

# Ellomay Capital

FY16 results

FY16 weak, but case remains

As flagged at the 9M16 results, due to factors well beyond management control – namely lower solar radiance, currency movements and spot power prices – FY16 was a less favourable year for Ellomay. The over 20% drop in reported EBITDA meant the company was loss making for the year. We view these headwinds as one-off factors and, due to Ellomay's track record on cost control, actually increase our earnings forecasts for FY18 (FY18 reported EBITDA up 7.4% versus old forecasts) and afterwards. A weaker euro means we reduce our FY17 earnings in US\$, but our revenues are only marginally different at constant currency. Higher cash flow taken together with the same valuation methodology means we increase our fair value per share to \$10.93, up 4.7% versus our last note, which offers 31% upside.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/15	13.82	1.86	0.35	0.00	23.6	N/A
12/16	12.87	(1.25)	(0.18)	0.23	N/A	2.7
12/17e	13.50	3.75	0.26	0.23	31.6	2.7
12/18e	15.09	5.79	0.41	0.23	20.4	2.7

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

## Strong cost management as headwinds bite

It was encouraging to see Ellomay's management cushion the effect of difficult operating conditions by controlling costs. Gross profit was only down c \$400k, while revenues decreased by c \$1m y-o-y. Cost increases such as that in G&A were due principally to investment in new projects. Manara alone accounted for some \$1.8m of costs in FY16, which should bring future returns for shareholders, plus future costs are likely to be capitalised, reflected in our increased FY17 estimates.

## Optionality remains through new projects

Little new information was released at FY16 regarding new projects such as the Dutch waste-to-energy and the Manara Cliff pumped storage project. However, the company did announce on 30 April that it had entered into a €10m agreement to purchase shares in a proposed 300MW solar photovoltaic (PV) plant in Cáceres, Spain and announced on May 4 that it had entered into another project in the Netherlands for the construction of an anaerobic digestion facility.

## Valuation: \$10.93 per share and 31% upside

We increase our sum-of-the-parts derived fair value per share by 4.7% to \$10.93, versus \$10.44. We have not changed any of our valuation methodologies (multiples, discount rates, etc), rather the slight increase in fair value is a function of a 'roll forward' in our valuation. Dorad, which is the main driver of the uplift, increases in value as we roll forward our DCF valuation. The solar operations have also been rolled forward, but with a smaller impact due to a different operating environment. The 31% upside to our fair value from \$8.31 at the time of publication is attractive and the introduction of a dividend in FY16 at \$0.225/share offers a 2.7% yield.

### Utilities

9 May 2017

#### Price\*

US\$8.31

NIS30.70

#### Market cap

US\$89m

NIS328m

\*Priced as at 8 May 2017

NIS3.64/US\$

Net debt (US\$m) at 31 December 2016 34.1

Shares in issue 10.7m

Free float 31%

Code ELLO

Primary exchange NYSE

Secondary exchange TASE

### Share price performance



% 1m 3m 12m

Abs 3.9 4.9 7.8

Rel (local) 2.6 0.9 (7.5)

52-week high/low US\$9.6 US\$7.0

### Business description

Ellomay Capital owns an international portfolio of power generation assets comprised of solar plants in Italy and Spain and a gas-fired power plant in Israel. It is also developing an anaerobic digestion plant in the Netherlands. It operates principally in regulated markets.

### Next events

Q117 results May 2017

### Analysts

Jamie Aitkenhead +44 (0)20 3077 5700

Roger Johnston +44 (0)20 3077 5722

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)
[Edison profile page](#)

## FY16 weak, but due to well-flagged short-term factors

With a well-flagged drop in reported EBITDA of over 20% due to short-term factors – lower solar radiance and lower spot prices – Ellomay's operating performance over the year was well beneath previous years.

**Exhibit 1: FY16 vs FY15 numbers**

US\$000s	2015	2016	% y-o-y
Italy Revenues (Edison estimates)	10,620	9,870	-7.1%
Spain Revenues (Edison estimates)	3,197	3,002	-6.1%
Group Revenues	13,817	12,872	-6.8%
EBITDA (company definition; including associates and exceptionals)	9,685	7,492	-22.6%
Associates	2,446	1,505	-38.5%
Operating Profit (before amort. and except.)	2,306	1,004	-56.5%
Profit Before Tax (norm)	1,859	(1,251)	
Profit After Tax (norm)	3,792	(1,876)	
EPS normalised (US\$)	0.35	(0.18)	
DPS (US\$)	0.00	0.23	N/A

Source: Ellomay, Edison Investment Research

## Results analysis

- **Power output:** As we highlighted at our [9M16 results review](#), due, predominantly, to lower solar radiance levels in Spain and Italy, Ellomay's power output was lagging behind previous years. Over the course of the year, we calculate Ellomay's solar power output was down 4.2% (Italy down 5.5% and Spain down 1.1%).
- **Spot prices:** Although a smaller moving part than the decline in power output, especially given the fact that most of Ellomay's earnings come from regulated power price subsidies, the fact that Spanish spot prices were down 20.8% and Italian power prices declined by 17.7% in FY16 acted as another drag on earnings.
- **Cost analysis:** Ellomay's focus on cost management went some way to cushioning the effect from lower power output. While revenues were down by \$1m, gross profit was only down by \$400k (\$6.051m to \$5.683m). This was due to a significant reduction in operating expenses. Company management has indicated that lower insurance, operating and maintenance and municipal tax costs lay behind the cost decrease. FY16 G&A costs of \$4.679m (up \$934k vs FY15) further reduced the operating performance but c \$1.800m (\$1.027m in FY15) of this line item is in relation to the proposed Manara project and the company hopes to capitalise such costs in the future. Furthermore the company reduced salary costs by over \$300k and there was a near \$500k increase in professional services, some of which is in relation to the proposed Dutch waste to energy project.
- **Associates:** The contribution from Ellomay's 9.375% stake in the Dorad gas-fired power plant declined year-on-year by \$941k to \$1.505m. Little operating information is disclosed but we note there was an approximate 0.5% tariff reduction in FY16.
- **Updates on new projects:** In the FY16 announcement, Ran Fridrich, Ellomay's CEO, stated that FY16 was "characterised by intensive project development activities, including the Manara pumped storage project, waste-to-energy projects in the Netherlands and other projects in the photovoltaic field in Israel and Europe. I expect that we will start to see the fruits of these efforts in 2017."
- **Cash flow:** Net debt increased by 1.3% vs FY15 to \$34.1m. Cash flow from investing came in at \$1m for the year versus our forecast of \$10m. Capex of \$5.388m was higher than we had forecast. These movements were partially offset by the increase in cash flow from operations

versus our previous estimates, which was driven by a \$5.1m interest payment from a loan to an equity accounted investee.

- Net debt increased year-on-year, also due to the financial closing of the new subsidiary in the Netherlands (initially consolidated in 2016) adding project financing of approximately US\$6m.

## Financials and forecasts

We marginally reduce our solar PV output assumptions and change our €/US\$ FX assumptions, with the result that our FY17 revenue forecasts are reduced by 5.6%. Our FY17 company definition EBITDA forecasts are reduced by just 0.7% due to cost improvements, but our (Edison definition) EPS forecast in FY17 declines by 20.5%. Higher depreciation and net interest charges account for the difference. Even in FY18, for which we have not changed our FX assumptions, our EPS assumption is 7.9% lower, in part due to higher depreciation and a higher net interest charge due to higher net debt. Despite the fact net debt is materially higher versus our forecasts, we are unconcerned due to the regular income stream Ellomay produces from its solar PV assets. Net debt to reported EBITDA peaks at 2.55x in FY17, while based on a more conservative definition of EBITDA (Edison), it peaks also this year at 3.42x, which is an undemanding multiple for a regulated operating company.

<b>Exhibit 2: Ellomay earnings forecast changes</b>			
<b>US\$000s</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>
<b>New revenues</b>	<b>13,497</b>	<b>15,092</b>	<b>15,092</b>
Old revenues	14,293	15,134	
± New vs old	-5.6%	-0.3%	
<b>New EBITDA (company definition)</b>	<b>11,249</b>	<b>13,042</b>	<b>13,265</b>
Old EBITDA (company definition)	11,323	12,244	
± New vs old	-0.7%	6.5%	
<b>New equity investments</b>	<b>2,871</b>	<b>3,305</b>	<b>3,581</b>
Old equity investments	2,871	3,174	
± New vs old	0.0%	4.1%	
<b>New EBITDA (Edison definition)</b>	<b>8,378</b>	<b>9,737</b>	<b>9,683</b>
Old EBITDA (Edison definition)	8,451	9,070	
± New vs old	-0.9%	7.4%	
<b>New operating profit</b>	<b>6,211</b>	<b>7,997</b>	<b>8,212</b>
Old operating profit	7,187	8,325	
± New vs old	-13.6%	-3.9%	
<b>New profit for the year</b>	<b>2,810</b>	<b>4,343</b>	<b>4,706</b>
Old profit for the year	3,561	4,750	
± New vs old	-21.1%	-8.6%	
<b>New reported basic EPS (US\$)</b>	<b>0.26</b>	<b>0.41</b>	<b>0.44</b>
Old reported basic EPS (US\$)	0.33	0.44	
± New vs old	-20.8%	-8.2%	
<b>New EPS (Edison definition) (US\$)</b>	<b>0.26</b>	<b>0.41</b>	<b>0.44</b>
Old EPS (Edison definition) (US\$)	0.33	0.44	
± New vs old	-20.5%	-7.9%	
<b>New net debt</b>	<b>28,641</b>	<b>22,725</b>	<b>15,603</b>
Old net debt	20,562	15,066	
± New vs old	39.3%	50.8%	
Source: Edison Investment Research			

## Assumptions

We have tweaked our power output assumptions as we forecast future load factors as a function of average load factors historically. Therefore FY16's lower output due to low radiance means we nudge our assumptions down by a couple of per cent. By far the more meaningful change, however, is the stronger dollar. Given the company reports in US dollars and earns the bulk of its revenues in euros, the recent weakening of the euro versus the dollar has decreased our FY17

forecasts and we view it as sensible to alter our FY17 US\$/€ exchange rate (from €0.90 to €0.94) to reflect the change. Note that in the absence of this currency move, our revenue forecasts would only be down by 1-2%.

**Exhibit 3: Edison assumption changes for Ellomay**

Assumptions changes	Unit	2017e	2018e	2019e
New Italy power output	KWh	30,516,454	30,516,454	30,516,454
Old Italy power output	KWh	31,381,506	31,381,506	31,381,506
± New vs old		-2.8%	-2.8%	-2.8%
New Spain power output	KWh	12,668,060	12,668,060	12,668,060
Old Spain power output	KWh	12,715,876	12,715,876	12,715,876
± New vs old		-0.4%	-0.4%	-0.4%
New US\$/€		0.94	0.85	0.85
Old US\$/€		0.90	0.85	0.85
± New vs old		4.2%	0.0%	0.0%

Source: Edison Investment Research

## Valuation

We continue to value Ellomay on a sum-of-the-parts basis. The solar assets are valued by an average of a DCF (WACC 5.7%, terminal growth 1%), EV/EBITDA and per KW multiple. The equity stake in Dorad is valued by DCF (WACC 8.0%, terminal growth 1%). We subtract FY16's (Edison definition) net debt of \$34.079m in arriving at our fair value per share of \$10.93, which offers 31% upside, and is a 4.7% increase since our last publication. We do not include any value from the Dutch waste-to-energy assets or Manara Cliff in our estimates.

**Exhibit 4: Ellomay sum-of-the-parts**

Segment	EV (US\$000s)
Solar Operations	93,433
Dorad Investment	57,323
<b>Group enterprise value</b>	<b>150,757</b>
Less: FY16 net debt	34,079
Less: pensions and other	0
SOP valuation	116,678
Current number of shares (m)	10.7
Current price US\$/share	8.31
<b>Fair value per share US\$/share</b>	<b>10.93</b>
<b>Upside/(downside) to FV (%)</b>	<b>31.5%</b>
Dividend yield (%)	2.7%
Total return (%)	34.2%

Source: Edison Investment Research

**Exhibit 5: Financial summary**

	US\$000s	2015	2016	2017e	2018e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		13,817	12,872	13,497	15,092
EBITDA (company definition)		9,685	7,492	11,249	13,042
EBITDA (Edison definition, excluding associates)		7,218	5,888	8,378	9,737
Operating Profit (before amort. and except.)		2,306	1,004	3,340	4,692
Intangible Amortisation		0	0	0	0
Exceptionals		21	99	0	0
Other		3,485	704	0	0
Operating Profit		5,812	1,807	3,340	4,692
Net Interest		(2,893)	(3,760)	(2,465)	(2,206)
Share of assocs/jvs gains/(losses)		2,446	1,505	2,871	3,305
Forex gains/(losses)		0	0	0	0
Other		0	0	0	0
Profit Before Tax (norm)		1,859	(1,251)	3,746	5,791
Profit Before Tax (FRS 3)		5,365	(448)	3,746	5,791
Tax		1,933	(625)	(937)	(1,448)
Profit After Tax (norm)		3,792	(1,876)	2,810	4,343
Profit After Tax (FRS 3)		7,553	(603)	2,810	4,343
Average Number of Shares Outstanding (m)		10.7	10.7	10.7	10.7
EPS - normalised (\$)		0.35	(0.18)	0.26	0.41
EPS - normalised and fully diluted (\$)		0.35	(0.18)	0.26	0.41
EPS - (IFRS) (\$)		0.70	(0.06)	0.26	0.41
Dividend per share (\$)		0.00	0.23	0.23	0.23
EBITDA Margin (%)		52.2	45.7	62.1	64.5
Operating Margin (before GW and except.) (%)		16.7	7.8	24.7	31.1
<b>BALANCE SHEET</b>					
Fixed Assets		126,814	120,628	118,711	117,222
Intangible Assets		0	0	0	0
Tangible Assets		78,975	77,066	72,278	67,483
Investments		33,970	30,788	33,659	36,965
Other		13,869	12,774	12,774	12,774
Current Assets		33,513	34,641	33,152	35,015
Stocks		0	0	0	0
Debtors		8,218	9,952	8,024	8,972
Cash		18,717	23,650	24,088	25,004
Other		6,578	1,039	1,039	1,039
Current Liabilities		(10,103)	(11,102)	(9,968)	(10,095)
Creditors		(4,092)	(4,963)	(3,829)	(3,956)
Short term borrowings		(6,011)	(6,139)	(6,139)	(6,139)
Other		0	0	0	0
Long Term Liabilities		(56,159)	(56,302)	(51,302)	(46,302)
Long term borrowings		(48,117)	(48,385)	(43,385)	(38,385)
Other long term liabilities		(8,042)	(7,917)	(7,917)	(7,917)
Net Assets		94,065	87,865	90,593	95,840
<b>CASH FLOW</b>					
Operating Cash Flow		9,989	10,684	9,171	8,916
Net Interest		(2,904)	(3,049)	(2,465)	(2,206)
Tax		(2,174)	571	(937)	(1,448)
Capex		0	(5,388)	(250)	(250)
Acquisitions/disposals		0	0	0	0
Equity financing		0	0	0	0
Financing		0	0	0	0
Dividends		0	(2,404)	(2,402)	(2,402)
Other		(4,485)	(1,856)	2,871	3,305
Net Cash Flow		426	(1,442)	5,988	5,915
Opening net debt/(cash)		32,932	33,636	34,079	28,641
HP finance leases initiated		0	0	0	0
Other		(461)	(999)	550	0
Closing net debt/(cash)		33,636	34,079	28,641	22,725

Source: Ellomay Capital accounts, Edison Investment Research

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