

Enlight Renewable Energy Ltd

3Q23 Takeaways: Adapting and evolving. Returns keep responding to rates

Reiterate Rating: BUY | PO: 19.50 USD | Price: 15.34 USD

A welcome in-line print in cleantech. Guidance unchanged

Enlight (ENLT) reported 3Q23 results in line with expectations. Adj. EBITDA of \$47mm compares with street at \$44mm and our estimate at \$45mm. With project startups in line with expectations in 3Q/4Q, ENLT is reaffirming guidance for \$188-198mm in Adj EBITDA implying \$50mm in 4Q at the midpoint. We leave estimates unchanged but note this update is in line with our modeled expectations (BofA est \$57mm in 4Q). Notable updates in 3Q include access to capital, project queues and evolution of returns.

Atrisco tax equity commitment finalized. Positive signal

ENLT has finalized commitments for tax equity financing for the financing portion of project Atrisco, a 360MWdc solar + 1.2GWhr battery project and expects to recapture >\$300mm in cash to its balance sheet with close. Note, this is somewhat of a unique setup where ENLT has funded construction at Atrisco on balance sheet, and as such has lined up long term financial commitments later in process. Against persistent fears on tax equity availability and a thin market for 2024 COD's we take this as a positive sign of ENLT's access to capital. Note, COD of the storage portion of Atrisco is now expected in 4Q24, modestly trailing the solar portion (3Q24) as ENLT's domestic supplier is facing delays. Our follow ups suggest the company is evaluating both domestic and import suppliers, the latter which are still steeply cutting prices given oversupply.

CoBar Cluster delayed to 2026 driven by APS cluster study

The one downside of the print is an announcement of delays at ENLT's largest cluster project, the CoBar Complex (1.2GW solar / 824MWhr storage); note the latter has upside to 4GWhr. COD is now expected in H2 2026, a delay of about a year. Critically, this is purely a function of queue reform changes implemented by Arizona Public Service (APS) that move to a "first ready, first served" cluster study model mirroring FERC Order 2023. While CoBar is in late-stage development with land, permit, offtake and system studies secured, lack of final facility study will cause allocation to a lower priority cluster (vs prior "serial" review). Note, this is a relatively indiscriminate action, underlined by the fact that APS is an offtaker in CoBar; thus this actions actually delays its own generation needs. While it is unlikely that ENLT can get around this headwind, the company is readily infilling with phase 2 of Atrisco, "Quail Ranch", (120MW / 400MWhr battery) and the previously announced Roadrunner project (294MW / 940MWh) due in 2H 2025 still.

Returns continue to respond to rates. Reiterate Buy.

Perhaps most importantly, ENLT is continuing to demonstrate the resilience of its model with 1.8GW of renegotiated PPA's in quarter and unlevered returns it suggests are now 10% on average for its 2024-26 project queue (+80bps QoQ). Note, ENLT operates in a physical power market in the West with real generation needs and has long-standing relationships with local utilities via PURPA. Watch for possible asset monetization to utilities as another avenue to accelerate value from here. Despite the noise on returns not keeping pace we see quite the opposite as ENLT has multiple avenues to match higher financing costs and release cash to the balance sheet as needed. Leading levels of disclosure leaves limited guesswork and keep us confident. Reiterate Buy, PO \$19.50

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Equity

Julien Dumoulin-Smith
Research Analyst
BofA
julien.dumoulin-smith@bofa.com

Stock Data

Price (NAS / TLV)	15.34 USD / 57.20 ILS
Price Objective	19.50 USD / 70.98 ILS
Date Established	17-Nov-2023 / 17-Nov-2023
Investment Opinion	C-1-9 / B-1-9
52-Week Range	12.11 USD - 29.70 USD
Market Value (mn)	1,808 USD
Average Daily Value	1.27 USD
Shares Outstanding (mn)	117.9 / 117.9
BofA Ticker / Exchange	ENLT / NAS
BofA Ticker / Exchange	XENLF / TLV
Bloomberg / Reuters	ENLT US / ENLT.OQ
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA

COD – Commercial Operation Date

MW – Megawatt

MWhr – Megawatt hour

PPA – Power Purchase Agreement

FERC – Federal Energy Regulatory Commission

PURPA – Public Utility Regulatory Policies Act of 1978

Price objective basis & risk

Enlight Renewable Energy Ltd (ENLT / XENLF)

We arrive at our \$19.50 (ILS 72.91) /share price objective in three pieces.

(1) Value for the operating business (OpCo) which is comprised of assets producing energy today and those that are in construction or pre-construction phases that are targeting an operational startup in the next 24 months. We benchmark these cash flows on a sliding scale from 8% to 8.5% based on the relative execution risk with the low end of the range applied to currently producing assets.

(2) Value for future growth generated in the development company (DevCo). We benchmark value created as the DCF of cash flows from of future projects immediately before their construction benchmarked at a 9% discount rate which is a cushion above the current cost of capital. We discount value created in a future year to current using a 10% discount rate and apply an 10x terminal value multiple on our 2030E NPV.

(3) We net off any payment streams that sit at the parent level at a 10% discount rate including overhead, tax, and corporate debt schedule. We add in a current value of cash as well.

Downside risks: (1) Risks of project delays (2) Rising rates and inability to pass through these costs into pricing (3) Competition and (4) Risks to regulatory delay including interconnection (5) Exposure to merchant power prices.

Upside risks: (1) Accelerated growth to volumes (2) Improvements in the regulatory backdrop (3) Exposure to elevated power pricing.

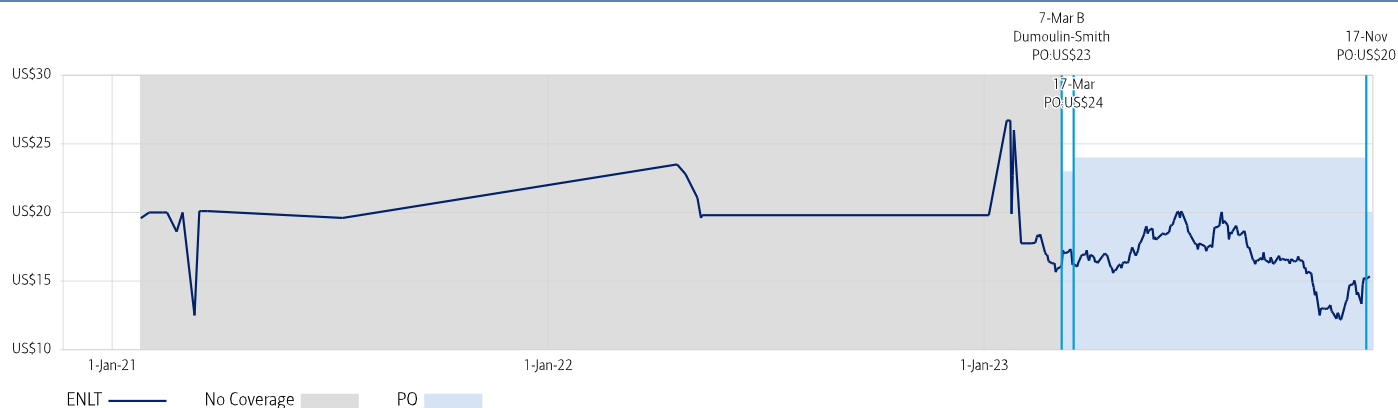
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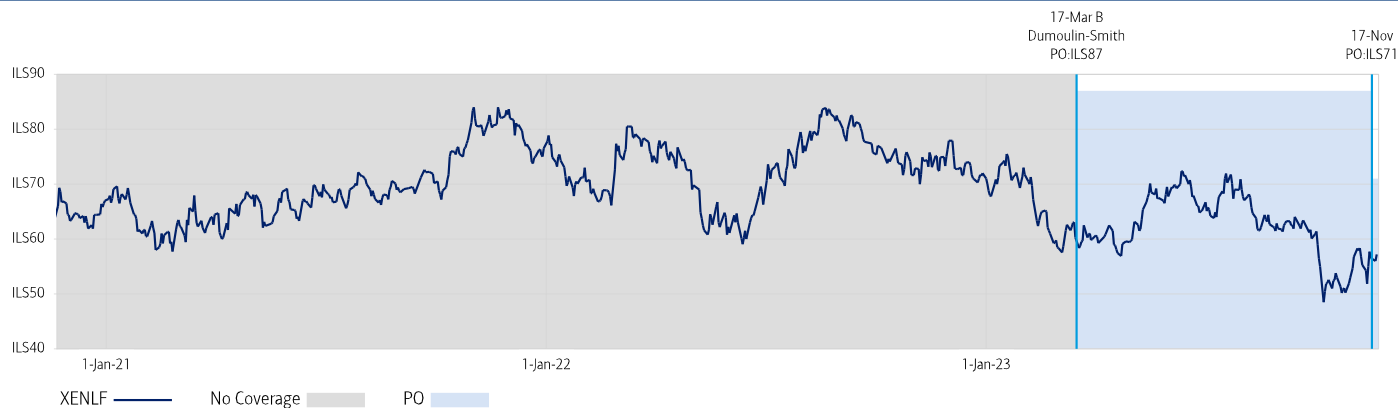
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Enlight Renewable (ENLT) Price Chart



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Enlight (XENLF) Price Chart



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Equity Investment Rating Distribution: Alternative Energy Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	12	70.59%	Buy	10	83.33%
Hold	3	17.65%	Hold	2	66.67%
Sell	2	11.76%	Sell	1	50.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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