

## Quarterly Report for Q3-2017

November 30, 2017

**Energix Renewable Energies Ltd.: Completion of stage II connection to the company's flagship Polish project and successful capital raising are positive indicators. We have raised the price target to NIS 3.82.**

Primary exchange: TASE

Symbol: ENRG

Sector: Technology

Sub-sector: Cleantech

Stock price target: NIS 3.82

Data As of 28, November 2017(Source: TASE website):

Closing price: NIS 3.42

Market cap: NIS 1,276M

# of shares: 373.5M

Stock performance (YTD): 40%

Daily-trading-vol.(12 months): NIS 1.2M

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## Company overview

Energix Renewable Energies Ltd. ("Energix") is a renewable energy company and a leading Israeli Independent Power Producer (IPP) active in 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 to utility companies and there on to end users. Energix shares have been traded on the TASE since 2011.

## Highlights

On November 20, the company published its third quarter report for 2017. In the report, the company noted the following events:

- Total revenues of the company for the first three quarters of 2017 amounted to NIS 100.3M, compared with NIS 80.2M in the corresponding period in 2016, an increase of 25%.
- Net capital raising of NIS 128M - On January 10, 2017, the Company completed capital raising from the public in a net amount of NIS 83.2M, and on September 27, 2017, the company completed capital raising through a private placement of NIS 44.9M and in consideration the company issued shares at a price of NIS 2.99 per share (the share price in the days prior to the fundraising).
- The company also announced that it is in the process of examining the possibility of entering into cooperation with a local entrepreneur in the US. Given that this is the company's first such opportunity its feasibility of success is currently undeterminable.
- In September 2017, a wholly owned partnership of the company and financial entities entered into an agreement to receive financing of up to NIS 240 million for the construction of future projects.
- The `Aran` Project - in November 2017, after the date of the report, the Ministry of Defense approved the location of 42 turbines. In addition, the location of 10 additional turbines is being examined and the Company's request to update the maximum number of turbines has been approved. This may increase the value of the project.

## Analysis

- The Company continues to progress towards expected development of stage II of the project in Poland. All of its various plans and updates were included in the initial and comprehensive analysis report we published on June 25, 2017 and subsequent report updates in recent months.
- In our opinion, the company's success in raising a substantive sum at the then current market price (NIS 2.99 per share) is a demonstration of investor confidence.
- Our economic model also includes a number of mixed trends that occurred during the quarter, including an increase in the price of green certificates to 41 zloty (compared to 22 zloty in our previous estimate). A decrease in the price of black electricity in Poland to 163 zloty (compared to 171 in our previous estimate).
- **Thus, we estimate the value of the company at NIS1.43 billion/\$ 405M; a price target per share ranging between NIS3.64 and NIS4.05 - an average of NIS 3.82.**
- The following are key model's assumptions:

| Year  | Revenues | Free Cash Flow |
|-------|----------|----------------|
| 2016A | 113,219  | 21,500         |
| 2017E | 130,256  | 55,749         |
| 2018E | 131,250  | 59,937         |
| 2019E | 165,103  | 71,654         |
| 2020E | 331,206  | 139,306        |

## Quarterly Update

On November 20, the company published its third quarter report for 2017. In the framework of the report, the company noted the following significant events:

- Net capital raising of NIS 128M - On January 10, 2017, the company completed public capital raising totaling, according to a shelf offering report, a net amount of NIS 83.2M, and in return the company issued shares to the public. As part of the capital raising, the company's issued and paid-up share capital increased by 34.5M shares. On September 27, 2017, the company completed capital raising through a private placement, totaling a net amount of NIS44.9M. In return, the company issued shares at a price of NIS2.99 per share (a price that reflects the stock's market price in the days prior to the fundraising). As part of the capital raising, the company's issued and paid-up share capital increased by 15 million shares.
- The company won the competitive process for the construction of nine photovoltaic projects in Israel with a capacity of 70MW (which is approximately 90MWp) and is fully owned by the company.
- In September 2017, a wholly owned partnership of the company and other financial entities entered into an agreement to receive financing of up to NIS240M for the construction of tender winning projects.
- The Aran project - during the period of the report, the company continued its activities for the promotion and development of the Aran Spirit project with an estimated capacity of about 15MWW which is the company's leading wind energy project in Israel. In November 2017, after the date of the report, approval was received from the Ministry of Defense, whereby 42 turbines were approved and the location of 10 additional turbines is in examination stages. Furthermore, the Company's request to update the maximum turbines has been approved.
- Expansion of the Neot Hovav Financing Transaction - in August 2017 after publishing its Q2 report the Company announced that the financing transaction of Neot Hovav was consummated with a consortium and accordingly expanded by up to an additional NIS 80M.
- Additional financing in the Banie project in Poland - in August 2017, a final withdrawal of 76.5M zloty was completed in the framework of the project financing transaction, most of which served as a capital returns invested by the company in the project company. After completion of the withdrawal, the long-term financing provided in the financing transaction amounts to 346.5M zloty.

## Analysis of the financial report for the second quarter

The company's total revenues for the first three quarters of 2017 amounted to NIS 100.3 million, compared with NIS 80.2 million for the corresponding period in 2016, an increase of 25%. As part of the company's revenues, NIS 88.7 million derives from the sale of electricity, compared with NIS 67.2M in the corresponding period last year. Most of the increase in these revenues is due to their connection to the Phase II electricity grid in the Banie Hawa projects (both in Poland), which were inactive for most of the corresponding period last year.

In addition, the company recorded revenues of NIS 9.3 million from the production of green certificates, compared to revenues from the production of green certificates in the amount of NIS 11.1M in the corresponding period last year. The change is due to erosion in the price of green certificates during 2016 and during the first half of 2017.

Operating rental expenses amounted to NIS 4.9M in the reported period, compared with NIS 3.2M in the corresponding period last year. An increase in the amount of NIS 1.7M in the rental expenses is due to the construction of Stage II in the Banie project. Maintenance expenses for systems totaled NIS 18M in the reporting period, compared with NIS 10.5M in the corresponding period last year. Most of the increase, in the amount of NIS 7.5M, stems from maintenance expenses of Stage II of the Banie and Hawa projects (both in Poland), which were inactive for most of the corresponding period last year.

Salary and related expenses, administration and lease on the company's headquarters - amounted to NIS 13.4 million during the reporting period, compared with NIS 12M for the corresponding period last year. Most of the increase

stems from increased office expenses totalling NIS 0.5M and from an increase in expenses in respect of salary and options to employees in the amount of NIS 0.3M. Depreciation and amortization amounted to NIS 31.2M in the reporting period, compared with NIS 26.8M in the corresponding period last year. Most of the increase in depreciation expenses is due to the reduction of the company's wind projects in Poland, which were connected in June 2016.

Balance sheet - the company's shareholders' equity as of September 30, 2007 is NIS 669.8M (46% of the balance sheet), compared with NIS 523.9M (41% in relation to the balance sheet) on December 31, 2016. The company significantly strengthened its shareholders' equity following the recent financing rounds.

Additional Events - As at the date of this report, the company has green certificates totalling 387GWh. after the company sold 189GWh in green certificates during the third quarter of 2017. In 2016, legislation changes in Poland altered market supply and demand and ever since the green certificates market in Poland has been characterized by uncertainty. As a result, the price of green certificates in the electricity market in Poland fell sharply until the end of Q2-2017, when the price of a certificate was 22 zloty. During the third quarter, certificate prices increased and stood at approximately 41 zloty at the reporting date. Subsequent to the reporting date an additional quantity of green certificates was sold, totalling 347GWh.

In addition, we note that the company has a future wind project in EIN HaShofet, Israel, which at the time of reporting was not approved for construction because of an apparent feared harm to native wildlife. Accordingly the project is not priced in our economic model. It should furthermore be noted that in our conversation with the company it was made clear that the failure to grant approval for the Ein Hashofet project is unrelated to the ARAN project, which has already been approved in this specific context by the Nature Protection Authority.

## Analysis

The Company continues its plans for initiation and construction in the field of wind and solar energies in Israel and Poland, with the most promising expected development being the addition of Stage II of the project in Poland. All of its various plans and updates were included in the initial and comprehensive analysis report we published on June 25, 2017 and the report updates in recent months.

Energix has extensive capabilities in performing efficient feasibility analyses (technical and commercial) before commencing projects, financial strength and the backing of a prominent real estate company - Alony Hetz, which has successful experience with banks and financial institutions in closing long-term financing transactions and an experienced project management team working closely with regulatory bodies. Energix also has the necessary equipment manufacturers and engineering service providers to build facilities and connect them to the electricity grid in record time.

During the reporting period, several events occurred that positively and negatively affect the company's business. On a positive note; the company's revenues grew relative to the previous quarter and compared to last year, mainly due to connection of the systems in Poland; the company's revenues from the sale of electricity exceeded our expectations; the company managed to raise a substantial capital at market price, justifying its current value; and the price for green certificates rose to 41 zloty (compared to 22 zloty in our previous estimate). On the other hand, the company's stock is significantly smaller. The zloty's exchange rate weakened slightly against the Shekel and fell from 0.99 in our previous estimate to 0.97. Additionally, the price of electricity fell to 163 zloty, compared with 171 zloty in our previous estimate, i.e. 204 zloty per green certificate and the price of electricity per kilowatt in the company's wind projects in Poland.

**Thus, we estimate the company's value at NIS 1.43 billion/\$405M; a price target per share ranging between NIS 3.64 and NIS 4.05 - an average of NIS 3.82.**

### Stock overview\* YTD (Source: TASE website)



### Upcoming Potential Catalysts

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

## Appendix - Financial reports

| <b>Balance Sheet (NIS 000s)</b>                                  | <b>31.12.2016</b> | <b>30.9.2017</b> |
|--|-------------------|------------------|
| <b><u>Current assets</u></b>                                     |                   |                  |
| Cash and cash equivalents  | 39,114            | 203,354          |
| Accounts receivable (AR)   | 28,240            | 27,090           |
| Green Certificates   | 9,558             | 13,787           |
| <b>Total current assets</b>                                      | <b>76,912</b>     | <b>244,231</b>   |
| <b><u>Non-current assets</u></b>                                 |                   |                  |
| Cash limited in the Long Term                                    | 31,527            | 42,131           |
| Leasing expenses paid in advance                                 | 27,006            | 25,868           |
| Connected power generation systems                               | 1,057,870         | 1,059,455        |
| Systems being established  | 32,391            | 51,477           |
| Fixed Assets   | 2,323             | 3,059            |
| Investment in investee companies (as per the balance method)     | 14,827            | 14,881           |
| Other receivables  | 20,511            | 7,236            |
| Deffered taxes   | 3,591             | 10,203           |
| <b>Total non-current assets</b>                                  | <b>1,190,046</b>  | <b>1,214,310</b> |
| <b>Total assets</b>  | <b>1,266,958</b>  | <b>1,458,541</b> |
| <b><u>Current liabilities</u></b>                                |                   |                  |
| Suppliers and service providers                                  | 52,227            | 15,483           |
| Short term financing from financial institutions                 | 65,501            | 0                |
| Current maturities of long-term loans                            | 31,898            | 42,361           |
| Creditors and credit balances                                    | 5,494             | 10,578           |
| <b>Total current liabilities</b>                                 | <b>155,120</b>    | <b>68,422</b>    |
| <b><u>Non-current liabilities</u></b>                            |                   |                  |
| Loans from financial institutions                                | 552,574           | 678,464          |
| Deferred tax liabilities   | 7,034             | 10,244           |
| Liabilities from terminating relations between employee/employer | 347               | 376              |
| Other long-term liabilities                                      | 27,936            | 31,238           |
| <b>Total non-current liabilities</b>                             | <b>587,891</b>    | <b>720,322</b>   |
| <b>Total liabilities</b>   | <b>743,011</b>    | <b>788,744</b>   |
| <b><u>Equity</u></b>   |                   |                  |
| <b>Total Equity</b>  | <b>523,947</b>    | <b>669,797</b>   |
| <b>Total liabilities and equity</b>                              | <b>1,266,958</b>  | <b>1,458,541</b> |

| <b>Profit and Loss Statement (NIS 000s)</b>           | <b>31.12.2014</b> | <b>31.12.2015</b> | <b>31.12.2016</b> | <b>30.9.2016</b> | <b>30.9.2017</b> |
|---|-------------------|-------------------|-------------------|------------------|------------------|
| <b>Total Revenues</b>                                 | <b>12,503</b>     | <b>60,035</b>     | <b>113,219</b>    | <b>80,176</b>    | <b>100,296</b>   |
| <b>Expenses</b>                                       |                   |                   |                   |                  |                  |
| <b>Leasing</b>  | 948               | 2,430             | 4,202             | 3,182            | 4,926            |
| <b>Maintenance of Systems</b>                         | 651               | 4,945             | 17,121            | 10,459           | 18,002           |
| <b>Reduced value of green certificates</b>            | 0                 | 0                 | 6,616             | 6,643            | 0                |
| <b>Costs of establishing facilities</b>               | 1,769             | 70                | 241               | 238              | 0                |
| <b>Development expenses</b>                           | 4,391             | 2,315             | 1,891             | 1,337            | 1,792            |
| <b>Salary and associated expenses</b>                 | 5,830             | 6,207             | 7,974             | 5,678            | 6,131            |
| <b>Administration and other expenses</b>              | 3,685             | 5,881             | 8,987             | 6,536            | 7,309            |
| <b>Total Expenses</b>                                 | <b>17,274</b>     | <b>21,848</b>     | <b>47,032</b>     | <b>34,073</b>    | <b>38,160</b>    |
| <b>EBITDA</b>   | <b>4,771</b>      | <b>38,187</b>     | <b>66,187</b>     | <b>46,103</b>    | <b>62,136</b>    |
| <b>Discharge of financial asset impairment losses</b> | 0                 | 0                 | 3,594             | 0                | 0                |
| <b>Depreciation and amortization</b>                  | 3,332             | 15,803            | 36,400            | 26,795           | 31,202           |
| <b>EBIT</b>   | <b>8,103</b>      | <b>22,384</b>     | <b>33,381</b>     | <b>19,308</b>    | <b>30,934</b>    |
| <b>Financial income</b>                               | 2,677             | 3,831             | 478               | 350              | 1,740            |
| <b>Financial expenses</b>                             | 1,855             | 15,040            | 28,646            | 22,029           | 21,129           |
| <b>Loss after Financing</b>                           | <b>7,281</b>      | <b>11,175</b>     | <b>5,213</b>      | <b>2,371</b>     | <b>11,545</b>    |

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