

Ellomay Capital

Q1 results update

Company guidance for FY18 confirmed at Q1

Over 2017, Ellomay made large investments in new projects and in acquisitions, which we expect to drive significant revenue and profit growth in 2018. Results for Q1 (normally weak due to seasonality) showed a 20% y-o-y growth in revenues and were in line with management expectations for FY18. We expect the following quarters to also show a pick-up in earnings. Looking beyond 2018, Ellomay has announced significant progress on Talasol, a large Spanish solar PV plant, which could reach financial close before the 2018 year-end. Our valuation of \$11.0 per share implies c 28% potential upside.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/17	13.6	(6.3)	(0.57)	0.00	NA	N/A
12/18e	19.7	3.6	0.28	0.09	26.4	1.2
12/19e	20.5	4.5	0.34	0.11	21.8	1.5
12/20e	20.4	4.3	0.33	0.12	22.4	1.6

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

Q1 revenues up 20% y-o-y and guidance confirmed

Q1 revenues were €3.0m, +20% y-o-y, driven mostly by new projects (Dutch biogas) and acquisition (Israel solar PV). EBITDA was €1.3m (vs €1.5m in Q117). Correcting for a €0.4m negative one-off impact, we calculate that EBITDA would have been up c 13% y-o-y. Ellomay reported a net loss of €0.4m (vs a loss of €1.7m in Q117), which we expect to turn into a FY net profit after two years of losses, thanks to the contribution of the (seasonally stronger) following quarters. We updated our estimates for results and to align the accounting treatment of Talmei Yosef project with the company's. On an underlying basis we have reduced our FY18-20 net income forecasts by 7-9% post Q1. The company said that Q1 results were consistent with its previous forecasts for FY18 (€21.9m cash flow from the sale of electricity and gas, and total net cash flow from projects of €11.8m).

A pipeline of large projects

Ellomay has a pipeline of large projects, including the Manara Cliff pumped-storage project and the solar Spanish PV project, Talasol, on which it announced significant progress in June. In addition to these two projects, at the Q1 results Ellomay said it is promoting the expansion of its Dutch biogas projects and acting to add additional projects as well. Overall, we believe the outlook for structural renewable growth in Europe remains robust and the recently increased EU target for renewables provides a positive backdrop, despite the threat of rising interest rates and the risk of returns compression. While growth opportunities exist, we believe the main challenge for Ellomay will be financing new projects.

Valuation of \$11.0/share implies 28% potential upside

Ellomay's current share price implies an equity valuation broadly in line with book value, hence the market is 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. Our DCF-based value of US\$11.0/sh (vs \$11.4/sh previously) implies c 28% potential upside.

Alternative energy

10 July 2018

Price* **US\$8.60**

Market cap **US\$92m**

*Priced at 4 July 2018.

	€/US\$1.16
Net debt (€m) at end Q118	80.5
Shares in issue	10.7m
Free float	31%
Code	ELLO
Primary exchange	NYSE
Secondary exchange	TASE

Share price performance



%	1m	3m	12m
Abs	6.0	7.6	(1.8)
Rel (local)	6.9	(6.6)	(12.1)
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.

Next events

H118 results September 2018

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Q118 revenues up 20% y-o-y

On 21 June, Ellomay Capital reported Q1 results:

Revenues were €3.0m, up 20% y-o-y, mostly driven by new projects (waste-to-energy in the Netherlands) and acquisition (Talmei Yosef, a solar PV asset in Israel acquired in October 2017). The Talmei Yosef project contributed only €0.2m revenues rather than the total proceeds from the sale of electricity of €0.8m, due to accounting treatment IFRIC 12, service concession arrangements.

EBITDA was €1.3m (vs €1.5m in Q117). The first quarter is traditionally a weak one due to seasonality (radiation levels are low during the winter), which affects revenues and has a disproportionate impact on margins (as costs, which are equally split over the various quarters, increase as a result of new projects but are not compensated by a similar increase in revenues). In addition, EBITDA was affected by a €0.4m negative one-off impact (included in general and administrative expenses) due to a payment following a VAT assessment agreement in connection with previous years in Israel. Correcting for this negative one-off, we calculate that EBITDA would have been up c 13% y-o-y.

Net loss of €0.4m (vs a loss of €1.7m a year earlier) includes a net positive one-off impact of €0.3m due to lower financial expenses resulting from exchange rate differences (in addition to the €0.4m negative one-off impact included in EBITDA, mentioned above). As a result, we estimate a c €0.3m net loss on an underlying basis for Q118. We expect this loss to turn into a profit for the full year, thanks to the contribution from the (seasonally stronger) following quarters.

Net debt was €80.5m, broadly unchanged vs FY17 results, with cash flow from operations covering cash outflows from investments.

The company commented that Q1 results were consistent with its previous forecasts for FY18. Previously released guidance included an estimate of €21.9m cash flow from the sale of electricity and gas, and total net cash flow from projects (including an equity-accounted stake in gas plant Dorad) of €11.8m.

Ellomay's project pipeline include large investments

Ellomay has a pipeline of large projects for future years, which are not included in our forecasts (as they have not reached financial close) and which we believe represent significant growth opportunities in the medium term. Beyond Talasol (a 300MW solar PV plant project in Talaván, Spain, with financial close potentially by year-end) and Manara Cliff (a 156MW Israeli pumped-storage plant project), in its latest results release, Ellomay Capital added that it could expand the capacity of its first two biogas projects (one of which is due to come on stream over the course of 2018) and that it could add similar new projects in the Netherlands. We understand that no investment decision has been made and we expect these projects to be advanced depending on the attractiveness of returns and on funding availability.

Exhibit 1: Key pipeline projects

Location	Asset	Expected commissioning	Expected capex	Generation	Expected revenue
Talaván, Spain	300MW solar PV in Spain	2020	€200-230m	545GWh year	€20-25m/year
Manara Cliff, Israel	156MW pumped-storage hydro plant	N/A	N/A	N/A	N/A
Biogas projects, Netherlands	Potential expansion of the existing projects and potential new projects	N/A	N/A	N/A	N/A

Source: Company data

Over the last few weeks, Ellomay has achieved significant progress on the Talasol project. In June the company announced that it had entered into an engineering, procurement & construction agreement for the project and that it is discussing the possibility of receiving financing from the European Investment Bank. The project (with total capex of €200-230m) is expected to have leverage of 60%. In addition, Ellomay announced that it had executed a financial power swap in respect of c 80% of the output of the plant (power purchase agreement).

Beyond these projects, we believe the company could evaluate several other growth projects in the future and that the outlook for new renewable projects remains strong, despite the prospect of increasing interest rates and the recent compression in returns of new projects.

After 18 months of negotiations, the European Council agreed in June to increase the target for the share of EU energy consumption from renewables to 32% from 27% (vs 17% in 2016), which should provide a positive backdrop for further renewable growth in Europe. For example, Italy (Italian assets generate around half of Ellomay's 2018e revenues, on our estimates) would require a boost in total renewable investments to €87bn (from €70bn) in the period 2018-30 to reach the higher target, according to estimates by Osservatorio OIR (published in La Repubblica on 20 June 2018). This would require a huge step-up in investments, from €2.1bn in 2017 (source: Bloomberg New Energy Finance) to €6.7bn/year in the period 2018-30.

We believe a key constraint to Ellomay's future growth projects is its ability to fund new investments. We forecast FY19 net debt/EBITDA of 4.8x with a reduction thereafter, thanks to cash flow generation (before any further projects). In November 2017 Standard & Poor's (S&P) Maalot downgraded the rating of the company and its Series A and Series B Nonconvertible Debentures from iIA- with a "negative" outlook to iIBBB+ (which corresponds to B on an S&P's 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 forthcoming years). Maalot said Ellomay Capital's level of liquidity was appropriate.

New projects point to FY18 growth

We believe the H1 results in September will provide better visibility on Ellomay's growth prospects over the course of 2018, which we continue to see as an important year of growth delivery for the company. We now forecast FY18 revenues increasing by 44% y-o-y to €19.7m and EBITDA growing by 60% y-o-y to €12.0m (see forecasts revisions in Exhibit 2 below). In addition, we expect Ellomay to report positive net income (€2.5m) following net losses over the course of FY16 and FY17. This should allow Ellomay to declare a dividend from FY18 (we assume a c 33% payout ratio in line with company guidance). Beyond 2018, our estimates point to a stabilisation in revenue and EBITDA as our forecasts do not include further growth projects. New projects, such as Talasol, would provide significant upside to our estimates.

Forecasts update post Q1 results

We have updated our forecasts following Q1 results and aligned our modelling with Ellomay's accounting treatment for Talmei Yosef (the recently acquired solar PV asset). While previously we included 100% of revenues for the project, we now include 25% (related to the operations of the asset) and 75% against financial assets, in line with the accounting treatment by the company (IFRIC 12 – service concessions). This has an impact on revenue and EBITDA, but no impact on cash flow. Overall we expect Ellomay to report a strong improvement in revenues and net income over the course of FY18, although our net income forecasts for FY18-20 reduce by 7-9% on an underlying basis, reflecting updated assumptions for project development costs, financial expenses, D&A and contribution from assets in Israel.

Exhibit 2: Forecasts revisions

€000s	2018e	2019e	2020e
EBITDA			
New	11,958	12,719	12,628
Old	14,317	14,900	14,833
% change	-16%	-15%	-15%
EBIT			
New	6,200	6,752	6,661
Old	8,259	8,634	8,566
% change	-25%	-22%	-22%
Net income adjusted for minorities			
New	2,490	3,049	2,930
Old	2,724	3,281	3,198
% change	-9%	-7%	-8%

Source: Edison Investment Research

Valuation: \$11.0/share implies 28% potential upside

We have made small changes to our valuation, mostly reflecting updated forecasts and FX assumptions. Our fair value is calculated with a DCF-based sum-of-the-parts valuation and is \$11.0/share, (vs \$11.4/share previously), which implies 28% potential valuation upside to the current share price.

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 €170m and equity value of €101m.

The current share price implies that Ellomay trades broadly in line with book value (€76m at Q118), which shows that the market is discounting little ability for it to generate returns above the cost of capital. We believe growth delivery could drive a re-rating and see the H118 results as an important checkpoint.

In our view, the key risks that Ellomay faces are:

1. **regulatory:** solar PV assets are heavily regulated and, as a result, the company faces the risk of regulatory changes;
2. **operational:** 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 could drive higher/lower profits for the company; and
3. **currency:** for euro investors, we estimate that 16% of FY18 revenues are expressed in Israeli shekel, in addition to the entire equity income (we estimate a c €2.5m P&L contribution in FY18).

Exhibit 3: Financial summary

Year-end: December, €000s	2016	2017	2018e	2019e	2020e
INCOME STATEMENT					
Total revenues	11,632	13,636	19,658	20,491	20,355
Cost of sales	(2,082)	(2,549)	(3,800)	(4,036)	(4,036)
Gross profit	9,550	11,087	15,858	16,455	16,319
SG&A (expenses)	(657)	(889)	(1,600)	(1,836)	(1,792)
R&D costs	0	0	0	0	0
Other income/(expense)	(2,111)	(2,721)	(2,300)	(1,900)	(1,900)
Depreciation and amortisation	(4,411)	(4,518)	(5,758)	(5,967)	(5,967)
Reported EBIT	2,371	2,959	6,200	6,752	6,661
Finance income/(expense)	(3,070)	(6,072)	(2,554)	(2,288)	(2,370)
Other income/(expense)	636	(3,156)	0	0	0
Reported PBT	(63)	(6,269)	3,646	4,464	4,291
Income tax expense (includes exceptionals)	(569)	(372)	(656)	(804)	(772)
Reported net income	(632)	(6,641)	2,990	3,661	3,519
Net income adjusted for minorities	(209)	(6,115)	2,490	3,049	2,930
Basic average number of shares, m	10,668	10,676	10,676	10,676	10,676
Basic EPS (€)	(0.02)	(0.57)	0.28	0.34	0.33
DPS (€)	0.00	0.00	0.09	0.11	0.12
Adjusted EBITDA	6,782	7,477	11,958	12,719	12,628
Adjusted EBIT	2,371	2,959	6,200	6,752	6,661
Adjusted PBT	(63)	(6,269)	3,646	4,464	4,291
Adjusted EPS	0.00	0.00	0.34	0.42	0.41
Adjusted diluted EPS	(0.02)	(0.57)	0.28	0.34	0.33
BALANCE SHEET					
Property, plant and equipment	73,274	78,837	73,079	67,112	61,145
Goodwill	0	0	0	0	0
Intangible assets	0	5,505	5,505	5,505	5,505
Other non-current assets	37,096	67,517	66,667	66,817	66,967
Total non-current assets	110,370	151,859	145,251	139,434	133,617
Cash and equivalents	22,486	23,962	35,021	33,811	32,598
Inventories	0	0	0	0	0
Trade and other receivables	9,487	10,645	10,346	10,784	10,713
Other current assets	6,121	11,622	11,622	11,622	11,622
Total current assets	38,094	46,229	56,990	56,217	54,933
Non-current loans and borrowings	46,007	95,078	95,078	85,078	75,078
Other non-current liabilities	7,528	14,227	14,227	14,227	14,227
Total non-current liabilities	53,535	109,305	109,305	99,305	89,305
Trade and other payables	4,720	3,536	4,198	4,323	4,323
Current loans and borrowings	5,838	7,747	7,747	7,747	7,747
Other current liabilities	0	0	0	0	0
Total current liabilities	10,558	11,283	11,945	12,070	12,070
Equity attributable to company	85,072	78,641	81,631	84,305	86,616
Non-controlling interest	(701)	(1,141)	(641)	(29)	560
CASH FLOW STATEMENT					
EBIT	2,371	2,959	6,200	6,752	6,661
Depreciation and amortisation	4,411	4,518	5,758	5,967	5,967
Share based payments	0	0	0	0	0
Other adjustments	3,274	(1,119)	500	612	588
Movements in working capital	76	(857)	961	(313)	71
Interest paid / received	(2,761)	(3,154)	(2,554)	(2,288)	(2,370)
Income taxes paid	(54)	(42)	(656)	(804)	(772)
Cash from operations (CFO)	7,317	2,305	10,209	9,926	10,145
Capex	(710)	(8,000)	(150)	(150)	(150)
Acquisitions & disposals net	(231)	(22,207)	0	0	0
Other investing activities	1,520	2,864	1,000	0	0
Cash used in investing activities (CFIA)	579	(27,343)	850	(150)	(150)
Net proceeds from issue of shares	(11)	(14)	0	0	0
Movements in debt	(317)	29,684	0	(10,000)	(10,000)
Dividends paid	(2,123)	0	0	(987)	(1,208)
Other financing activities	0	0	0	0	0
Cash from financing activities (CFF)	(2,451)	29,670	0	(10,987)	(11,208)
Currency translation differences and other	(153)	(3,156)	0	0	0
Increase/(decrease) in cash and equivalents	5,292	1,476	11,059	(1,210)	(1,213)
Cash and equivalents at end of period	22,486	23,962	35,021	33,811	32,598
Net (debt) cash	(32,375)	(80,391)	(69,332)	(60,542)	(51,755)
Movement in net (debt) cash over period	(2,283)	(48,016)	11,059	8,790	8,787

Source: Company data, Edison Investment Research

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