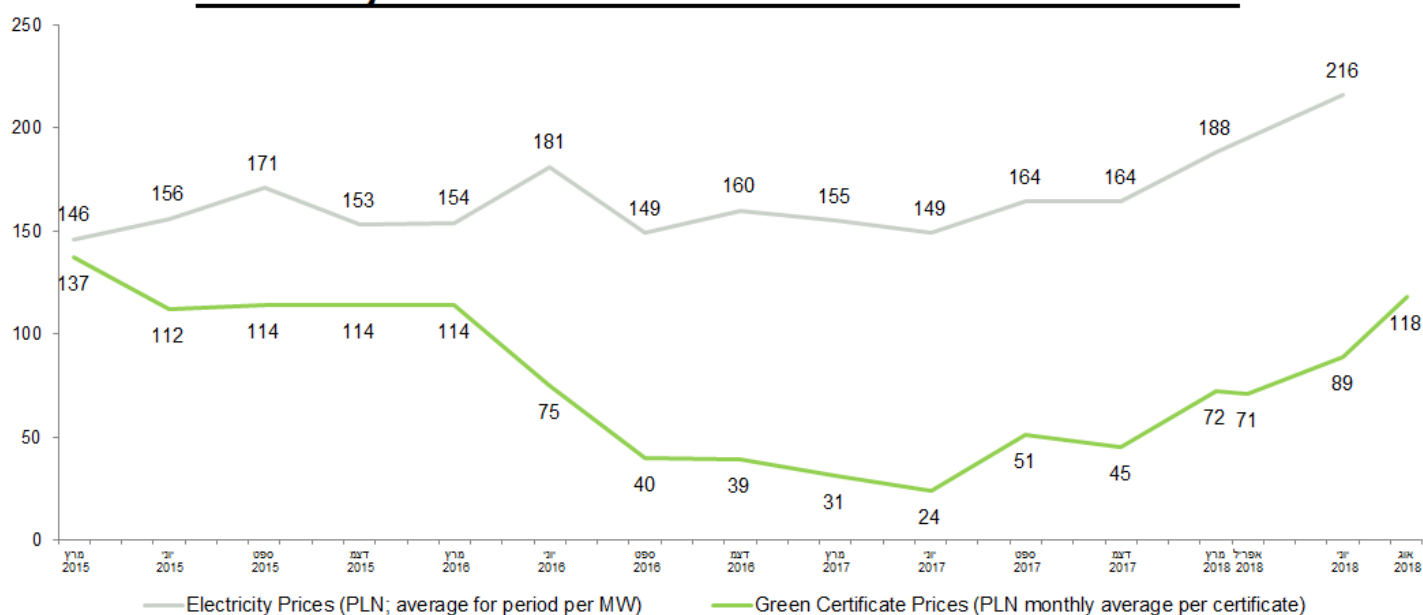
The Aran Project - The company estimates that in the coming months, the National Infrastructure Committee will approve the transfer of the plan for comments and objections in the process of depositing the plan.

Acquisition of the rights of the partners in the Ilawa project in Poland - Energix acquired the rights of the partners (25%) in the Ilawa project in Poland in May 2018. The Company recorded a one-time financing profit of NIS 6.9 million.

Amendment of the Renewable Energy Law in Poland - In June 2018 an amendment to the Renewable Energy Law was published in Poland. As part of this amendment, the provisions that will apply to the publication of new tenders for the construction of new renewable energy projects have been arranged, which will guarantee the winner a fixed rate for the generation of electricity to which the winner of the tender has committed for 15 years. It is estimated that a tender for the construction of new wind farms with total capacity of about 1,000MW will be published by the end of 2018. Energix's Polish portfolio currently stands at 120MW in capacity and the company is working to increase its pipeline of projects in Poland under initiation and under development. This includes preparing to participate in tenders for the establishment of additional wind farms in Poland.

Electricity prices and green certificates in Poland - during the second quarter of 2018 prices of electricity in Poland continued to rise. Accordingly, in the reporting period, the Company executed transactions to fix the sale price of the electricity in the Banie project at a rate of about 80% of the electricity generation expected for May-December 2018. At the same time, the growth rate of green certificates prices in Poland was double that during the corresponding period in 2017. The following graph depicts the volatility in electricity and green certificate prices in Poland in recent years.

Electricity & Green Certificate Prices in Poland 2015-18



Source: Polish Power Exchange (TGE)

Analysis of Key Developments

The company has more than 160MW of connected power capacity across facilities in Poland and Israel. Energix's portfolio of projects under development ranges between 500MW and 1GW megawatts, most of which are expected to begin operation within 2-3 years.

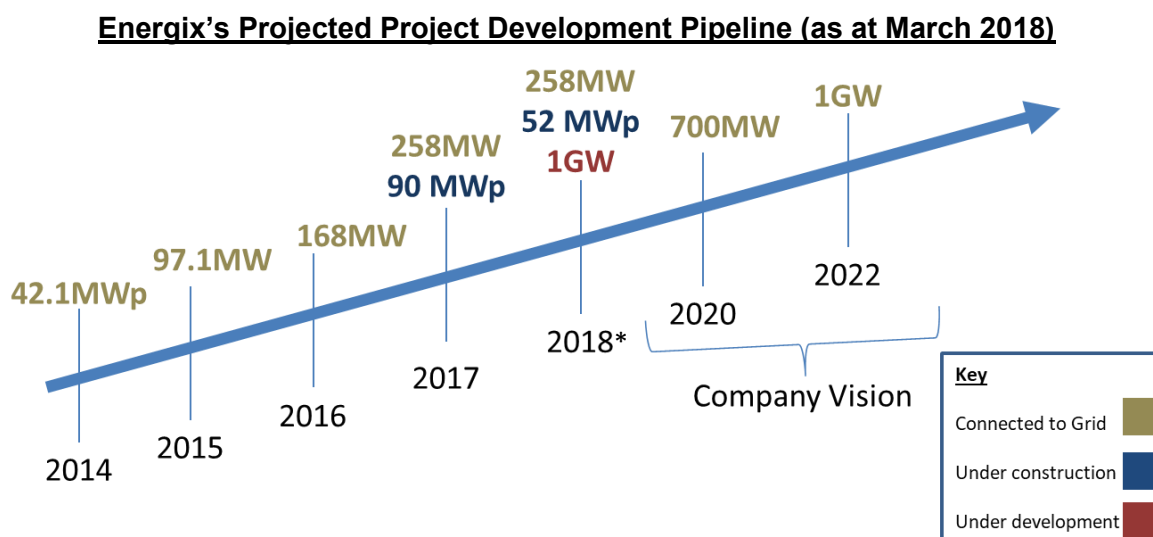
Development of the Aran project, which is the company's flagship project, continues according to schedule. The Ministry of Defense has granted conditional approval for the deployment of 42 turbines. Another 10 turbines are undergoing product testing. The approval of the company's request to install turbines 200m in height allows the company to use the most technologically advanced turbines the market has to offer.

In the coming weeks, the Committee for National Infrastructure will approve the transfer of the plan for comments and reservations as part of the deposit process. Financial closing is expected to take place in mid-2019. From our understanding, revenues from electricity generated by the facility will be first recognized in H1-2020 will be received in the first half of 2020. Thus the project is central to our valuation thesis of the company.

We estimate that, by 2022 Energix will operate electricity facilities totally approx. 1GQ in capacity, as detailed in the table below.

Project Name	Holding	Capacity (MW)	Operating Capacity (MW)	Energix's Maximum Potential Capacity	Energix's Operating Capacity
Banie (Poland)	100%	106	106	106	106
Ilawa (Poland)	100%	13.2	13.2	13.2	13.2
Project in VA, USA	60%	70*	0	42	0
Aran	73%	152	0	111	0
Mt Hebron	50.10%	5	5	2.5	2.5
Neot Hovav	100%	37.5	37.5	37.5	37.5
GranotEnergix	50%	3.4	3.4	1.7	1.7
Small projects in Israel	100%	3.2	3.2	3.2	3.2
Tenders won in Israel					
Project (1)	100%	90	0	90	0
Project (2)	70%	52	0	36.4	0
Potential Expansion	70%	230	0	161	0
Total	n/a	762.3	168.3	604.5	164
Caden Energix (US)	51%-60%	100MWs	100MWs	100MWs	100MWs

*Project may have a capacity of up to 100MWp according to the company.



Source: Energix
*Forward-looking information

Investment Thesis

Energix has an appealing combination of benefiting from both high returns during project development, and from relatively low-risk characteristics based on long-term steady revenues generated from fixed income projects.

Energix's value proposition can be summarized by six core capabilities:

- Effective feasibility analyses (technical and commercial)
- Financial stability and backing
- A successful record of deals with banks and financial institutions
- An experienced project management team
- Productive working relations with regulatory bodies, OEMs and EPCs
- Constructing working facilities in record time

We view an investment in Energix as a risk-moderate investment, and an opportunity to earn ‘fixed income’ by investing in a firm that is operating in different locations, yet exposed to future regulatory risks.

We retain Energix’s equity value at NIS 1,736M (\$486.2M) corresponding to a target price ranging between NIS 4.38 and NIS 4.88; a mean of NIS 4.61.

For a detailed breakdown of our valuation methodology for the Company please refer to our [Initiation of Coverage report of 25 June 2017](#).

Upcoming Potential Catalysts

Project	Event	Significance	Timeline
Aran - Wind farm in Northern Israel (152MW)	Project pending permission	High	Soon to be announced
	Financial closing	High, estimated revenues of approx. NIS 150 million	June 2019
Banie Phase III and additional projects - Polish Wind energy program (124MW)	Reforms in the Green Certificate process	High, dependent on market volatility	Throughout 2018
	New Polish Government tenders for wind energy	High, subject to Energix applying to, and being awarded a tender	Q4-2018
CadenEnergix – PV projects in the US through a JV	Financial closing of projects with a capacity of 90MW in Virginia	High	H2-2018
Israeli Government Tenders	Issuing of tenders totaling a further 230MW	High, subject to Energix applying to, and being awarded a tender	Through till H2-2019

12-Months Stock Movement



Source: TASE

Appendix - Financial Reports

Balance Sheet	31.03.18	30.06.18
Cash and cash equivalents	116,633	108,700
Deposit held	65,013	14,383
Clients	15,456	11,477
Accounts receivable (AR)	26,384	6,648
Green Certificates	4,346	26,213
Total current assets	227,832	167,421
Cash limited in the Long Term	43,597	42,862
Leasing expenses paid in advance	0	24,663
Connected power generation systems	1,085,862	1,037,359
Systems being established	210,291	266,117
Receivables for projects under execution	25,087	0
PPE	2,981	3,098
Investment in investee companies (as per the balance method)	13,955	13,837
Other receivables	6,340	18,680
Deferred taxes	14,208	10,652
Total non-current assets	1,402,321	1,417,268
Total assets	1,630,153	1,584,689
Suppliers and service providers	27,188	27,725
Short term financing from financial institutions	3,300	0
Current maturities of long-term loans	45,204	0
Creditors and credit balances	0	45,016
Accounts Payable (AP)	22,118	13,059
Total current liabilities	97,810	85,800
Loans from financial institutions	772,437	755,569
Deferred tax liabilities	11,336	13,684
Liabilities from terminating relations between employee/employer	417	417
Other long-term liabilities	46,665	25,213
Total non-current liabilities	830,855	794,883
Total Liabilities	928,665	880,683
Total Equity	701,488	704,006
Total liabilities and equity	1,630,153	1,584,689

Profit and Loss Statement (NIS 000s)	12 months ending		Six months ending	
	31.12.2016	31.12.2017	30.06.2017	30.06.2018
Total Revenues	113,219	141,367	64,411	75,717
Leasing	4,202	6,529	3,238	3,434
Maintenance of Systems	17,121	25,244	12,047	10,244
Reduced value of green certificates and others	6,616	0	0	0
Costs of establishing facilities	241	0	5,369	0
Development expenses	1,891	1,953	1,450	426
Salary and associated expenses	7,974	8,303	3,947	4,177
Administration and other expenses	8,987	10,467	4,936	5,686
Total Expenses	47,032	52,496	30,987	23,967
EBITDA	66,187	88,871	33,424	51,750
Discharge of financial asset impairment losses	3,594	0	0	0
Depreciation and amortization	(36,400)	(41,183)	(20,893)	(21,730)
EBIT	33,381	47,688	12,531	30,020
Financial income	478	1,748	1,070	8,190
Financial expenses	(28,646)	(29,390)	(13,571)	(17,831)
Profit/Loss after Financing	5,213	20,046	30	20,379
Balance carried forward from holding companies	1,501	1,537	820	676
Income Tax	1,653	(5,058)	(612)	(5,815)
Comprehensive Annual Profit/Loss	8,367	16,525	238	15,240

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