Enlight – Update Report

19.04.2023

Enlight presented results above the forecast for 2022 with revenues of $192 million and EBITDA of $130 million, a significant growth of approx. 90% compared to the previous year. The mature portfolio has increased to 4.5 GW which are expected to be connected by 2025. The company provided a revenue forecast of $290-300 million and a forecast and EBITDA of $188-198 million for 2023, an increase of approx. 50% compared to 2022. Price target is unchanged.

Stock Exchange
TASE

Symbol
ENLT

Sector
Technology

Sub-sector
Renewable Energy

Stock price target
NIS 86.3

Closing price
NIS 58.1

Market cap
NIS 6.87 Bn

No. of shares
117.6 Mn

Average Daily Trading Volume
30,927 stocks

Stock Performance (Since January 2023)
-18.9%

Enlight presents further growth in its operations in 2022 with electricity connection of projects in Spain, Sweden, and Israel. The company ended FY 2022 with revenues of approx. $192 million and with an EBITDA of approx. $130 million, a significant growth of approx. 90% compared to 2021. Enlight also expects revenues of approx. $290 million to $300 million in FY 2023 and EBITDA of approx. $188 million to $198 million.

Main points:

- A significant increase of the CO Bar project in Arizona, from 580 MW to 1,200 MW and another 824 MWh of storage.
- Strong financials with revenues of $192 million in 2022 and adjusted EBITDA of $130 million, raised $271 million in US IPO.
- Increasing the expectation for the rate of construction of projects in the medium term, from an annual rate of 1-1.2 GW per year to a rate of 1.5 GW per year starting from 2026 onwards.

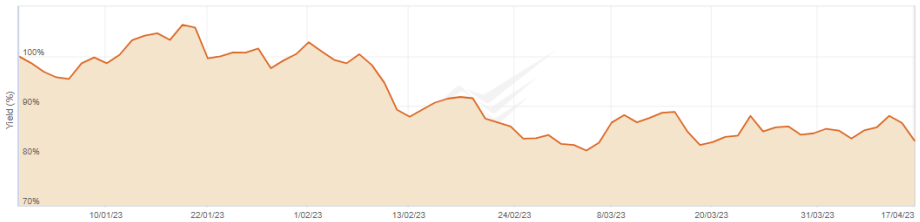
During the quarter, the company completed an IPO on the NASDAQ. Enlight is the first pure greenfield developer to be offered in the US and this is a significant strategic step for the company on the way to becoming one of the leading renewable players in the world.

In our estimation, the company is indeed expected to achieve these results considering the current rate of connecting the projects, in light of the potential that exists in its development pipeline and the geographical dispersion of its assets and according to the sources of energy (solar and wind). Let us recall in this context that the global growth potential is far from saturated. Renewable energy investments peaked at $350 billion in 2020, with solar and wind power accounting for $290 billion of the total.

Enlight continues to present good results that are the result of a systematic strategy in the target markets. The company controls the entire value chain (initiation, construction, and connection to the electricity grid). In addition, a lot of potential value lies in the issue of tax benefits in the American market (see the expansion in the report). These tax benefits are significant both for increasing project returns and for the need for lower equity.

In light of this, we are updating a general update of the progress of all the company's projects alongside updates of non-operating assets and liabilities at the solo level alongside macroeconomic updates including an update of discount rates. Price target is unchanged.

Year	Revenues ($M)	Operating profit ($M)
2022A	192	130
2023E	295	193



Lead Analyst **Dr. Tiran Rothman** Equity.Research@frost.com Tel.: +972-9-9502888

Significant events in the last quarter:

US

- APEX Solar is expected to connect to the grid in H1 2023.
- The Atrisco flagship project (360 MW plus 1200 MWh of storage) has begun construction and is expected to be connected in H1 2024
- A significant increase of the CO Bar project from 580 MW solar to 1200 MW solar and another 824 MWh of storage, which constitute one of the largest renewable projects in the US. The project is expected to begin construction in 2023 and be connected during FY 2025.
- The company increased the scope of the projects that completed the System impact study (connection cost and known timeline) by approx. 2 GW to a total of 8.4 GW

Europe

- The company continues to benefit from the significant demand for renewals throughout Europe.
- The construction of the Bjorn project (Sweden), one of the largest onshore wind farms in Europe, is progressing as planned with 26 turbines in operation and 52 turbines fully erected, full commercial operation in Q2 2023
- The company promotes the development of Gecama Solar, a project with 200 MW of solar power and another 250 MWh of storage. The project is an expansion of the existing Gecama wind project with a capacity of 329 MW. The integrated hybrid project is expected to produce one of the largest renewable projects in Europe

Israel

- Enlight began construction of Solar + Storage 2 project with a total capacity of 163 MW and 328 MWh of storage.
- The company expects to sell the electricity from the integrated storage solar projects through Corporate PPA and is in negotiations to sign such agreements.
- Genesis Wind, the largest renewable energy project in Israel with a total capacity of 207 MW, has completed the construction of all its wind turbines.
- The commissioning tests have started with the expected commercial commissioning date in H2 2023.
- Enlight signed an agreement with NewMed Energy to invest in renewable energy projects throughout the Middle East and North Africa.

Financial overview:

- Enlight ended 2022 with revenues of $192 million, up 88% on the year, and adjusted EBITDA of $130 million, up 96% on the year.
- In addition, the company generated additional electricity receipts of $18 million from projects defined as a financial asset. These electricity receipts constitute income from an economic point of view but are not recognized in the income line or the EBITDA in the accounting report.
- The company's record quarterly revenue of $61 million and adjusted EBITDA of $43 million grew by 74% and 99% in the past year respectively.
    - The company's revenues are well balanced between Western Europe, Central-Eastern Europe and Israel, with most of the revenues in Q4 2022 denominated in Euros.
- Enlight has 1.4 GW of mature projects and 1 GW of production + 1.7 GWh of storage under construction.
    - The portfolio grew by 14% to 4.5 GW of generation and 2.7 GWh of storage, which is expected to reach commercial operation by 2025.
- The company raised $271 million in a US IPO in February 2023 and has strong 2023 revenue and adjusted EBITDA forecast.
- The company's first project in the US is expected to connect to the network by H1 2023 and contribute to considerable revenues denominated in dollars.
- The company updated the medium-term project connection forecast to 1.5 GW per year in 2026 and beyond.

Enlight's areas of activities

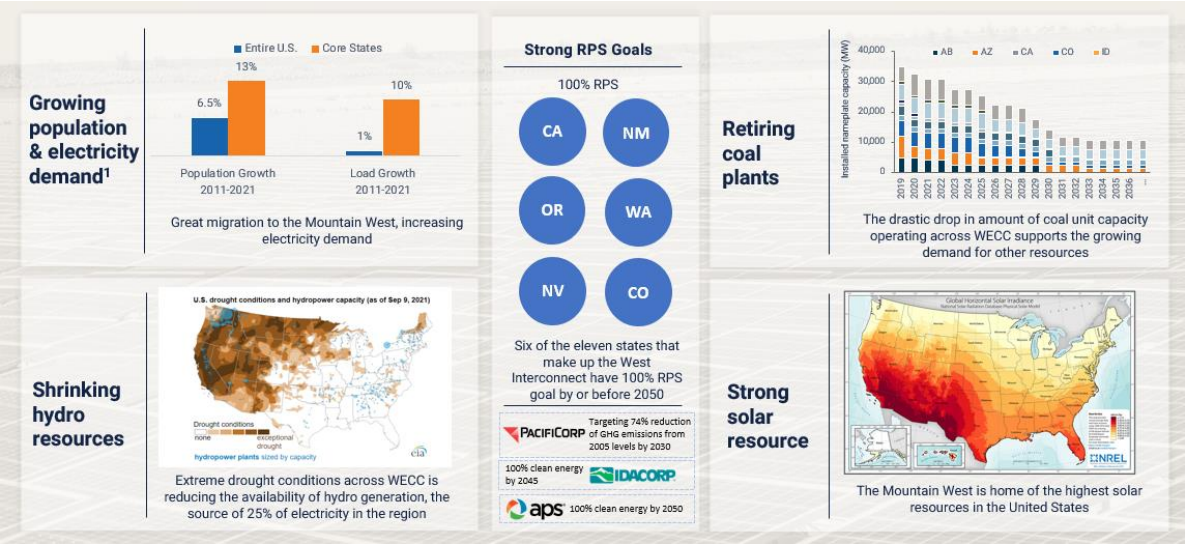
Enlight operates in three main territories: the USA, Europe and Israel. Below is a focused breakdown of each territory and Enlight's activities there in recent years and in the coming period.

The US renewable energy market

Enlight entered the American market as part of a development strategy that began a few years ago. The Clenera transaction positions Enlight in a good starting point in the western US as a leading player in terms of the number of projects and in terms of development capabilities and experience in the local market, when Clenera has a portfolio of approx. 21 GW, of which approx. 8 GW are energy storage. Clenera has a lot of experience in the western US and before the Enlight deal, it developed and established projects with a total capacity of 1.6 GW. Clenera has approx. 100 employees focused on bringing the company's large portfolio from the development stages to profit and increasing the company's existing pipeline in the US.

Examining the energy market in the western US, the opening data as well as the forecast for the coming years indicates three deep trends on the supply and demand side:

- Regulatory requirement to reduce polluting energy sources alongside a reduction in non-polluting sources such as water sources (hydro). Displayed below is the dramatic reduction in coal reactors and on the other hand the reduction in water sources in favor of energy production. These generate more demand for energy sources such as wind and solar.
- Regulation enables electricity connections to the interstate transmission system alongside significant tax benefits. These steps actually open the US market to an even more sophisticated market where there is more certainty for energy companies.
- Demand for energy is increasing with the pace of population development and the advancement of the modern lifestyle.



In 2022, the IRA law (Inflation Reduction Act) was passed in the UA, which increases the tax benefits for renewable energy projects. The law included several key sections:

- Fixing the ITC rate benefit at 30% of the establishment costs until 2023
- Applying the PTC mechanism to solar projects in a way that allows a choice between the ITC route and the PTC route
- Applying the ITC mechanism to stand alone storage projects
- Option to trade the tax benefits, eliminates a tax partner
- Providing an additional benefit of 10% for projects located in "Energy zones" or for projects that purchase local equipment

Applying the PTC mechanism is a game changer for Enlight. The PTC mechanism includes a tax credit worth $27 per megawatt hour, index-linked, for the first 10 years of the project's operation. This benefit was structured in a way that produces neutrality between the PTC track and the ITC track for a project located in a country with average solar radiation in the US. In light of the fact that Enlight operates mainly in the western US (65% of the company's portfolio is located in the western US) where the hours of sunshine and radiation Significantly higher than the average, the PTC benefit generates for Enlight a significant excess value estimated at an additional approx. USD 180 million per GW of solar. Given the expansion of the company's activities based on the existing portfolio, it is a very significant value potential for increasing the capitalized value of each project.

Enlight's differentiation in the US stems from the ability to grow at a fast rate and with high yields. About 50% of Enlight's portfolio has successfully completed the System Impact Study and achieved a high degree of certainty regarding obtaining a connection to the electricity grid, which is the main barrier in the development of projects in the US. This figure is expected to allow Enlight to grow at a high rate in the coming years.

The second aspect stems from the projects' returns. Enlight provides comprehensive information regarding its mature projects and from this information the profitability of the projects can be derived.

The non-leveraged yield of the mature projects in the US is around 9%, which allows the company to achieve a high double-digit yield even in the current interest rate environment.

Enlight's projects in the western US are characterized by long-term PPA certifications (20 years on average), which produces high certainty regarding the results of the projects.

The renewable energy market in Europe

The renewables market in Europe is expected to be particularly attractive in the coming years in light of the great demand for renewable energy and in light of an attractive price environment for renewable players. The demand for renewables stems from both regulatory motives and the energy crisis experienced by the continent. The supply of gas has decreased significantly in the past year due to the war in Ukraine and mainly due to the understanding among European government officials that it is necessary to reduce dependence on Russian gas, which creates even greater demand for renewable energy sources and energy independence in Europe.

The high gas prices caused a rise of hundreds of percent in electricity prices on the continent in the short term. In the long term, electricity prices are expected to remain relatively high in light of the mechanism for reducing carbon emissions that applies in the European Union and imposes excess taxation on the generation of electricity by polluting means. This environment is ideal for renewable players, who do not bear the burden of the polluting tax and benefit from the high price environment.

Enlight is well positioned in Europe with operations across 10 countries. Enlight entered the European market already in 2011 and has developed greenfield development capabilities in most of the active countries in Europe with high growth and it is expected to allow the company to benefit from the supportive environment in this market.

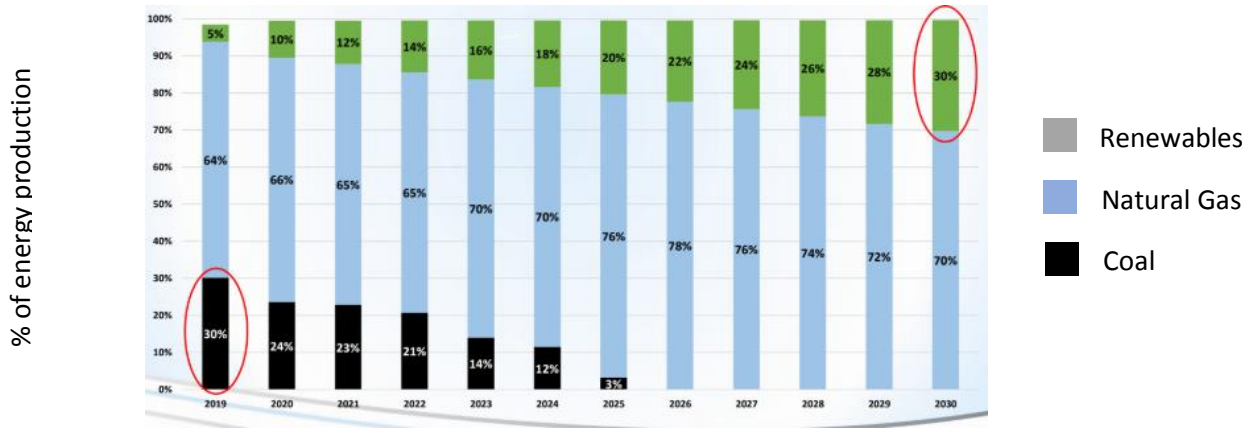
The renewable energy market in Israel

An engine behind the growth of renewable energy in Israel is the government's vision to use "natural gas or renewable energy only" for energy production by 2030. In order to realize this vision, the government is establishing central systems and regulations to completely replace the energy produced from coal with energy produced from solar sources. This transition is expected to produce a 6X increase in renewable energy production and a 10X increase in energy storage capacity.
The four main drivers of the renewable energy market in Israel as stated in the economic plan of the Ministry of Energy are: 1) a decrease in the costs of solar technology 2) the global transition to electric vehicles 3) energy security 4) pollution regulations.

These trends drive Israel to a reality that requires a massive transition to renewable energy sources and therefore promotes the need for energy storage solutions.
Israel is an exception in the high growth rate of the population, as well as in the high electricity consumption per capita. Today, solar energy is almost the country's only source of renewable energy and this will be true until 2030.
In 2030, Israel is expected to be a world leader in dependence on solar energy, about 30% of the energy produced by the country. By the year 2030, during afternoon hours, 80% of the electricity produced in Israel will come from solar sources. This solar energy will exceed the consumption requirements at certain times of the day, which are about 13 GW according to the goal of the Ministry of Energy in Israel.

Composition of Israel's energy sources

Renewable energy sources will replace coal over the next 10 years

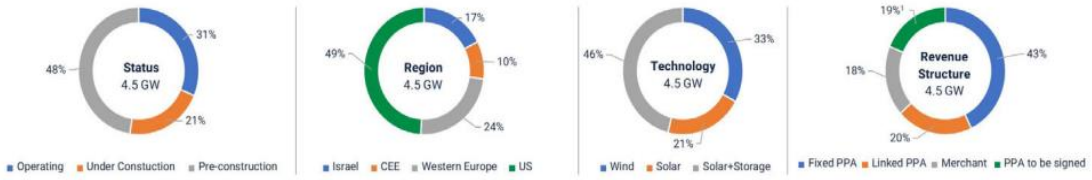


The development of the Israeli market in the field of renewable energy is based on a better adaptation to wind energy with many existing and future projects. In addition, in the economic aspect, there is significant windfall from the government along with long-term purchase power agreements (PPA) which are essentially similar to the developed market in the US. In our estimation, in the near future deregulation by the Israeli government will allow a freer market in economic agreements, which will also give Enlight a higher share of profits (mainly in light of its size and efficiency in the Israeli market) alongside higher certainty. Below we present the development of the Israeli market in the company's view:

	Past	Present	Future
Market conditions	• FIT market across technologies: set price for all renewable energy projects • Gas and coal dominant with very limited market for renewables	• FIT-auction market for solar: competitive auctions for PPA contracts • FIT market for wind: attractive PPAs for those who succeed	• Deregulated market: emergence of corporate PPAs • IEC PPAs remain an option through FIT-auctions
Profitability	• High FIT price designed to incentivize renewable energy development • High returns	• Increased competition drives down PPA prices and returns for standalone solar • Wind very attractive	• Price transparency • Higher PPA prices, and higher higher returns
Scale	• Small scale • Largely rooftop solar • Enlight's initial Israeli assets	• Medium scale market • Utility scale solar • Utility scale wind	• Large scale market • Utility scale / C&I wind and solar • Standalone storage

In summary, the company listed the total number of mature projects as of March 15, 2023, which is approx. 4.5 GW, in the following breakdown by region and status:

Breakdown of Mature Projects by project status, region, technology and contract status as of March 15, 2023



Executive Summary

Investment Thesis

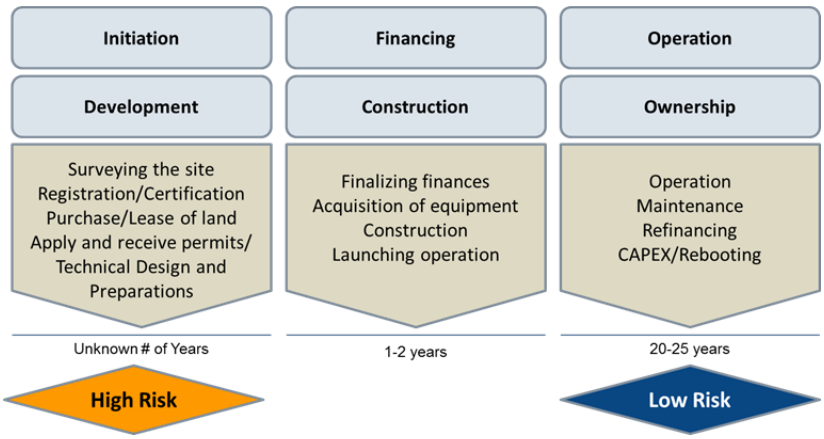
The field of renewable energy is on a growth spurt in most countries worldwide due to governmental and organizational decisions to reduce dependence on polluting fuels and the reduction in greenhouse gas emissions that are reflected, among other things, in the commitments of countries to meet renewable energy goals of the 2015 Paris Agreement.

The implementation of the governments' decisions translates into policies, regulations and licensing processes for companies that build facilities to produce electricity from renewable energy that are supposed to provide electricity for many years in a reliable, safe, and economical manner.

Enlight's management enjoys a positive reputation among local and global bodies of the value chain and the business environment in which it is located, as reflected in the list of institutional investors in Enlight, its financial partners, and equipment suppliers.

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

The company's goal is to continue to create value by leveraging its proven expertise and experience in identifying and discovering market opportunities and quickly evaluating and exploiting them, both in development from the initial initiation stages in Israel or by partnering with local players and joint development in international markets. The company's strategy is to choose and operate in markets that reveal a certain combination of factors, with a specific emphasis on supportive policies, regulations, appropriate natural resources, an opportunity to optimize development as well as a market size that supports future growth. In the international markets, the company works in partnership with local entities that provide advantages in the initiation and early development stages.



Below is the strategic landscape the company operates in:

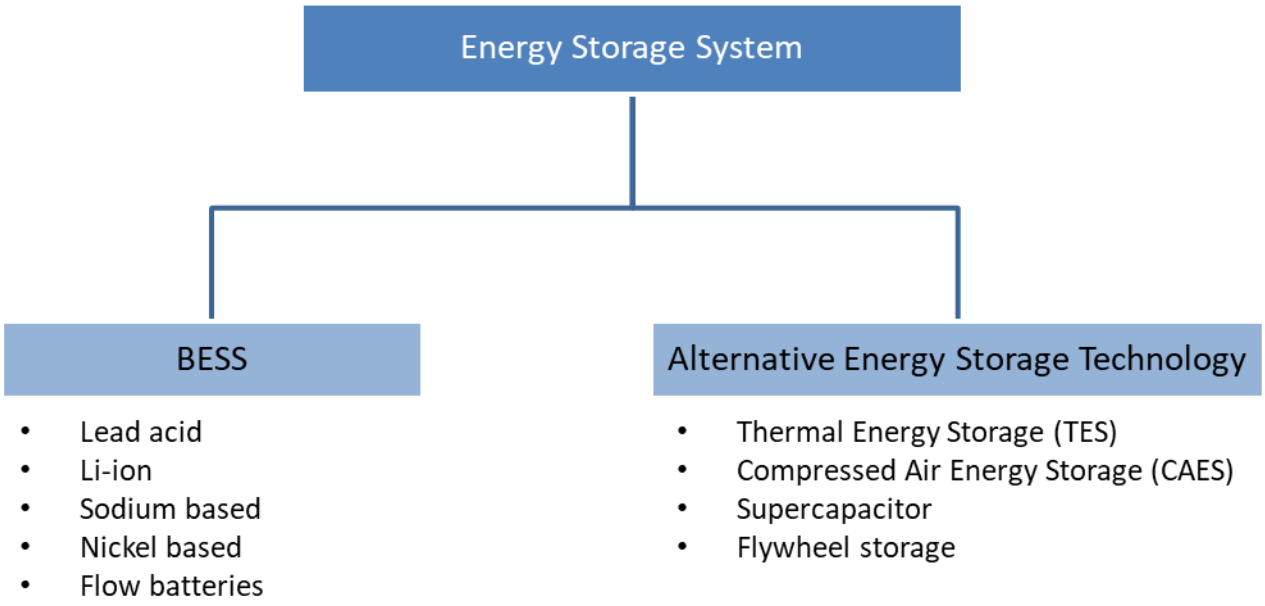
Source: Frost & Sullivan

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.

We would like to emphasize that the storage area that the company is entering is a large and growing market that represents additional potential for the company. In our estimation, the storage market is about 25,000 MW in 2020 with an estimated annual growth rate at the global level of about 32.9%. In a broad examination of the storage market, the main reliance today is on a combination of batteries, but we understand that Enlight is also expected to combine forces with other players in the market and also incorporate additional new technologies that will increase the yield on the projects at the various stages.

Global Energy Storage System breakdown 2020



Source: Frost and Sullivan

Introduction to the global renewable energy market

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.

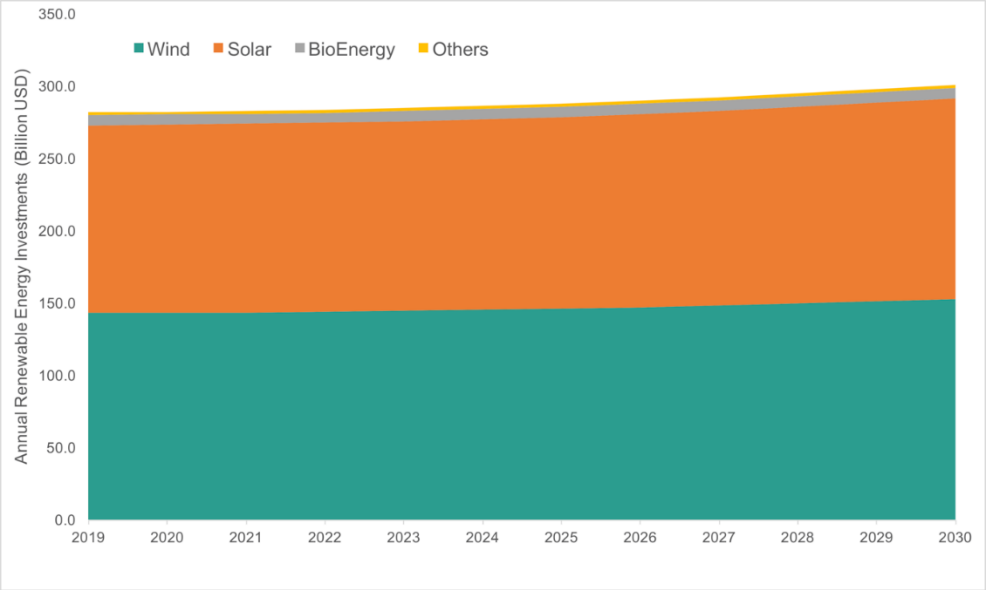


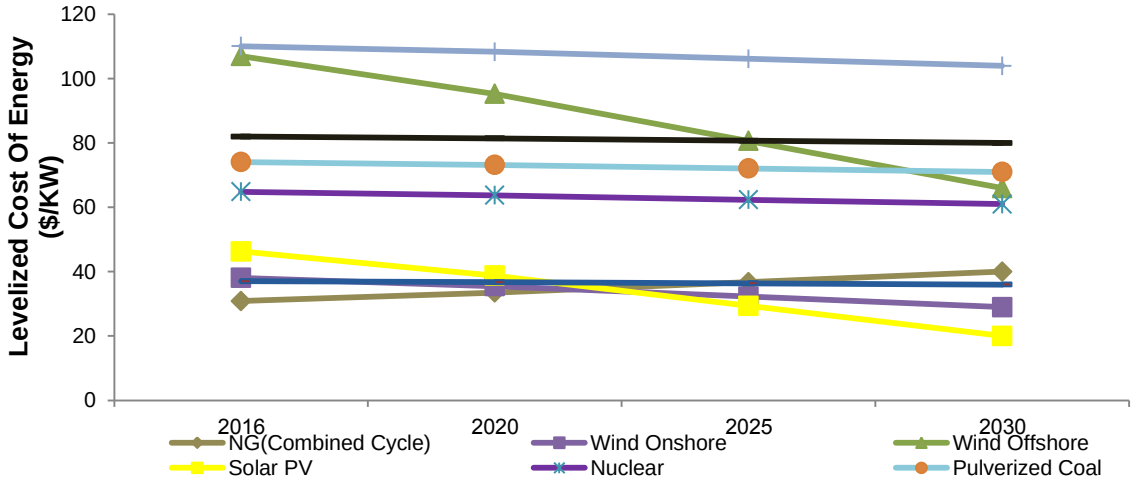
Figure: Annual Global Investments in Renewable Energies (Billion USD)

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 –

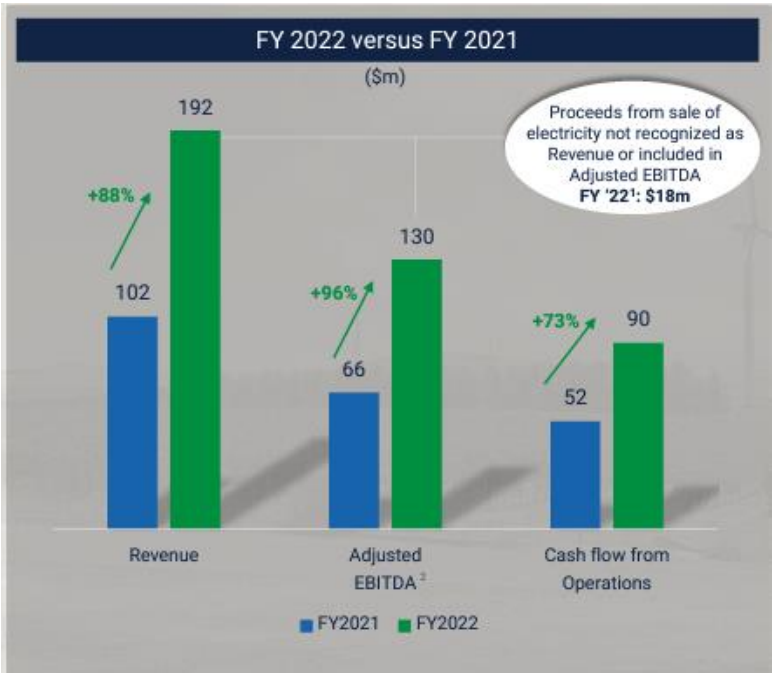
the global average price per MW for an onshore wind has declined by 39% and offshore wind by 29% between 2010 and 2019.

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

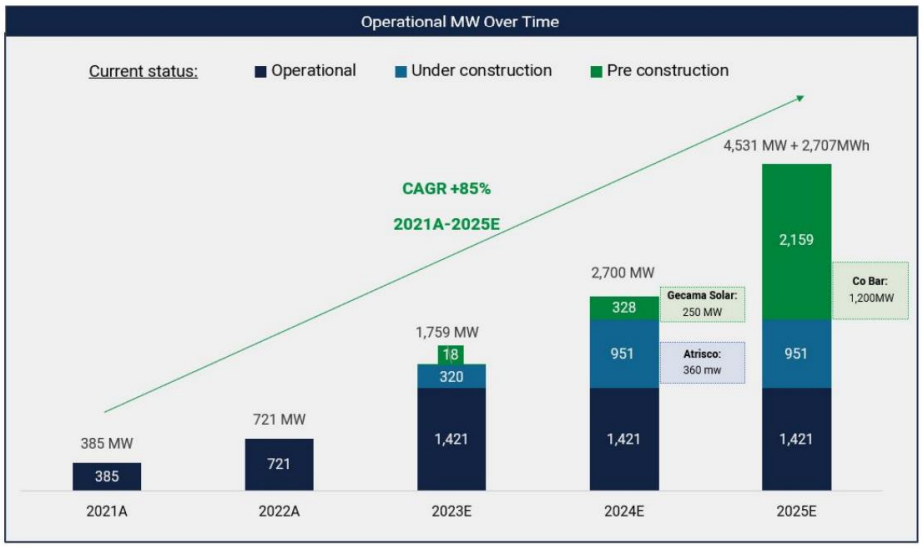


Valuation

Enlight presented revenues (non-GAAP) of approx. $192 million in 2022 compared to $102 million in the corresponding period. EBITDA is $130 million compared to $66 million in the corresponding period in 2021. Below we present the results of the activity from its financial statements.



The increase in activity is due to the introduction of new projects and their connection to electricity, such as the Bjorn project in Sweden. Concretely, for now the company is generating 1.4 GW and a total of projects in an existing status of facilities under construction and facilities with a purchase power agreement of a total of approx. 4.5 GW and another 2.7 GWh of energy storage as detailed below. Beyond that, the company's portfolio, including advanced development and development, is a total of 18.9 GW and another 20.6 GWh of energy storage.



We estimate the value of Enlight and see a first report and an expansion according to the capitalized value of each project and project in net capitalized flow after investment and in addition at the solo level an addition of management and initiation fees alongside equal capitalization of projects in development based on the probability of realization and neutralizing net debt at the solo level. Several parameters in the calculation of the value of the projects. Those connected and including those that up to two years from the date of writing the report are expected to be connected to the electricity grid (subject to the realization probabilities):

- Energy production capacity
- Number of years of activity and hours of sun or wind
- Evaluation of the decrease in the output of solar panels, degradation
- Price per MW subject to a power generation contract or other agreed rate such as PPA in the US
- Calculation of operating expenses
- Project financing at the project level (interest rates, years of activity, leverage)
- Tax and depreciation benefits
- The discount rate taken is uniform for all projects and also includes normative financing and leverage aspects

- We include identified projects that are under construction and those that will begin construction within the 12 months, as detailed below (from the company's report for 2022):

c) Projects under construction

Consolidated Projects ($ millions)*	Country	Generation Capacity (MW)	Storage Capacity (MWh)	Est. COD	Est. Total Project Cost	Capital Invested as of Dec. 31, 2022	Est. Equity Required (%)	Equity Invested as of Dec. 31, 2022	Est. Tax Equity (% of project cost)**	Est. First Full Year Revenue	Est. First Full Year EBITDA***
Apex Solar	United States	105	-	H1 2023	123-129	76	10%	-	90%	11-12	8
Atrisco Solar	United States	360	1,200	H1 2024	824-866	67	15%	67	55%	51-53	43-45
Genesis Wind	Israel	189	-	H2 2023	355	340	15%	53	N/A	51-53	40-42
Solar+Storage Cluster 1	Israel	89	155	H1 2024	125-131	107	25%	107	N/A	11	7
Solar+Storage Cluster 2	Israel	163	328	H2 2024	201-212	13	-	13	N/A	39-41	16-17
AC/DC	Hungary	26	-	H2 2023	23-24	16	30%	16	N/A	2	2
Total Consolidated		**932**	**1,683**		**1,651-1,717**	**619**		**256**		**165-172**	**116-121**
Unconsolidated at share	Israel	19	-	H1 2024	35-37	-	-	-	N/A	3	3
Total		**951**	**1,683**		**1,686-1,754**	**619**		**256**		**168-175**	**119-124**

d) Pre-Construction Projects (due to commence construction within 12 months of the Approval Date)

Major Projects ($ millions)*	Country	Generation Capacity (MW)	Storage Capacity (MWh)	Est. COD	Est. Total Project Cost	Capital Invested as of Dec. 31, 2022	Est. Equity Required (%)	Equity Invested as of Dec. 31, 2022	Est. Tax Equity (% of project cost)**	Est. First Full Year Revenue	Est. First Full Year EBITDA***
CoBar Complex	United States	1,200	824 (3.2 GWh additional potential)	2025	1,529-1,607	8	15%	8	48%	96-102	75-79
Rustic Hills 1&2	United States	256	-	H1 2025	284-298	3	15%	3	53%	16-17	13-14
Gecama Solar	Spain	250	200	H2 2024	234-246	1	50%	1	N/A	36-38	30-32

Other Projects ($ millions)*	MW Deployment			Storage Capacity (MWh)	Est. Total Project Cost	Capital Invested as of Dec. 31, 2022	Est. Equity Required (%)	Equity Invested as of Dec. 31, 2022	Est. Tax Equity (% of project cost)**	Est. First Full Year Revenue	Est. First Full Year EBITDA***
	2023	**2024**	**2025**								
United States	-	-	305	-	354-372	9	25%-30%	9	40%-45%	22-23	16-17
CEE	-	60	-	-	47-49	4	35%	4	N/A	8	7
Israel	18	-	38	-	69-73	3	25%	3	N/A	8-9	6
Total Consolidated	**18**	**60**	**343**	**-**	**470-494**	**16**	-	**16**	-	**38-40**	**29-30**
Unconsolidated at share	-	-	32	-	39-41	2	30%	2	N/A	6	5
Total	**18**	**60**	**375**	**-**	**509-535**	**18**	-	**18**	-	**44-46**	**33-35**
Total Pre-Construction	**2,159**	MW	**1,024**	MWh	**2,556-2,686**	**30**		**30**		**192-203**	**152-160**

In addition, the company has many projects in the development pipeline that are not in the construction process and have not yet passed the full milestones for electricity receipts. These projects are included in our assessment under low probability and are calculated as follows:

- Average net present value (NPV) per MW in the company's existing projects (estimated at approx. NIS 3 million for an average project)
- The total amount of MW in the company's development pipeline that have not yet been included in the valuation
- The average probability of the establishment of those projects

For extensive detail about the methodology and estimated value, see a previous report.

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For further inquiries, please contact our lead analyst:

Dr. Tiran Rothman **T:** +972 (0) 9 950 2888 **E:** equity.research@frost.com

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