

SolarEdge Technologies

All eyes on EU inventory levels – reiterate Underperform

Reiterate Rating: UNDERPERFORM | PO: 57.00 USD | Price: 68.00 USD

European woes set to continue with recovery still far off

We reiterate Underperform on shares of SolarEdge (SEDG) heading into 4Q earnings. We remain concerned amid a challenged backdrop for power electronics as bloated channel inventory levels pressure sell-through volumes. Europe continues to be particularly affected, and recent data points suggest limited visibility to a recovery in the near-term. On the last earnings call, mgmt indicated while sell-through volumes declined 22% sequentially in Europe, underlying demand remained strong. We view the backdrop as still challenged from a channel inventory perspective, and consequentially expect this to weigh on shares in the interim. Mgmt's recent restructuring announcement also is a cautious signal. While restructuring cost savings and 45x tax credits should offer a boost to margins in 2024, though not enough to warrant a more constructive outlook.

4Q Preview: Expect in-line quarter, but 1H24 challenged

We forecast 4Q23 revenue of \$324Mn, which is in line with consensus and is at the midpoint of guidance of \$300-350Mn. We look for 4Q23 Solar revenue of \$308Mn on shipments of 1.49 gigawatts (GW) vs consensus of \$290Mn on 1.64GW. Our 4Q23 gross margin forecast sits at the high-end of mgmt.'s guidance for 5-8% as we credit SEDG with the full 11c/watt 45x tax credit on US manufactured inverters following favorable treasury guidance. We are well-below consensus for 1H24 as we remain cautious on volumes considering the backdrop. We are 13%/27% below consensus for revenue in 1Q24/2Q24 at \$336Mn/\$363Mn. For shipments, we are 20%/29% below consensus for 1Q24/2Q24 at 1.46G/1.61GW.

Closing in on DCF, but still expensive on relative value

Our updated PO moves down slightly to \$57 following our latest mark-to-market (MtM) and estimate recalibration. A key change in our estimates is the inclusion of 45x tax credit benefits in earnings. We did not previously include these in our forecast. At current levels, shares sit ~1% above our DCF. Still, relative to peers, shares appear expensive especially considering the limited visibility into a recovery in shipments and profitability. We apply a 12.5x EV/EBITDA multiple on 2024E, which is 2.0x above peers, and a 9.0x multiple on 2025E, which is in line with peers. Importantly, while our estimates are increased from the inclusion of 45x credits, we value SEDG EBITDA excluding these credits and instead roll them into our valuation on an NPV basis.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.76	5.92	4.39	1.43	5.31
GAAP EPS	3.08	1.61	0.20	(0.98)	2.89
EPS Change (YoY)	14.4%	24.4%	-25.8%	-67.4%	271.3%
Consensus EPS (Bloomberg)			3.74	0.88	5.39
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	14.3x	11.5x	15.5x	47.6x	12.8x
GAAP P/E	22.1x	42.2x	340.0x	NM	23.5x
EV / EBITDA*	11.7x	8.7x	11.9x	34.9x	10.0x
Free Cash Flow Yield*	1.6%	-3.5%	3.9%	11.2%	8.5%

* For full definitions of *IQmethod*SM measures, see page 12.

05 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	58.00	57.00
2023E Rev (m)	2,990.2	2,984.6
2024E Rev (m)	1,975.8	1,938.1
2025E Rev (m)	2,319.4	2,284.3
2023E EPS	4.04	4.39
2024E EPS	-0.20	1.43
2025E EPS	3.30	5.31

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Stock Data

Price	68.00 USD
Price Objective	57.00 USD
Date Established	5-Feb-2024
Investment Opinion	C-3-9
52-Week Range	63.25 USD - 345.80 USD
Mrkt Val (mn) / Shares Out (mn)	3,990 USD / 58.7
Free Float	99.0%
Average Daily Value (mn)	180.04 USD
BofA Ticker / Exchange	SEDG / NAS
Bloomberg / Reuters	SEDG US / SEDG.OQ
ROE (2023E)	11.7%
Net Dbt to Eqty (Dec-2022A)	-36.0%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 05 February 2024 06:30AM EST

iQprofileSM SolarEdge Technologies

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	13.1%	7.7%	4.6%	0.7%	8.1%
Return on Equity	22.8%	20.1%	11.7%	3.7%	12.8%
Operating Margin	82.9%	86.0%	82.8%	76.4%	79.0%
Free Cash Flow	65	(138)	156	447	340

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	0.8x	0.1x	1.3x	7.2x	1.6x
Asset Replacement Ratio	5.1x	3.4x	2.9x	2.3x	1.9x
Tax Rate	15.0%	50.2%	114.7%	41.7%	6.1%
Net Debt-to-Equity Ratio	-40.5%	-36.0%	-40.1%	-58.6%	-64.4%
Interest Cover	16.9x	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,964	3,110	2,985	1,938	2,284
% Change	34.6%	58.4%	-4.0%	-35.1%	17.9%
Gross Profit	652	494	609	329	570
% Change	35.2%	-24.2%	23.3%	-46.0%	73.4%
EBITDA	365	491	357	122	426
% Change	45.8%	34.5%	-27.3%	-65.8%	249.3%
Net Interest & Other Income	(20)	3	19	0	0
Net Income (Adjusted)	273	351	263	87	324
% Change	21.5%	28.8%	-25.1%	-67.1%	273.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	188	83	(7)	(58)	172
Depreciation & Amortization	29	50	61	77	91
Change in Working Capital	0	0	95	512	99
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(4)	(101)	181	91	153
Capital Expenditure	(149)	(169)	(175)	(175)	(175)
Free Cash Flow	65	-138	156	447	340
% Change	-32.3%	NM	NM	186.7%	-23.9%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(16)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	530	783	939	1,386	1,726
Trade Receivables	456	905	899	531	469
Other Current Assets	725	1,211	1,085	759	686
Property, Plant & Equipment	410	544	658	756	840
Other Non-Current Assets	770	822	822	822	822
Total Assets	2,892	4,266	4,403	4,254	4,545
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	525	890	853	671	635
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,057	1,200	1,209	1,218	1,228
Total Liabilities	1,582	2,090	2,062	1,889	1,863
Total Equity	1,310	2,176	2,342	2,365	2,681
Total Equity & Liabilities	2,892	4,266	4,403	4,254	4,545

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Alternative Energy

Company Description

Founded in 2006, SolarEdge Technologies (SEDG) is a leading global power electronics company headquartered in Israel. SEDG designs and sells semiconductor-based DC optimized inverter and battery systems - comprising of DC optimizers to regulate output at module level, a string inverter to convert DC electricity to AC, and a DC-coupled battery to store electricity. SEDG sells its products to solar installers, EPCs, and distributors globally with largest focus on North America and Europe.

Investment Rationale

We are Underperform rated on SolarEdge Technologies (SEDG) given lack of visibility in the core earnings potential of the model after demand trends have decelerated in rooftop solar. We see limited line of sight to when and just how much recovery occurs in key end markets with risks of weaker fixed operating leverage driving significant revision potential on future estimates.

Stock Data

Average Daily Volume 2,647,703

Quarterly Earnings Estimates

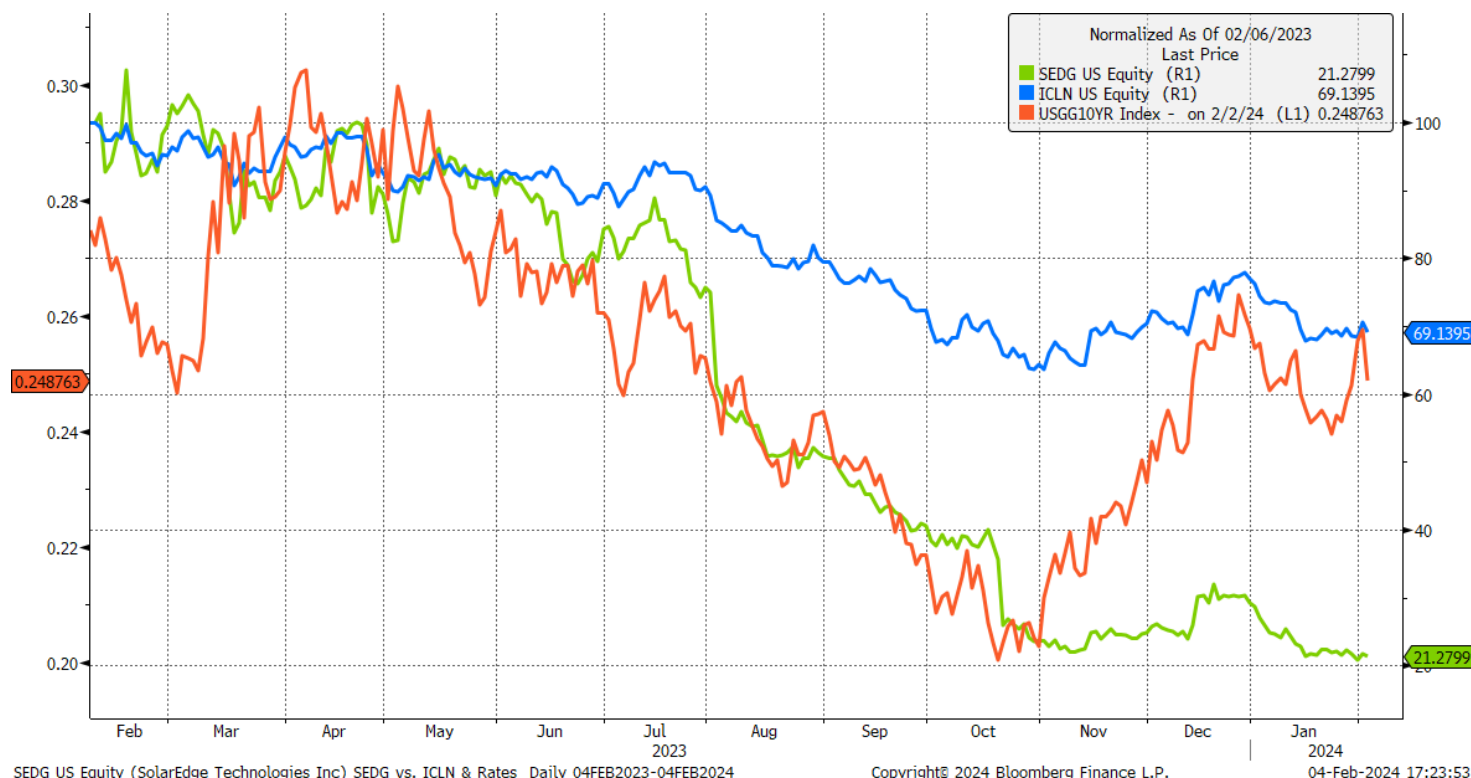
	2022	2023
Q1	NAA	2.96A
Q2	NAA	2.66A
Q3	NAA	-0.37A
Q4	NAA	-0.92E

How to frame shares from here?

The outlook for SEDG (and peer Enphase Energy for that matter) remains challenged. We believe the effects of bloated channel inventory levels may still not be fully appreciated by investors. We continue to see clear risk to estimates seeing further cautious revisions across 2024 into 2025. Recent data points from Europe in particular suggest a recovery may be a way off, as the largest solar manufacturing companies continue to lobby for regulatory intervention against a flood of Chinese panel imports. While expected, we view SEDG's decision to reduce its manufacturing footprint and workforce as another cautious signal amid the challenged backdrop. We believe the next two quarters will be pivotal for the stock, but do not expect a recovery in the near term. Instead, look for a muted outlook to pressure shares pending a full right-sizing in channel inventory levels.

Exhibit 1: SEDG price performance vs ICLN clean energy ETF and UST 10Yr rates (inverse)

Meaningful underperformance over the last year vs both peers and rates – see 2024 as similarly challenged amid channel inventory concerns



Source: Bloomberg

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Title: Subtitle

[SolarEdge Technologies: Too soon to call the bottom: looking at cadence of 2024 recovery outlook](#)

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[SolarEdge Technologies: Valuation looking more compelling but can't ignore the outstanding risks](#)

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28 September 2023
16 August 2023



Calibrating estimates to include 45x credit benefits

We now include Inflation Reduction Act (IRA) tax credit benefits in our estimates for SEDG consistent with peers. In 4Q23, we estimate the uplift to gross margin to be ~\$7Mn or ~220bps. As volumes ramp, we look for 45x credits to provide ~500bps of positive impact to gross margin beginning in the back half of 2024, consistent with mgmt. expectations. Our forecast contemplates a muted recovery in shipments through the first half of 2024 before achieving mgmt.'s expected range of \$600-700Mn in annual revenue by 3Q24. We do not view this as punitive considering the ongoing inventory challenges across the space paired with limited visibility into an ultimate recovery. On the margin we are more constructive on the outlook North America, where we believe the situation is further along than in Europe. Following a year where we forecast a 11% decline in North American volumes in 2023, we expect only slightly growth in 2024 of less than 1%. In contrast, we forecast 54% growth in European volumes for 2024 followed by a 53% decline in 2024.

Exhibit 2: SEDG earnings dashboard

Updating estimates to include IRA tax credit benefits consistent with peers

	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24	3Q24	4Q24	2024	2025
Key Metrics												
Shipments & ASPs												
Inverter Shipments (MWdc)	10,490.0	3,608.0	4,324.0	3,796.0	1,496.6	13,274.6	1,467.3	1,608.9	2,918.0	3,096.1	9,090.4	12,052.3
Resi	5,300.0	1,529.0	1,725.0	1,301.0	613.7	5,168.7	553.0	638.9	989.6	1,089.4	3,270.9	4,226.7
Commercial	5,190.0	2,079.0	2,599.0	2,495.0	807.8	7,980.8	854.3	910.0	1,853.4	1,894.2	5,511.9	7,056.9
Storage Shipments (MWh)	889.3	221.0	269.0	121.0	110.0	774.8	110.0	110.0	120.0	125.0	465.0	788.0
Blended Solar ASP (\$/W)	\$0.28	\$0.22	\$0.19	\$0.19	\$0.17	\$0.21	\$0.18	\$0.19	\$0.18	\$0.18	\$0.18	\$0.15
VA Consensus	\$0.27	\$0.23	\$0.20	\$0.18	\$0.17	\$0.21	\$0.18	\$0.19	\$0.20	\$0.21	\$0.20	\$0.21
Storage ASP (\$/kWh)	\$511	\$475	\$479	\$475	\$426	\$469	\$428	\$431	\$428	\$404	\$422	\$380
Income Statement												
Solar Revenue	\$2,921	\$909	\$947	\$676	\$308	\$2,841	\$318	\$346	\$564	\$606	\$1,834	\$2,164
Of which, Storage	\$443	\$97	\$120	\$73	\$53	\$342	\$47	\$47	\$51	\$51	\$196	\$299
Non-Solar Revenue	\$189	\$35	\$44	\$49	\$16	\$144	\$15	\$18	\$34	\$37	\$104	\$121
Total Revenue (\$mn)	\$3,110	\$944	\$991	\$725	\$324	\$2,985	\$334	\$364	\$598	\$643	\$1,938	\$2,284
YoY	58.4%	44.1%	36.2%	-13.3%	-63.6%	-4.0%	-64.7%	-63.3%	-17.6%	98.4%	-35.1%	17.9%
Prior	\$3,110	\$944	\$991	\$725	\$330	\$2,990	N/A	N/A	N/A	N/A	\$1,976	\$2,319
Guidance		\$915-945	\$970-1010	\$720-730	\$300-350				\$600-700			
Guidance (2H24 Quarterly)												
Investor Day Target: 20-30%/year												
VA Consensus	3,129	929	991	727	323	2,970	368	475	592	623	2,066	2,745
Non-GAAP Gross Profit	\$877.6	\$307.4	\$324.2	\$151.0	\$26.3	\$808.9	\$37.8	\$78.7	\$180.4	\$205.0	\$501.9	\$814.5
VA Consensus	877.7	\$299.8	\$324.2	\$153.5	\$22.1	793.6	\$49.6	\$93.3	\$143.3	\$167.3	452.3	800.6
% Margin	28.2%	32.6%	32.7%	20.8%	8.1%	27.1%	11.3%	21.6%	30.2%	31.9%	25.9%	35.7%
VA Consensus (Implied)	28.0%	32.3%	32.7%	21.1%	6.9%	26.7%	13.5%	19.6%	24.2%	26.9%	21.9%	29.2%
Guidance		28-31%	32-35%	20.1-21.1%	5-8%				30-32%	32%		
Investor Day Target: 29-31%												
IRA Credits		-	-	-	\$7.1	\$7.1	\$14.5	\$23.4	\$28.5	\$31.9	\$98.3	\$127.4
Prior					\$7.1	\$7.1	N/A	N/A	N/A	N/A	\$98.3	\$127.4
Non-GAAP OpEx	435.9	123.6	133.3	128.0	127.8	512.6	121.1	105.2	108.8	121.4	456.6	479.3
VA Consensus	444.5	123.5	133.4	130.6	123.3	511.0	101.9	108.7	112.7	112.9	436.3	480.9
% Revenue	14%	13%	13%	18%	39%	17%	36%	29%	18%	19%	24%	21%
Guidance					\$126-130							
Investor Day Target (Core Solar): 11-13%												
Non-GAAP Operating Income	\$441.7	\$183.8	\$191.0	\$23.0	(\$101.5)	\$296.3	(\$83.3)	(\$26.6)	\$71.5	\$83.6	\$45.3	\$335.2
VA Consensus	440.9	183.6	191.4	23.5	(92.3)	296.9	(54.2)	(18.1)	24.9	46.2	(5.4)	276.2
% Margin	14%	19%	19%	3%	-31%	10%	-25%	-7%	12%	13%	2%	15%
Guidance		\$150-170	\$195-215	\$9-28								
Margin Guidance									11-14%	11-14%		
Guidance (Old)				\$115-135								
Adj. EBITDA (Including IRA Credits)	\$491.4	\$197.3	\$204.2	\$38.3	(\$82.5)	\$357.3	(\$64.1)	(\$7.4)	\$90.7	\$102.8	\$122.0	\$426.3
Prior	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Adj. EBITDA (Excluding IRA Credits)	\$491.4	\$197.3	\$204.2	\$38.3	(\$89.7)	\$350.1	(\$78.6)	(\$30.8)	\$62.2	\$71.0	\$23.8	\$298.8
Prior	\$491.8	\$197.3	\$204.2	\$38.3	(\$85.5)	\$354.3	N/A	N/A	N/A	N/A	\$25.2	\$302.9
Adj. EBITDA Margin, % (Including IRA Credits)	15.8%	20.9%	20.6%	5.3%	-25.5%	12.0%	-19.2%	-2.0%	15.2%	16.0%	6.3%	18.7%
Adj. EBITDA Margin, % (Excluding IRA Credits)	15.8%	20.9%	20.6%	5.3%	-27.7%	11.7%	-23.6%	-8.5%	10.4%	11.0%	1.2%	13.1%
Non-GAAP EPS, Diluted (Incl. IRA Credits)	\$5.92	\$2.91	\$2.62	(\$0.55)	(\$0.92)	\$4.39	(\$0.90)	(\$0.16)	\$1.16	\$1.34	\$1.43	\$5.31
Prior	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
VA Consensus	\$5.97	\$2.90	\$2.61	(\$0.46)	(\$1.27)	\$3.85	(\$0.77)	(\$0.29)	\$0.42	\$0.76	\$0.11	\$4.34

Source: Company filings, Visible Alpha, BofA Global Research

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See below for how we stack up compared to consensus. A key delta in our forecast is in Commercial shipments for 2024, where we forecast a 30% decline YoY vs Consensus at a 26% decline. We expect more of a back-half weighted recovery in volumes here as channel inventory approaches more 'normalized' levels.



We note some large installers in the US with ongoing accelerating sales could help drive some renewed confidence on '24 sales. While mgmt. has cautioned in the past on US biz, we perceive a slightly more constructive sales composition leaning away from long tail. Watch carefully commentary on this front. We remain uniquely concerns on competitive landscape in EU alongside outsized inventories, potentially underestimating and muting ability to watch evolution in products among customers.

Exhibit 3: SEDG estimates: BofA vs Consensus

We are below Consensus for 2024/2025 on shipments and revenue as we expect a muted recovery particularly in Europe

	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24	3Q24	4Q24	2024	2025
Consensus Forecast & Delta to BofAe												
Microinverter Shipments (MWdc)												
BofAe	10,490.0	3,608	4,324	3,796	1,497	13,274.6	1,467	1,609	2,918	3,096	9,090.4	12,052.3
Visible Alpha	10,491.2	3,608.0	4,265.2	3,845.3	1,644.5	13,396.8	1,837.1	2,272.4	2,745.5	2,866.3	9,625.7	12,810.9
% Delta	0%	0%	1%	-1%	-9%	-1%	-20%	-29%	6%	8%	-6%	-6%
Resi - BofAe	5,300.0	1,529.00	1,725.00	1,301.00	613.71	5,168.7	553.04	638.88	989.60	1,089.39	3,270.9	4,226.7
Resi - Visible Alpha	5,293.9	1,529.0	1,725.0	1,300.3	484.4	5,038.7	529.1	740.9	983.8	1,051.3	3,294.5	4,602.2
% Delta	0%	0%	0%	0%	27%	3%	5%	-14%	1%	4%	-1%	-8%
Commercial - BofAe	5,190.0	2,079.00	2,599.00	2,495.00	807.84	7,980.8	854.30	909.98	1,853.44	1,894.23	5,511.9	7,056.9
Commercial - Visible Alpha	5,197.3	2,079.0	2,540.2	2,495.1	1,102.9	8,276.0	1,260.9	1,480.3	1,709.3	1,753.8	6,119.3	7,787.3
% Delta	0%	0%	2%	0%	-27%	-4%	-32%	-39%	8%	8%	-10%	-9%
Revenue												
BofAe	3,110.3	943.9	991.3	725.3	324.1	2,984.6	333.6	363.6	597.7	643.1	1,938.1	2,284.3
Bloomberg	3,104.1	934.2	996.4	723.8	324.4	2,992.1	381.6	497.8	608.6	638.6	2,126.2	2,842.4
% Delta	0%	1%	-1%	0%	0%	0%	-13%	-27%	-2%	1%	-9%	-20%
Solar - BofAe	2,921.2	908.50	947.40	676.40	308.37	2,840.7	318.23	345.93	564.14	605.98	1,834.3	2,163.7
Solar - Visible Alpha	2,941.0	893.4	947.4	679.5	290.5	2,810.0	335.1	439.5	553.7	584.3	1,917.1	2,595.8
% Delta	-1%	2%	0%	0%	6%	1%	-5%	-21%	2%	4%	-4%	-17%
Non-Solar - BofAe	189.1	35.39	43.89	48.91	15.71	143.9	15.41	17.70	33.56	37.15	103.8	120.5
Non-Solar - Visible Alpha	188.4	36.0	43.9	47.6	32.6	159.8	33.1	35.4	38.3	38.8	148.5	149.2
% Delta	0%	-2%	0%	3%	-52%	-10%	-53%	-50%	-12%	-4%	-30%	-19%
Adj. EBITDA												
BofAe	491.4	197.3	204.2	38.3	(82.5)	357.3	(64.1)	(7.4)	90.7	102.8	122.0	426.3
Adj. EBITDA (\$mn) - Bloomberg	426.1	164.4	208.9	56.7	(99.0)	320.8	(45.5)	(5.9)	56.9	83.9	89.3	402.9
% Delta	15%	20%	-2%	-32%	-17%	11%	41%	26%	60%	23%	37%	6%

Source: Company filings, Bloomberg, Visible Alpha, BofA Global Research

BofA GLOBAL RESEARCH

Not quite at the bottom – PO to \$57

Our updated PO moves down slightly to \$57 following our latest mark-to-market (MtM) and estimate recalibration. A key change in our estimates is the inclusion of 45x tax credit benefits in earnings. We did not previously include these in our forecast. For our EV/EBITDA analysis (weighted 25%) we apply a 12.5x EV/EBITDA multiple on 2024E, which is 2.0x above peers, and a 9.0x multiple on 2025E, which is in line with peers. Importantly, while our estimates are increased from the inclusion of 45x credits, we value SEDG EBITDA excluding these credits and instead roll them into our valuation on an NPV basis. For our DCF analysis, our discount rate moves to 13.4% from 13.7% following our latest MtM. See below for a full view of our valuation of SEDG.

We stress our DCF valuation will remain less likely to garner confidence from investors as they seek to gain comfort on the organic growth prospects from likely still protracted pressures on near-years. As such we continue to see a downside bias to our valuation: we still apply a 75%/25% weighting between near-year multiple vs DCF.

Exhibit 4: SEDG valuation summary

We arrive at a \$57 PO

SEDG Valuation

	<u>Value/Sh</u>	<u>Weight</u>	<u>Weighted Value</u>
EV/EBITDA	\$43.00	75%	\$32.25
DCF	\$67.00	25%	\$16.75
NPV: IRA Credit Value	\$7.82		
SEDG Value/Share			\$57.00
Share Price (As of 02/04/24)			\$68.00
Premium (Discount) to Unit Price			(16.2%)
2023E Dividend Yield			0.0%
Total Expected Return			(16.2%)

Source: Company filings, Bloomberg, BofA Global Research

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Exhibit 5: SEDG EV/EBITDA valuation

We arrive at a \$43/share EV/EBITDA valuation

SEDG EV/EBITDA Valuation

	2024	2025
Revenues		
Core Solar	\$1,638	\$1,864
Storage	\$196	\$299
Non-Core	\$104	\$299
Gross Margin	\$473	\$784
EBITDA (Including IRA Credits)	\$122	\$426
IRA Credits	\$98	\$127
EBITDA (Excluding IRA Credits)	\$24	\$299
BOS Peer Group (A)	10.5x	9.0x
<i>Previous BOS Peer Group</i>	11.0x	9.5x
Relative Premium to BOS (SEDG vs BoS Peers over ~1-yr) (B)	2.0x	0.0x
EV/EBITDA (BOS Peer + BOS Premium, A+B)	12.5x	9.0x
<i>Previous EV/EBITDA</i>	11.5x	8.0x
Consensus EV/EBITDA	35.0x	8.0x
Illustrative Comparables		
Power Electronics & Semi Peer Group	18.5x	17.0x
<i>Previous Power Electronics & Semis Peer Group</i>	18.0x	16.0x
Implied Relative Premium to Power Electronics, Semis	-6.0x	-8.0x
Enterprise Value (Implied)	\$297	\$2,689
Net (Debt) Cash	\$1,028	\$1,028
Equity Value	\$1,326	\$3,718
Shares Outstanding	59	59
EV/EBITDA Valuation	\$23	\$64
EV/EBITDA Value vs Current Px	-67%	-7%
EPS	\$4.39	\$1.43
Implied P/E (excl. Net Cash)	1.1x	32.0x
SEDG Share Price	\$68	\$68
Average Valuation	\$43	

Source: Company filings, Bloomberg, BofA Global Research

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Exhibit 6: SEDG DCF valuation

We arrive at a \$67/share DCF valuation

SEDG - DCF Methodology	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
DCF - less Stock Based Compensation and Debt Amortization								
Free Cash Flows (\$Mn) (CFO Minus CapEx)	\$344	\$119	\$417	\$499	\$555	\$592	\$633	\$630
Less: Stock Based Compensation	\$38	\$137	\$144	\$151	\$164	\$184	\$204	\$186
Less: IRA Credits	\$7	\$98	\$127	\$115	\$108	\$95	\$95	\$71
Adjusted Free Cash Flows (\$Mn)	\$298	(\$116)	\$145	\$234	\$283	\$313	\$335	\$373
Free Cash Flows to Equity (\$Mn)	\$298	(\$116)	\$145	\$234	\$283	\$313	\$335	\$373
<i>Discount Rate- Cost of Equity</i>	13%	13%	13%	13%	13%	13%	13%	13%
<i>Discount Factor</i>	0.88	0.78	0.69	0.60	0.53	0.47	0.41	0.36
Discounted Free Cash Flows	\$263	(\$90)	\$100	\$141	\$151	\$147	\$138	\$136
DCF Value through '30	\$985							
<i>DCF Value through 2025</i>	\$272							
Terminal Value								
<i>Terminal Multiple</i>	14.0x							
<i>Discount Factor</i>	0.36							
<i>Terminal Value</i>	\$5,217							
<i>Implied Perpetuity Growth Rate</i>	6.3%							
PV of Terminal FCFE Value	\$1,903							
Less: Recourse Debt	(627)							
More: Cash on Balance Sheet	1,028							
<i>Adjustment for Convertible Notes included in Shares</i>	627							
Net Cash	1,028							
Total FCFE	\$3,916							
DCF Value/Share	\$67.00							
<i>Shares O/S (Fully Diluted) (Adj for Equity Issue)</i>	58.672							
Price as of close 02/04/2024	\$68.00							
DCF Value vs Current Px	-1%							
Discount Rate	13.4%							

Source: Company filings, Bloomberg, BofA Global Research

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Price objective basis & risk

SolarEdge Technologies (SEDG)

Our \$57 PO is based on an 75/25 weighted EV/EBITDA multiple/DCF methodology. We use a 75/25 weighting noting that the sector broadly trades on a multiple basis, which is all the more appropriate in a high-growth backdrop. Our EV/EBITDA multiple valuation is \$43 and our DCF valuation is \$67. We also layer in \$8/share from 45x credit NPV (12.5% discount rate through 2033).

EV/EBITDA approach:

- Comps based on Balance of System (BOS) solar peers
- We apply a 2x premium vs BOS peers to '24E EBITDA and 0x to '25, which is in line with where the stock has traded historically on a 1yr forward basis. This nets out to 12.5x 2024E and 9.0x 2025E EBITDA, respectively.

DCF approach:

- We derive FCFE by removing the contribution from stock-based compensation to FCF from 2023 through 2030
- FCFE discounted by 13.4% cost of capital based on 4.02% risk-free rate 6.25% risk premium and three-year weekly beta
- Given high growth and expanding opportunity set, we attribute a 14x terminal multiple on free cash flow

Upside risks: (1) execution above financial and growth targets, (2) policy implementation supporting acceleration in adoption of solar and storage, (3) new opportunities exceed expectations, (4) reduction in discount rates attributed by equity investors

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

NEUTRAL

	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith

UNDERPERFORM

	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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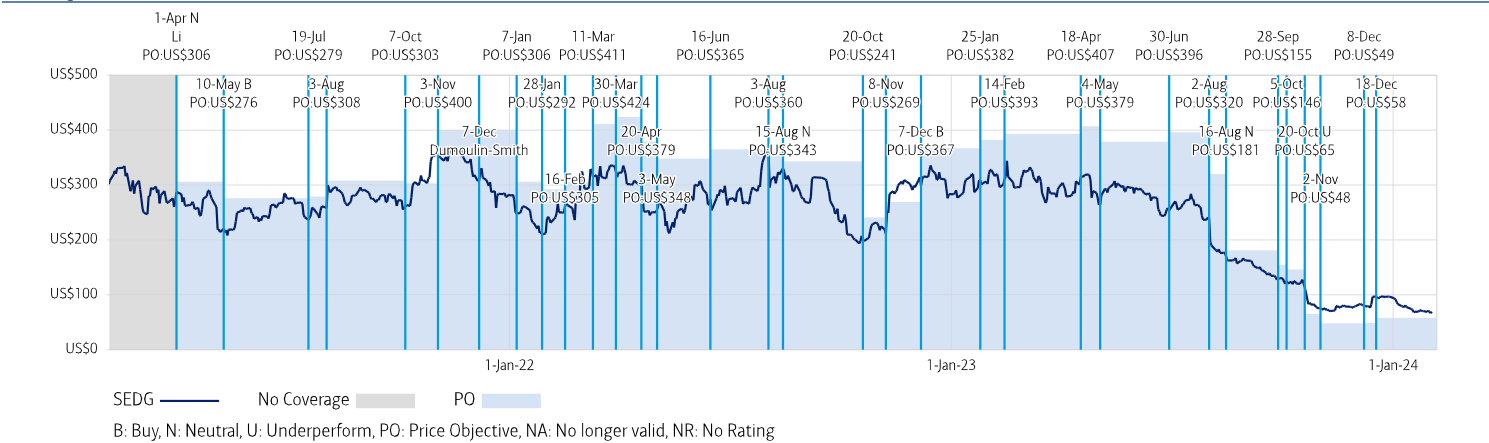
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Important Disclosures

SolarEdge (SEDG) Price Chart



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Equity Investment Rating Distribution: Alternative Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	8	47.06%	Buy	8	100.00%
Hold	5	29.41%	Hold	3	60.00%
Sell	4	23.53%	Sell	1	25.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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