

PRIME ENERGY LTD UPDATE REPORT

12.04.2022

Stock Exchange
TASESymbol
PRIMSector
TechnologySub-sector
CleantechStock price target
NIS 19.3Closing price
NIS 8.41Market cap
NIS 249.7 MnNo. of shares
29.7 MnAverage Daily
Trading Volume
43 stocksStock Performance
(since Jan. 1 2022)
-1.08%

Won Competitive Procedure No. 1; Signed a number of MoUs; Entered into a non-recourse project financing agreement with Harel; Revenue doubled in 2021; price target remains unchanged.

Prime Energy (TASE: PRIM) was established in Israel in 2013. The company initiates, develops, builds, operates, and maintains renewable energy projects in Israel and Europe. The company has proven experience in all stages of renewable energy projects. The company has developed the first solar system for dual-use in Israel. The company currently has projects with a volume of 1.23 GW (some of which are expected to be realized through storage) at various stages of development in Israel and Europe. The company strives to ensure the production of dual-use facilities on a significant scale in Israel and around the world in the coming years.

Key events since the last report:

- Winning competitive procedure No. 1 for the construction of dual use facilities that will be connected to high- and low-voltage – 475 MW(AC)
- Signing of an investment agreement with Agri-Light Energy Systems Ltd.
- A corporation held by the company entered into a non-recourse project financing agreement with Harel in the amount of up to NIS 60 million (out of a total financing of up to NIS 350 million)
- Revenue doubled to NIS 6.9 million in 2021 and gross profit turned positive.

Market and trends – Globally, investment in renewable energy hit a high of \$350 billion in 2020, with solar PV and wind power accounting for \$290 billion of the total. A decade of high investment is expected as the case for renewable energy becomes ever stronger.

The company's strategy is to increase its installed capacity, develop new partnerships in diverse global markets, and use advanced technology to improve its operating margins. In the coming quarter, we will examine the company's compliance with its annual targets and update our forecasts accordingly.

Year	Revenues* (M NIS)	EBITDA* (M NIS)	MW connected*
2021A	6.9	4.9	18
2022E	14.7	11.5	39.5
2023E	38.1	28.8	806.8
2024E	253.6	182.2	~950



*Connected by the end of the year; Expected annual revenues/EBITDA rate from projects (representing 100% holdings in projects assuming a full year of operation), not including management fees and additional income at the corporation level; including projects abroad.

Key events in Q4 2021 and the passing months:

- On November 10, according to the results of the competitive procedure published by the Electricity Authority, the company announced its winning of competitive procedure No. 1 for the construction of dual-use facilities that will be connected to high voltage and low voltage subject to the establishment guarantee. Subject to the provision of a guarantee, the company will be declared the winner of a capacity of 475 megawatts (AC) (712 megawatts (DC)). In our view, this win increases the certainty of the realization of the company's projects pipeline in Israel.
 - In accordance with the announcement of the Electricity Authority, the set rate is 17.05 agurot per kWh, linked to the consumer price index, and will be paid from the date of commercial operation of each system until June 15th, 2039.
 - The company's expected share in the projects to be established by virtue of the competitive procedure is 100%.
 - According to the company's estimate, the projects that will be realized as part of the competitive process are expected to generate revenues of approximately NIS 200 million per year.
- On October 19, the company announced an investment agreement with Agri-Light Energy Systems Ltd., which specializes in the field of agro-volts. Agrileight has developed a unique technology of mobile panels, in which an algorithm and IoT sensor manage the intensity of radiation required for growth and accordingly move the panels.
 - On January 6, 2022, the Chief Scientist of the Ministry of Energy, Dr. Gideon Friedman, announced that the Joint Judgment Committee of the Ministries of Energy and Agriculture has decided to accept Agrilite's request as part of submission of preliminary plans for dual-use renewable energy in agricultural areas (agro-voltaic) 12 pioneer facilities submitted by Agrilight. The pioneer facilities will have a total capacity of about 15 megawatts, with the tariff to be paid for the electricity supplied to the grid from the facilities being a fixed tariff of 20.91 ag / kWh, index-linked. Prime Energy has an option to participate in the ownership of these projects at a rate of 50%.
 - According to the company's estimate, the pioneer facilities are expected to generate income of approximately NIS 5.5 million per year (and a total of approximately NIS 126 million for 23 years).
- On December 30, a corporation held by the company entered into a non-recourse project financing agreement with Harel Insurance Company Ltd., as a representative for lenders from the Harel Group to provide a credit facility of up to NIS 60 million for financing start-up expenses and related costs. In connection with a photovoltaic power generation of 22.5 megawatts (DC) near Moshav Tlamim, which is expected to be connected to the electricity grid by virtue of Competitive Procedure No. 4 for ground systems. Phase A of the 8-megawatt facility in furrows is expected to connect to the grid during the third quarter of 2022.
- The company's revenues doubled from NIS 3.1 million in 2020 to NIS 6.9 million in 2021, and gross profit became positive in the amount of NIS 6,000. Total cash and cash equivalents increased from NIS 4.3 million In 2020 to NIS 18 million in 2021. The company issued bonds after the balance sheet date in the amount of approximately NIS 55 million.

For additional information about the company and the valuation please read our initiation [report](#).

Investment Thesis

Climate change is one of the most significant concerns facing governments worldwide, and achieving decarbonization in the power sector is the key to tackling the issue. While hydropower has been a major source of energy generation for decades, solar and wind energy have been gaining momentum, with the Paris Agreement of 2015 propelling the growth further. Globally, investment in renewable energy hit a high of \$350 billion in 2020, with solar PV and wind power accounting for \$290 billion of the total. A decade of high investment is expected as the case for renewable energy becomes ever stronger.

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.

Prime Energy (TASE: PRIM) has experience across all steps and stages of renewable energy projects. The company has initiated and erected PV projects in Israel with approx. 100 MW capacity, which exemplifies Prime Energy's high capabilities in developing projects from early stages. Overall, it has a projects portfolio with an operational capacity of approx. 1.23 GW under various stages of development, construction, and operation (Prime Energy's total accumulated share is approx. 1.16 GW).

Prime Energy's strategy is to increase its installed capacity by acquiring new facilities (at various initiation and development stages) and making bids on tenders and competitive procedures. In addition, the company seeks to develop new partnerships in diverse global markets to promote new projects worldwide (focusing on the United States and Europe) while combining its core capabilities in planning and development with local capabilities required by the local developers. As the company is tech-agnostic, it also examines the viability of investing in other projects besides PV, such as storage, wind, and more.

Lastly, the company plans to use advanced robotic solar panel cleaners to maximize energy production and operational efficiencies to improve its operating margins.

Prime Energy's value proposition to investors, partners, and suppliers include:

- Proven ability to develop complex and novel projects through all stages: initiation, financial closure, construction, and ongoing maintenance.
- Diversified projects pipeline, characterized by high holding rates.

- Experienced professional and management teams in the solar field.
- An experienced EPC and O&M arm (“Solar Town”).
- A lean and efficient organizational structure.
- A pioneer in the field of dual-use.

We forecast that by the end of 2023, Prime Energy's revenue from projects (representing 100% of holdings in projects) will reach NIS 38.1 million, and NIS 253.6 million by the end of 2024.

Overview on the company, an introduction to the global renewable energy market and further details on the valuation- are extensively detailed in our initiation of coverage [report](#).

Market Overview

Global renewables market

Climate change is one of the greatest concerns for governments worldwide, and achieving decarbonization in the power sector is the key to tackling the issue. While hydropower has been a major source of energy generation for decades, solar and wind energy have been gaining momentum, and the Paris agreement has propelled the growth further. Investment in renewable energy globally hit a high of \$350 billion in 2020, with solar PV and wind power accounting for \$290 billion of the total. A decade of high investment is forecasted as the business case for renewables becomes ever stronger.

Renewable Energy Market – Market Drivers & Restraints

Drivers	1–2 Years	3–4 Years	5–9 Years
Growing concern for tackling global climate change			
Declining solar and wind generation costs and project costs accelerate new deployments			
Declining battery Energy Storage Systems (ESS)costs			
Increased traction for hybrids in Variable Renewable Energy (VRE) offers horizontal integration and capacity building opportunities			
Need to replace aging power plants			
Increasing digitization across the renewable energy market			

Restraints	1–2 Years	3–4 Years	5–9 Years
Need to tackle grid integration issues			
Withdrawal of government subsidies and support could lower growth rates			
Increase in competitive intensity			

Impact Ratings:  =High,  =Medium,  =Low

AGRO-PHOTOVOLTAICS

A total of 2,200 APV plants are estimated to be under operation worldwide, with a total capacity of 2.8 GWp. Research shows southern Mediterranean region in Europe is the most suited in the region for APV installations.

France, Italy, Spain, and Germany are pioneers in APV installations in Europe. Japan, South Korea, China, France, and Massachusetts (USA), have introduced policies supporting APV implementation. In an attempt to boost agrivoltaics, the Israeli Ministry of Energy and Ministry of Agriculture have jointly invested over USD 1 million in six different studies researching efficiencies that can be attained by combining agriculture and Solar PV power generation.

France was the first country in the EU to introduce an APV financial support scheme in 2017. A total of 45 MWp has been tendered. Sun'Agri has been at the forefront in agrivoltaics in France – the 84 KW test project is located at Piolenc in South-Eastern France. Total Quadron and InVivo have announced a deal to deploy 500MW of agrivoltaic plants in France by 2025. Vines are the crops most affected by climate change, and Italy, France, and Spain have immense potential in agrivoltaics. Similarly, the implementation of APV systems in sweet pepper crops in the Negev desert in Israel resulted in increased yields and plant heights. Several research projects are ongoing in Southern Europe (Greece, Spain, and Italy) to assess the potential of APV in improving yields of various crops and animal farming.

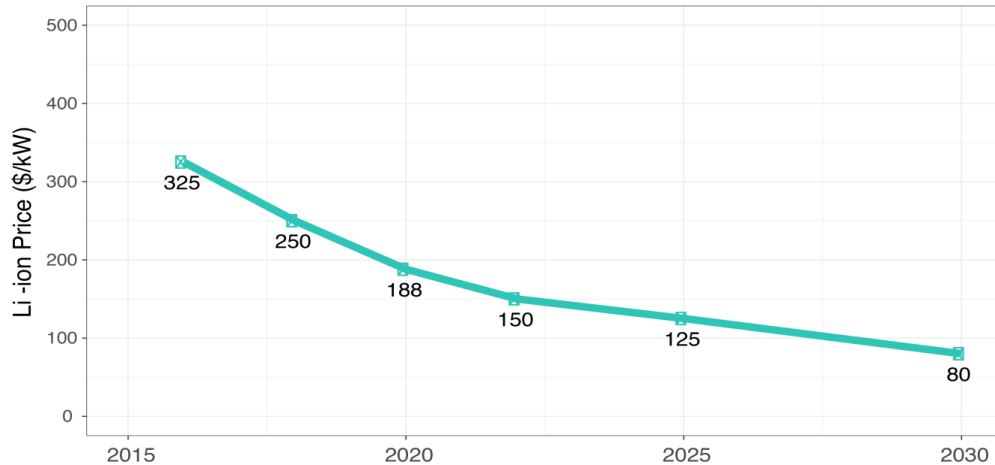
Romania is the seventh largest agricultural producer in the EU. Its main crops are Maize, wheat, rye, barley, and vegetables. With over 9.9 million hectares of permanent crops and arable land, it is a particularly suitable candidate for APV installations. There is increased interest in implementing advanced IoT in APV in Romania with research studies underway by the University of Agriculture and Veterinary Medicine, in collaboration with Solarvibes Berlin (coordinator of consortium and partner), Institute Fraunhofer for Reliability and Micro-integration IZM of Munich (partner)

In the USA, a study by Oregon State University found that converting just 1% of the USA's farmland into agrivoltaics would significantly boost the country's ability to meet the National Renewable Energy targets. The National Renewable Energy Laboratory (NREL) is now conducting an in-depth study on dual-use PV, including studying pollinator habitats across 30 sites in the country, the largest being Jack's Solar Garden in Boulder, Colorado, at 1.2 MW.

STORAGE SOLUTIONS

Improved regulatory frameworks, incentive programs, declining project costs, and auxiliary grid services revenue opportunities have contributed to market growth. Most investment for grid-based storage solutions has been for battery storage systems, specifically those based on lithium-ion, which have declined by 40% since 2016. These storage systems are either pure-hybrid systems – where a renewable energy source and a storage system are combined in the same project – or standalone projects connected to the wider grid.

Figure: Projected Battery Energy Storage Systems Costs per kWh, 2016 – 2030



Source: Frost & Sullivan analysis

Going forward, regulatory mandates and incentives for storage are likely to increase, further driving new investment. As the penetration of renewables moves ever higher, storage will play a pivotal role in ensuring grid stability and maximizing revenue opportunities from renewables – either through increased self-consumption to avoid high electricity costs and demand charges or through selling electricity back to the grid at times of peak consumption. System costs are also forecast to decline by a further 60% between 2020 and 2030. Higher market volumes will bring economies of scale, but there is still significant potential for further technological innovation.

ISRAEL RENEWABLES MARKET – OVERVIEW AND OUTLOOK

The reduction of carbon emissions and promoting renewable sources has been one of the primary goals of Israel's Ministry of Energy, in tandem with global goals, and the official target of renewable sources of energy by 2030 was increased to 30% from 17% in 2020. The target increment is combined with a commitment to phase out the use of coal for power generation by 2030. This measure is expected to decrease air pollution from the power sector by 93% and Green House Gas (GHG) emissions by 50%, according to Israel's Energy Minister. At an outlay of NIS 80 billion (USD 22 Billion), this plan aims to use solar installations to meet 80% of peak energy demand in Israel, with the forecast of 15GW of solar added in the next decade.

As of 2021, Israel is self-sufficient in terms of energy production. Nevertheless, the current 3 – 4% increase in the size of the installed power base is expected to be insufficient given the expected population growth from 9 million in 2019 to 13 million in 2030. The current installed capacity of 17.7GW (2019) will have to grow by 3.2x to 58.1 GW by 2030 to meet the growing demand and to meet renewable energy targets. Israel is committed to achieving its target of 30% of electricity production from renewable sources. Solar power is expected to contribute 90% and wind, biomass, and hydropower are expected to comprise the rest.

To support the transition to realize the 2030 vision, the government is putting major systems and regulations in place, including, among many, massive development of the electricity grid for the integration of solar energy, promoting significant investment in R&D to upgrade energy storage, and implementing tools for developing a stable electrical system capable of handling sharp changes in production scale. Israel's cumulative Installed capacity of solar PV is projected to grow at a steady pace from 4.7 in 2021 to 15.7 in 2030. Further, to enhance grid reliability, a total storage of 6.5 GW is estimated to be installed by 2030¹.

Yield can be maximized by installing floating PV on pumped storage facilities. Israel's first floating solar PV with a capacity of 480 KW began operating in 2020. Contracts for solar PV and storage capacity of 609 MW were awarded to seven bidders across 33 projects which are expected to deliver power to the Israeli grid by July 2023.

European Solar PV Market

The EU adopted the Renewable Energy Directive (RED II) in December 2018 to achieve a collective, binding target of 32% renewable energy by 2030. There is now a proposal to increase to 38 – 40%. Solar PV capacity

¹ https://www.gov.il/BlobFolder/rfp/shim_2030yaad/he/Files/Shimuah_yaad_2030n_work_n.pdf

witnessed 11% growth Y-o-Y during the pandemic in the region, with 18.2 GW installed. An average annual addition of 18.5 GW in the EU is projected by Frost & Sullivan based on the National Energy and Climate Plans (NECPs) for the next decade to meet 2030 EU targets. The NEXT Generation EU's economic recovery plan has earmarked up to 37% (~ EUR 27-30 billion) of funding for investment related to climate change.

The EU's Regional Development and Cohesion Policy outlines five areas of investment priorities of which a cleaner and greener Europe are the top two objectives, accounting for 65 – 85% of the European Regional Development Fund (ERDF) and Cohesion Fund between 2021 and 2027. A further 6% is dedicated to sustainable urban development fueling the market for renewables.

Given that 90% of Europe's rooftop space is unused, solar PV's potential to contribute to the renewable targets is considerably higher than other technologies. Total solar PV installed capacity in Europe is projected to grow from 155.4 MW in 2021 to 318.7 MW in 2030. The countries with the highest amount of installed capacity in 2020 are Germany (54.6 MW), Italy (21.3 MW), Spain (13.3 MW), the U.K. (13.9 MW), and France (10.9 MW). In 2030, Frost & Sullivan estimates the following capacities: Germany with 93.1 MW, France with 40 MW, Italy with 48.5 MW, the U.K. with 36 MW, and Spain with 35.2 MW.

The UK's legally binding net zero target for 2050 will require significant policy support. According to the Solar Trade Association of the UK, while the UK has demonstrated abilities to deploy up to 4 GW per annum, there are significant difficulties to contend with both from a regulatory and operational perspective. Frost & Sullivan's conservative estimate is at 2.2 GW per annum – still a considerable increase. The EU proposes introducing the 'Fit for 55' package in June 2021, wherein GHG emission reduction targets are proposed to increase to 55.0% from 40.0%. It further aims to simplify administrative procedures for utility-scale PV by introducing universal guidelines for the region and scrapping construction permits for rooftop PV installations. Incentivizing C&I PV installations is also on the agenda. They have also established a EUR 59 billion annual grid modernization package, including a focus on digitalization and cybersecurity. The proposed 'renovation wave' scheme aims at renovating 35 million buildings to reduce emissions by 60% by 2030.

ITALY

Italy aims to harness 55.0% of its total electricity demand from solar energy by 2030. Solar power is gaining share as a percentage of total renewable installed capacity in a market that had been dominated by hydropower in the past. With its current solar PV installed capacity of 21.3 GW, an added capacity of 31 GW is expected over the next decade with an annual capacity addition of at least 2.7 GW. Italy is one of the two largest solar power markets in Europe. Its total solar PV installed capacity is projected to grow from 24 MW in 2021 to 48.5 MW in 2030. Key regions within Italy are Apulia, Sardinia, Lombardy, Veneto, and Emilia-Romagna. 35.0% of capacity additions were through projects of 1MW or higher.

ROMANIA

Romania aims for an installed capacity of 5.1 GW in solar PV by 2030, which is more than double the current installed capacity of 1.4 GW. It is believed that the target doesn't truly reflect its actual potential. To achieve its target of 3.7 GW in additional PV installed capacity, Romania is set to actively promote residential, industrial, and agricultural prosumers to adopt renewable energy sources. Romania also plans to establish solar parks in less productive lands.

With an irradiance level between 1200-1250 KWh/m², the best places for solar power generation are the Dobrogea region, Black Sea Coast, and Danube Delta. Other regions that can be explored are Romanian Plains, West Plains, Banat Plains, Transylvanian Region, and Moldovian Regions.

Its Law No. 184/2018 allows prosumers with an installed capacity of not more than 27KW to sell electricity to the grid and not pay excise duties on the energy consumed or sold to encourage renewable energy production and consumption and promote the concept of prosumers.

USA

Falling prices and supportive policies like Tax credits have led to the rapid growth of the solar industry in the USA. About 19.2 GW of additional PV capacity was added in 2020, making it the largest contributor to total electricity capacity additions in the year. Solar PV will continue to be an attractive renewable option for the US in the coming decade. Frost & Sullivan expects that a combination of lower project costs, renewable mandates, and corporate PPAs will drive new investment. Annual installations are forecast to increase from 16.2GW in 2020 to 21.9GW in 2030. The cumulative solar PV installed capacity is expected to increase from 93 GW in 2020 to 287.1 GW in 2030.

Appendix #.1: About Frost & Sullivan

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