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INDEPENDENT EQUITY RESEARCH

Enlight – Update Report

June 15, 2021

Stock Exchange	**TASE**
Symbol	**ENLT**
Sector	**Technology**
Sub-sector	**Renewable Energy**
Stock price target	**NIS 7.32**
Closing price	**NIS 6.67**
Market cap	**NIS 6.1 Mn**
No. of shares	**917.7 Mn**
Average Daily Trading Volume	**28,605 stocks**
Stock Performance (Since January 2021)	**0%**

Intensive development and initiation activity in Europe and the US; revenues grew by 17% to NIS 88 million (Non-Gaap) compared to last year's Q1 results; Additional revenues from projects under establishment (that will be operational in the next two years) are estimated at approx. NIS 700 million per year; target price remains at NIS 7.32

In line with our expectations, Enlight shows a significant growth in its overall activity alongside growth in revenue and profits. Enlight ended Q1 with revenues of NIS 88 million and EBITDA of NIS 67 million. The company shows a significant increase in its portfolio YoY. Increase of 57% in mature facilities (income-producing facilities, under construction and towards construction) and an increase of approx. 40% in facilities under development to 2.8 GW.

In June 2021, the company completed the connection of the Picasso facility to the electricity grid, thus increasing its ARR (Annual recurring revenue) to approximately NIS 400 million.
By the end of the year, the company is expected to connect additional projects to the electricity grid: Emek Habacha (109 megawatts), Selac (105 megawatts), and floating solar (17 megawatts) projects, thus expected to increase its ARR to more than NIS 600 million.

Strategically, Enlight works to achieve its strategic goals as part of its plan to enter the US market. The company is in advanced negotiations to acquire a leading company in the solar field and energy storage, which has a development portfolio of 9.9 GW. The success of this negotiation will allow Enlight to enter the US market as a leading player, placing the company in a great position for accelerated growth.

We want to mention that the global growth potential is far from being exhausted. Investment in renewable energy peaked at $350 billion in 2020, with solar and wind energy accounting for $290 billion of the total. In the wind energy market, Frost & Sullivan expects that more than 900 gigawatts of new capacity will be added between 2020 and 2030. The annual investment will range from $ 140 billion to $ 160 billion. **In the solar energy market**, Frost & Sullivan predicts that about 1,500 gigawatts of new capacity will be added between 2020 and 2030, representing a total investment of $ 1.5 trillion. **We believe that the wind energy market and solar panels will continue to grow based on global demand and certainly in light of the tailwind from the Biden administration in the US.**

Also, Enlight is working to assimilate the values of sustainability and the environment (ESG) at the core of the activity and recently published its first corporate responsibility report. Alongside the positive facet, there is also a signal to investors looking for environmental investments (a relatively new field called Impact investments); Enlight is expected to join relevant indices and increase its share exposure to additional investors in Israel and abroad.

On the next page, we present the main events in the first quarter and the passing months of 2021.

Year	Revenues (000 NIS)	Operating profit (000 NIS)
2021E	415,000	340,000
2022E	830,136	680,712
2023E	1,198,852	971,070

*The numbers shown are by 100% holding in all projects. Non-GAAP data

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Key events in the first quarter and the passing months of 2021:

- Commercial operation of the Picasso project in Sweden. The company reported on June 21 the full launch of the Picasso project in Sweden with a capacity of 113 megawatts.
- In May 2021, Enlight announced the signing of financial closure agreements to fund the Bjorenberget wind energy project with a leading group of European lenders. The scope of the project is about 372 megawatts. Enlight will hold a 61% stake alongside a European fund specializing in energy infrastructure. Revenues in the first year are estimated at €30 million and around €60 million a year on average. EBITDA is estimated at €50 million on average.
- In April 2021, Enlight announced the completion of an acquisition of a 25 megawatt solar project in Hungary. The project won a tender for 15 years of guaranteed tariff from the date of connection to the electricity grid and is in the advanced stages of development. Its commercial operation is expected during the second half of 2022, with €1.6 million estimated annual revenue from electricity sales. At the same time, the company is continuing to examine additional solar projects in Hungary as part of a joint development agreement signed with the sellers, with a total capacity of about 300 megawatts.
- In March 2021, the company raised approximately NIS 590 million through capital raising.
- In February 2021, the Company announced an agreement in principle with the Navitas Group to collaborate on Wind Offshore projects in the international market. When Enlight holds 60% and Navitas 40% in the joint activity and its fruits. The agreement in principle is subject to the signing of detailed binding agreements, and the completion of negotiations between the parties, including in relation to each specific project.
- **In February 2021, the company reported on negotiations for the acquisition of a leading company in the solar and energy storage sector, which has a development portfolio of 9.9 gigawatts and more than 1.5 gigawatt hours of energy storage. The company estimates that the acquisition will be completed during the second quarter of 2021.**

Corporate Responsibility

In March 2021, the company first published a corporate responsibility report with the aim of maximizing the positive impact and producing long-term value for all stakeholders. Enlight is expected to enter 3 ESG rankings: the Israeli Ma'aleh rankings and two other international rankings.

As part of the report, the company shows the significant environmental impact of its mature facilities:

The company's full corporate responsibility report:

https://enlightenergy.co.il/wp-content/uploads/2021/03/ESG_enlight230321Digital.pdf

Executive Summary

Investment Thesis

Globally, the renewable energy sector is in a growth momentum in most countries as a result of government decisions and organizations to reduce dependence on polluting fuels and reduce greenhouse gas emissions, which are reflected in governments' actions to meet renewable energy targets they are committed to according to the Paris 2015 agreement.

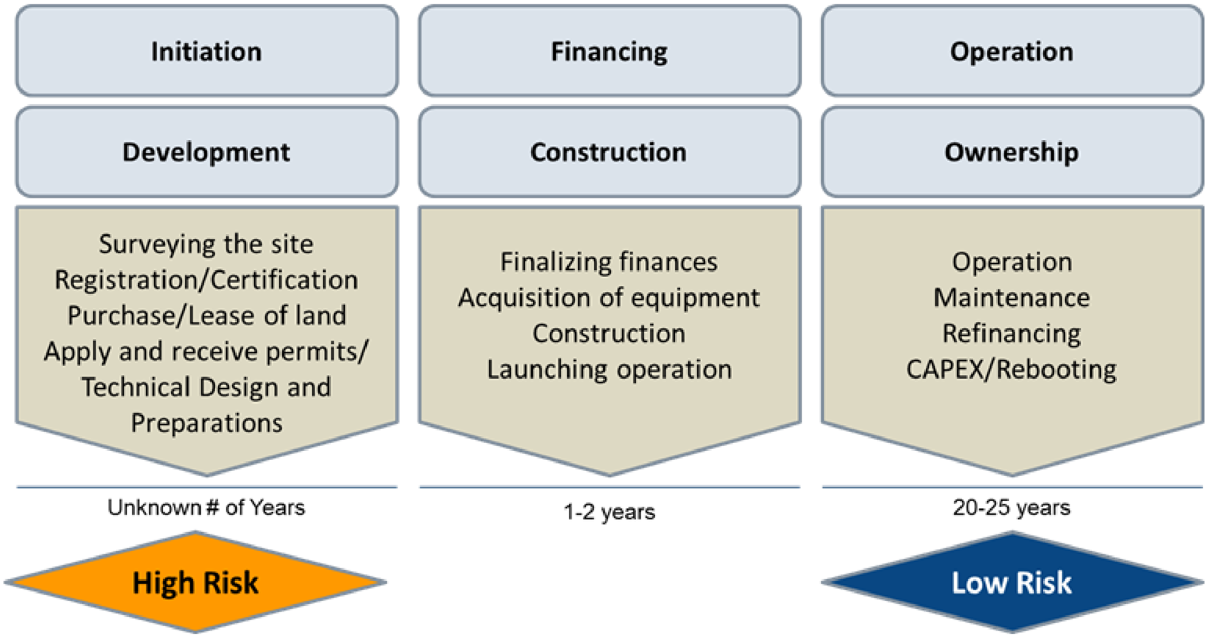
The implementation of government decisions translates into policies, regulations and licensing processes of companies that build renewable energy electricity generating facilities that are supposed to provide electricity over many years in a reliable, safe and economical manner.

Enlight is well respected in its industry, both locally and globally. Their reputation extends across the renewable energy value and supply chains, as well as within their specific business ecosystem. This is demonstrated by the list of Enlight's institutional investors, financing partners and equipment suppliers.

The company has a record of success across all steps and stages of renewable energy projects, including initiation, development, financing, construction, management, operation, ownership and sale of assets.

The company aims to continue creating value by leveraging its proven expertise and experience in identifying, quickly evaluating and exploiting 'under the radar' market opportunities, both through "Greenfield" development in Israel and co-development in international markets. The company's strategy is to select and operate in markets that demonstrate a combination of factors with specific emphasis on; supportive policy, regulations, favorable natural resources, an opportunity to optimize the development, and market size that supports future growth. In international markets the company partners with local entities that provide advantages in the initial early stages of development.

Below is the strategic landscape the company operates in:



Source: Frost & Sullivan

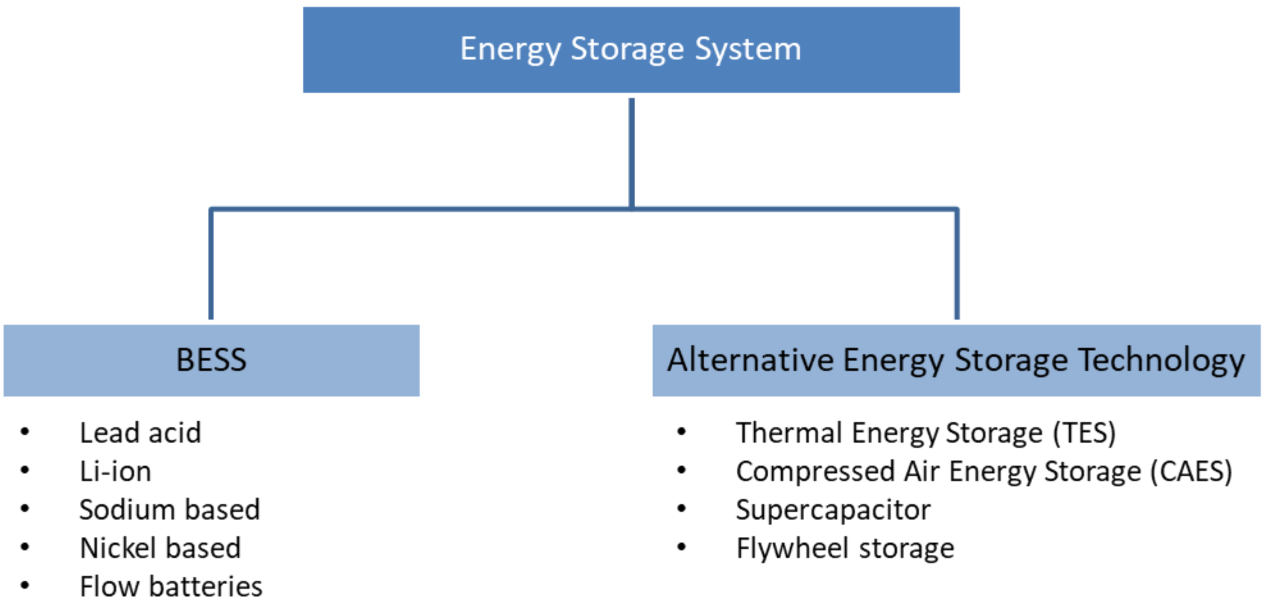
Value proposition to investors, partners and suppliers include:

- Experience in evaluating projects and uncovering upside opportunities.
- Focus on markets that are mature or maturing in terms of renewable energy policy and regulation, and such markets where renewable energy sources provide competitive electricity prices without the need for subsidies.
- Identify opportunities to optimize projects' capacity or timetables immediately and/or in the long term.
- High likelihood to secure financing due to corporate reputation and industry relations.
- Leveraging experience to generate margins from optimization, development and construction.

Enlight met our expectation for 2020 revenues. We assume Enlight's revenues from projects (representing 100% holdings in projects) would reach NIS 415 million in 2021, and NIS 1.25 billion in the first full year after the completion of establishing the portfolio in development.

We emphasize that the field of storage in which the company enters is a large and growing market that constitutes additional potential. We estimate that the storage market is about 25,000 megawatts in 2020, with an estimated annual growth rate at the global level of about 32.9%. In a broad examination of the storage market, today's main reliance is on a combination of batteries. Still, Enlight is also expected to understand that we will combine forces with other players in the market and combine additional new technologies to increase the return on projects at various stages.

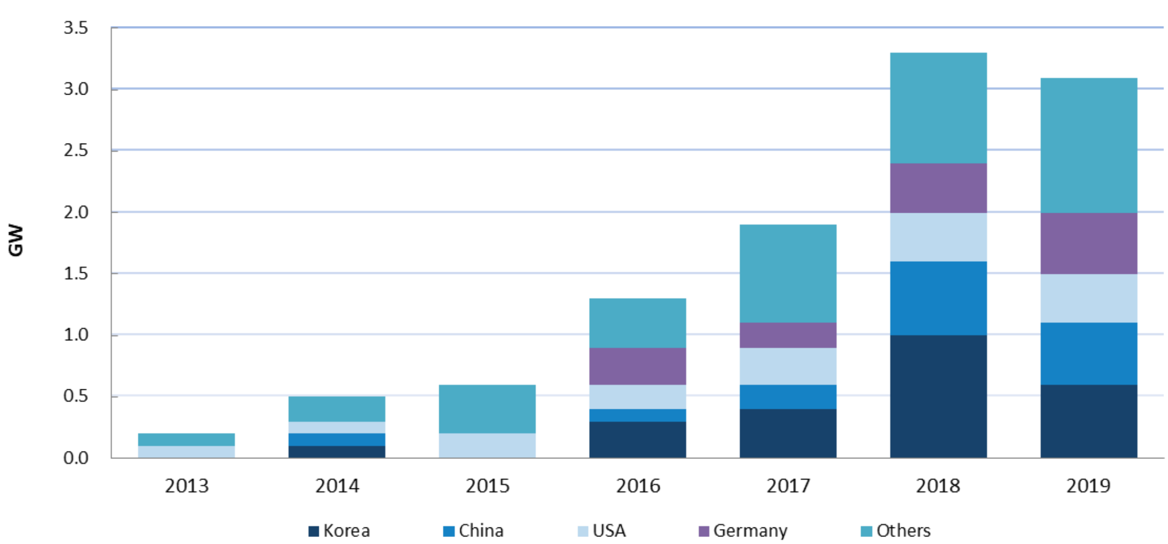
Global Energy Storage System breakdown 2020



Source: Frost and Sullivan

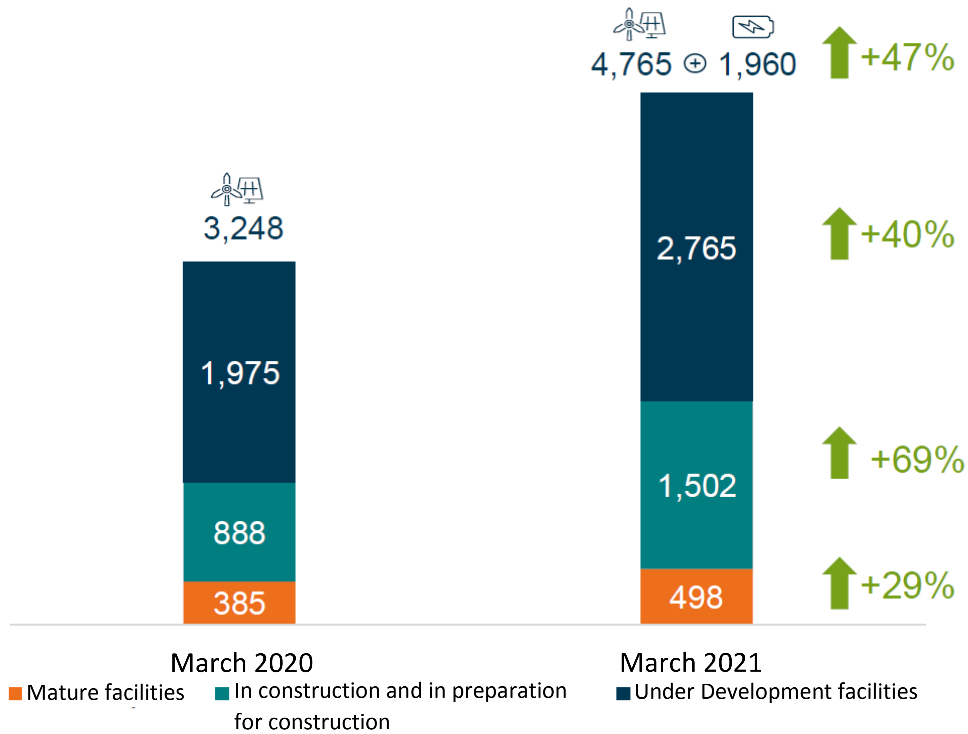
We already identify a significant growth rate in the field of storage, especially in the United States, Germany and East Asia.

Annual Energy Storage deployment by country, 2013-2019



Source: International Energy Agency (IEA)

The following is the scope of the company's expected pipeline portfolio as of March 2021:



Source: Company investor presentation from May 2021.

Global Renewable Market Introduction

Historically, global power generation was dominated by centralized energy sources such as coal, nuclear, oil, and large hydropower plants. These plants were usually state-owned, and the electricity generated would be transmitted across the country via a centralized grid. There was a minimal competition within the market, and the environmental impact was hardly considered. This situation has gradually changed over the past two decades, mainly driven by market decentralization and favorable regulatory frameworks (which boosted competition), concerns over the impact of climate change, and supportive renewable incentive programs.

Driven by the transformation across the energy sector, renewable energy sources (RES), primarily wind energy and solar energy, have become well established low-carbon energy sources to meet global energy demand because of their widespread availability, cost-effective nature, and flexibility compared to other RES. An increase in the adoption of wind and solar energy technologies would significantly mitigate and alleviate issues associated with energy security, climate change, unemployment, etc. and help in reducing global CO2 emissions by more than 50% between now and 2050.

The impact of the renewable revolution has been felt in many global markets, but European nations and the US have been at the forefront, later joined by China. Although the incentives schemes for renewable energy in many markets have gradually become less generous, this has largely been offset by consistent declines in renewable energy technology and project costs, construction and service innovation, and the continuation of favorable regulatory frameworks that ensure renewables have priority access to the grid. Once a wind or solar plant is online it is basic common sense anyway to ensure that the power generated is given priority, as the fuel cost is zero.

Wind power and solar PV dominate global renewable investment (large hydropower, which is still a significant technology in a number of markets, is not considered truly renewable because of the potential environmental damage to the river networks). Global investments in renewable energies accounted for $282 billion in 2019, with wind and solar energies accounting for ~97% of non-hydro renewable investment in 2019. A total of ~$3 trillion is forecast to be invested across the next decade in renewable energy sources, with annual renewable energy investment exceeding ~$300 billion in 2030. Further cost reductions mean that both technologies will reach grid parity (a situation where it is as cheap to build a solar plant as it is a coal plant) in an increasing number of markets over the coming decade, further supporting the business case for investing in renewables.

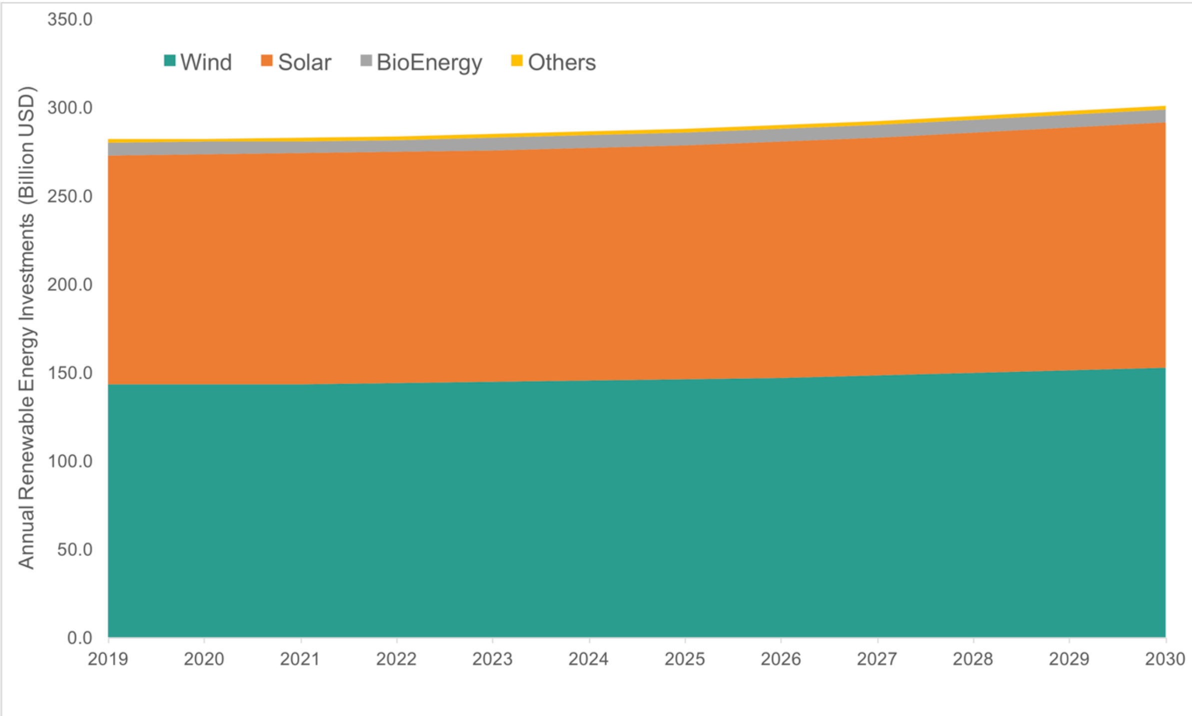
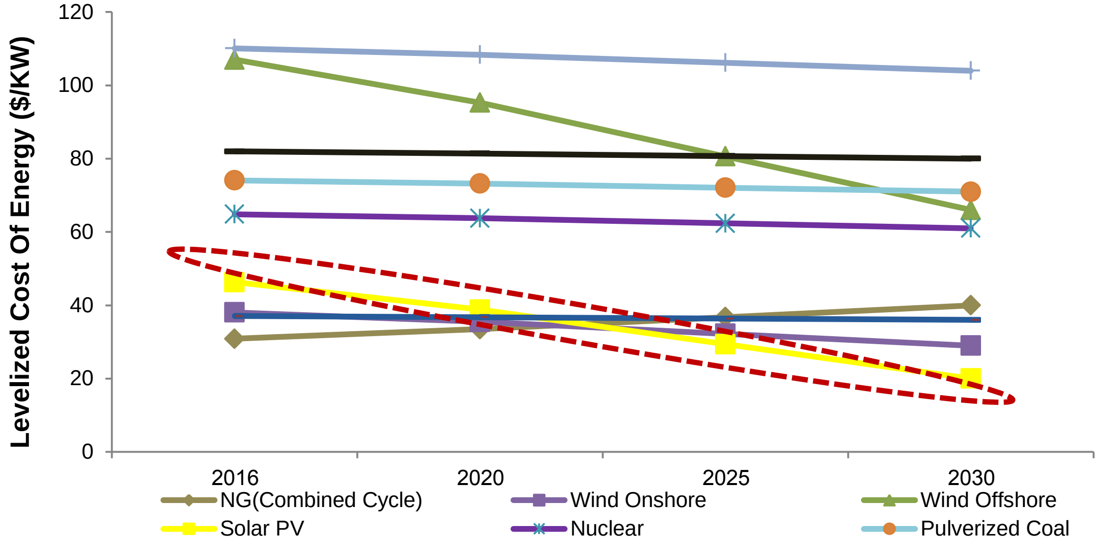


Figure: Annual Global Investments in Renewable Energies (Billion USD)

Continued Decline in Wind and Solar Technology and Project Costs

The decline in renewable energy project costs started around 2010, with solar PV leading the way. Solar module costs have declined by around 82% across the course of the decade (modules account between 35% and 45% of total project costs). Wind technology cost declines started later, but have also been substantial – the global average price per MW for an onshore wind has declined by 39% and offshore wind by 29% between 2010 and 2019.

Continued cost reductions are forecast for both wind and solar, through a combination of lower core technology costs (larger turbines and taller hub heights are a significant factor for wind projects); a reduction in total project costs (greater efficiencies in construction and commissioning), and lower servicing costs.



Israel Renewables Ecosystem

The growth engine behind renewables in Israel is the government's vision to utilize "natural gas or renewables only" for the production of energy by 2030. In order to realize this vision the government is putting major systems and regulations in place in order to completely replace the energy produced from coal with energy produced from solar sources. This transition is projected to produce a 6 fold increase in renewables and a 10 fold increase in energy storage capacity.

The four major drivers of the renewable energy market in Israel as stated in the Ministry of Energy's economic plan are: 1) the decreasing cost of solar technology 2) the global shift to electric vehicles 3) energy security 4) pollution regulations

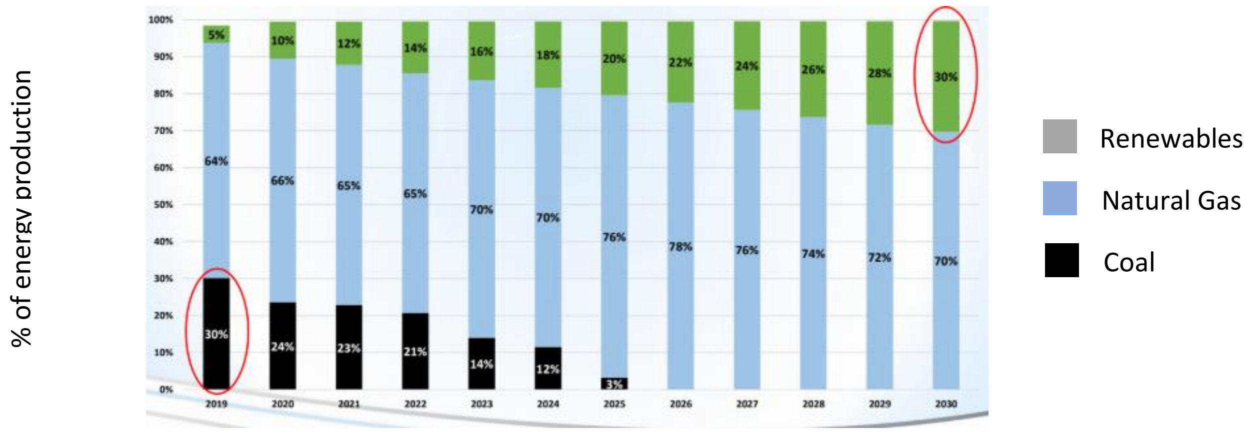
These trends propel Israel into a reality that requires a heavy transition to renewable energy sources and therefore promotes the need for energy storage solutions.

Israel is exceptional in its high population growth rate as well as its high electricity consumption. Today, solar power is almost exclusively the country's renewable energy source and this will be true through 2030.

In 2030 **Israel is positioned to be the world leader in solar energy dependency** at a staggering 26% of energy produced by the country. By 2030, during the noon hours, 80% of the electricity generated in Israel will come from solar sources and this solar energy will surpass consumption demands during certain hours of the day.

Israel's Energy Source Composition

Renewables Will Replace Coal over the Next 10 Years



Valuation Summary

The Company's valuation is based on the company's projects pipeline portfolio. These are projects that the company has released detailed information for, which is included in our analysis. We have added to the project value the amount of management fees that the company is entitled to receive. In addition, should the Company succeed in financially closing future projects that we consider to be eligible; it will be eligible for additional success fees that are not included in our valuation due to the preliminary stages in which the projects are currently at. In this regard, the Company reported in its annual report that the total revenues from management, initiation and development attributed to it in the past 12 months (ended at 31.03.2021) amounted to approximately NIS 78 million.

We conservatively estimate that some of these revenues will continue for at least the next 5 years (such as initiation and development fees, which we believe are likely to grow in light of project development). Some will last for 15-20 years (such as management fees), discounted revenues on their own amount to slightly more than NIS 380 million in addition to the value of the company's projects. In terms of expenses, Enlight has general and administrative expenses and sales and marketing expenses. We estimate the expenses reported in the company's financial statements, which are expected to rise at a constant rate of 2% per year to support its activities. As of this report's date of publication The Company's cash balance amounted to approximately NIS 1,195 million, including cash at the solo level, the securities portfolio, and the Company's share of cash in its subsidiaries. On the other hand, the company has loans and bonds in the amount of NIS 652 million. We considered all of the Company's recently refinanced actions and the company’s recent capital raising held in March 2021.

Future Asset Pricing – The company's development portfolio in the coming years is growing. **It is estimated at 2.8 GW of projects and another 1.4 GW of storage**. From the company's development portfolio, about 1.2 GW is defined as advanced development (plus about 520 MW of storage), which is expected to reach RTB (Ready to build) in the next 24 months. The mentioned development portfolio does not include the anticipated acquisition of a leading company in the US, which the company estimates will be completed in the second quarter of 2021. We add these assets under a certain probability of realization in light of the Company's activities in recent years, its experience, and its success in promoting and closing projects of extensive scope.

Appendices

Financial statements for Q1 2021

Non-Gaap Profit and Loss Report (in thousands of shekels)

2020	2020 - 1Q	2021 - 1Q	מיליוני ש"ח
349	77	88	הכנסות
(53)	(11)	(13)	עלות המכר
(92)	(22)	(24)	פחת והפחתות (1)
204	**44**	**51**	**רווח גולמי**
(29)	(7)	(8)	הוצאות תפעוליות
(9)	(2)	(2)	פחת והפחתות (1)
166	**35**	**41**	**רווח מפעולות רגילות**
-	(6)	(2)	הוצאות מימון (8)
(1)	(4)	(2)	הפרשי שער
(111)	(27)	(19)	הוצאות ריבית (3)
7	1	4	הכנסות מימון
61	**(1)**	**22**	**רווח לפני מס ולפני עמלות פירעון מוקדם**
(232)	-	-	עמלת פירעון מוקדם (9)
(171)	**(1)**	**22**	**רווח (הפסד) לפני מס**
267	**59**	**67**	**EBITDA (2) חברה**
(4)	(1)	(2)	תשלומי מיסים שוטפים
152	**31**	**46**	**FFO (4) חברה**

Source: Enlight's financial report, Q1 2021.

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