

Ormat Technologies (ORA)

\$72.81 (As of 05/29/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: C

Summary

Ormat reported impressive first-quarter 2020 results, with earnings and revenues exceeding the respective Zacks Consensus Estimate. With increased adoption of renewable energy sources, Ormat has a solid opportunity to expand in the global geothermal energy market. To effectively boost its manufacturing capacity, Ormat continues to invest vigorously. In the past year, the company has outperformed the industry. However, a volcanic eruption close to its Hawaii-based Puna geothermal power plant remains a potential risk to its operating results. The company does not seem to hold a very strong solvency position, which is further evident from the deterioration in its financial ratios. Ormat may face further decline in energy storage facilities revenues on account of the COVID-19 impact, along with lower natural gas price.

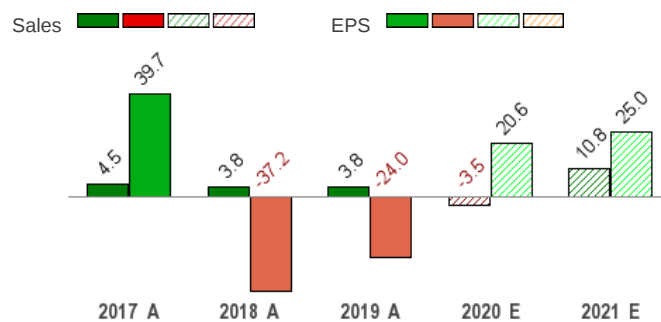
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.07 - \$55.22
20 Day Average Volume (sh)	317,085
Market Cap	\$3.7 B
YTD Price Change	-2.3%
Beta	0.63
Dividend / Div Yld	\$0.44 / 0.6%
Industry	Alternative Energy - Other
Zacks Industry Rank	Top 25% (63 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	3.3%
EPS F1 Est- 4 week change	-5.4%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	50.2
P/E F1	41.4
PEG F1	3.8
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					798 E
2020	192 A	167 E	172 E	189 E	720 E
2019	199 A	184 A	171 A	192 A	746 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.20 E
2020	\$0.51 A	\$0.38 E	\$0.34 E	\$0.53 E	\$1.76 E
2019	\$0.51 A	\$0.40 A	\$0.30 A	\$0.24 A	\$1.46 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/29/2020. The reports text is as of 06/01/2020.

Overview

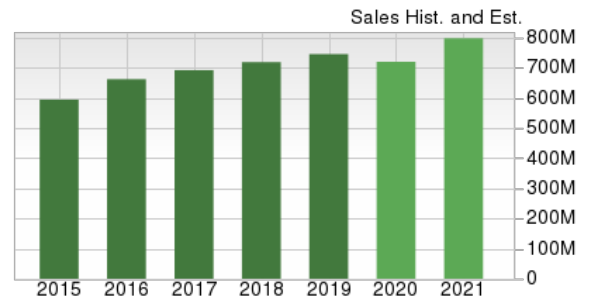
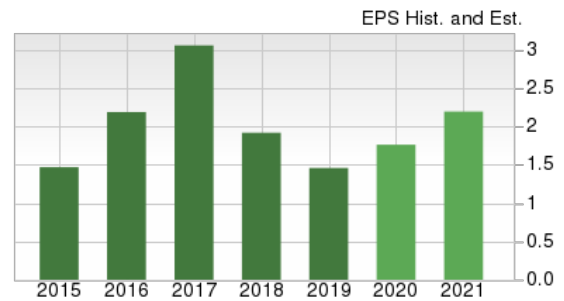
Ormat Technologies, Inc. is the only vertically integrated company that is primarily engaged in the geothermal and recovered energy generation (REG) business. The company designs, develops, owns and operates clean, environmentally friendly geothermal and recovered energy-based power plants. Its robust portfolio is spread across countries like the United States, Guatemala, Guadeloupe, Honduras, Indonesia and Kenya.

Ormat Technologies recently expanded operations to include the provision of services in the energy storage, demand response and energy management markets. It currently conducts business activities in two business segments:

Electricity segment: Under this segment, the company develops and operates geothermal and recovered energy-based power plants in the United States and geothermal power plants in other countries around the world and sells the electricity it generates. It additionally provides energy storage, demand response and energy management related services through the Viridity business. The segment's revenues in 2019 amounted to \$540.3 million, representing 72.4% of the company's total revenues.

Product segment: Under this segment, the company manufactures and sells equipment for geothermal and recovered energy-based electricity generation, and remote power units. It additionally provides services related to the engineering, construction, operation and maintenance of geothermal and recovered energy-based power plants. The segment's revenues in 2019 amounted to \$191 million, representing 25.6% of the company's total revenues.

Energy Storage & Management Services: This segment's revenues in 2019 amounted to \$14.7 million, representing 2% of the company's total revenues.



Reasons To Buy:

- ▲ With increased adoption of renewable energy sources across the globe and geothermal energy being a renewable one, Ormat Technologies bears a solid opportunity to expand in the global geothermal energy market. According to the International Geothermal Association's (IGA) announcement in January 2020, 29 countries across the globe generated geothermal power at the end of 2019, with a total installed power generation capacity of 15,400 MW. With the United States being one of the leading nations in terms of geothermal power generation, factors like legislative support, RPS goals, coal and nuclear base load energy retirement, and increasing awareness of the positive value of geothermal characteristics are driving the U.S. geothermal energy market. As IGA expects another 4,500 MW to get added to the world's geothermal capacity over the next 5-year period, Ormat Technologies plans to add 180-200 MW of geothermal and solar power plant by the end of 2022 from organic growth.
- ▲ Outside the United States as well, many countries are increasingly adopting geothermal energy. According to a report from the International Renewable Energy Agency, geothermal covers a significant share of electricity demand in countries like Iceland, El Salvador, New Zealand, Kenya and Philippines. In fact, apart from the United States, the company supplies its geothermal power to Kenya, Turkey, Guatemala, Honduras, Guadeloupe and Indonesia. Such worldwide presence is expected to boost the company's revenue growth, which inspires investor confidence. Notably, shares of the company have gained 21.2% in the past year against its industry's 12% decline.
- ▲ To effectively boost its manufacturing capacity, Ormat continues to invest vigorously. For instance, at its Steamboat complex, the company is replacing the old power plant equipment with new advanced technology equipment that will eventually increase the capacity of the complex by approximately 19 MW, along with reducing maintenance costs. In Heber Complex of California, Ormat is replacing steam turbine and the older equipment with advanced technology equipment that will add a net capacity of 11 MW. Moreover, Ormat plans to develop a CD4 30-megawatt air cool geothermal binary power plant near its Mammoth Complex, CA.
- ▲ With increasing awareness for reducing carbon emissions, the market for Solar PV power has grown significantly in recent years, driven by a combination of favorable government policies and a decline in equipment prices. To reap the benefits of this growing market place, Ormat has been taking significant initiatives. In mid-2019, the company began operation of its first-ever geothermal and solar hybrid project, a 7-megawatt AC solar expansion of its Tungsten Mountain geothermal project in Nevada. Ormat also plans to replicate its successful hybrid system at tungsten in the Steamboat complex, adding 5 MW of solar power. Moreover, it is developing a 20MWac solar PV project on the Wister site in California. Ormat plans to install a solar PV system and sell the electricity under a PPA with San Diego Gas & Electric. Engineering. Procurement is ongoing. The company expects the project to be completed in the second half of 2021.

Ormat Technologies bears a solid opportunity to expand in the global geothermal energy market. It also invests heavily in solar PV projects

Reasons To Sell:

- ▼ In 2018, a volcanic eruption close to the company's Hawaai-based Puna geothermal power plant led to significant increase in seismic activity in the area that lasted for weeks. This, further, led to delayed restoration operations that ultimately resulted in a shutdown. The company is still assessing the accounting implications of this event on the assets and liabilities on its consolidated balance sheets and whether an impairment will be required. Any significant damage to the geothermal resource or continued shut-down following the lava event at the Puna facilities could have an adverse impact on the power plant's electricity generation and availability, which in turn could have a negative impact on Ormat's operations. It continues to coordinate with Hawaii Electric Light Company (HELCO) and local authorities to bring the power plant back to operation.

Impacts of the coronavirus outbreak, volcanic eruption near the Puna plant, unfavorable financial ratios pose threat to the stock's growth

Commercial operation of Puna power plant and the full capacity is expected in the third quarter of 2020. However, unexpected delay may occur in the scheduled restart of the plant, owing to the ongoing crisis related to the COVID-19 pandemic. If this happens, Ormat Technologies might incur further losses. This in turn may hurt investors' confidence in this stock.

- ▼ A comparative analysis of its historical P/E ratio reflects a relatively gloomy picture that might be a cause of investors' concern. The stock currently has a trailing 12-month P/E ratio of 50.21. This level compares unfavorably with what the stock saw in the past 12 months and is also above the median level of 43.35. The ratio is also much higher than the industry average of 15.5.
- ▼ Ormat's cash and cash equivalents were \$320 million at the end of first-quarter 2020, compared with \$153 million as of Dec 31, 2019. Its long-term debt was \$1,021 million as of Mar 31, 2020, while its current debt was \$417 million. Therefore, both its long-term debt and current debt remain higher than its cash reserve. This reflects the fact that the company does not hold a very strong solvency position, which is further evident from the deterioration in its financial ratios.

Evidently, the company's debt-to-capital ratio of 0.48 as of Mar 31, 2020 increased sequentially from 0.46 and was also the highest in the last four quarters. Moreover, current ratio of 1.03 at the end of first-quarter 2020 declined sequentially and was the lowest in the past four quarters. Such unfavorable financial ratios indicate that Ormat may face difficulty in paying off its debt obligations, at least in the near term. Further to support its capital expenditure and growth plan, amid the COVID-19 pandemic, in April 2020, the company borrowed \$50 million pursuant to a loan agreement with one of its existing lenders. This will add to its future debt obligations.

- ▼ Although the novel coronavirus outbreak did not have any material impact on Ormat's first-quarter results, the company started to experience an impact in the second quarter of 2020. In the electricity segment, its customer in Honduras served a notice declaring a force majeure event due to the impact of COVID-19. Ormat is currently evaluating the potential impact of this notice in its consolidated financial statement. In addition, its future growth in the electricity segment might be impacted by more limited funding for projects and the implications of global and local restrictions on its ability to procure raw material, ship out products and travel restrictions. In product segment, the recognition of revenues on the contract is impacted by delays in the progress of third-party projects into which Ormat's products and services are incorporated.

Moreover, the company's product revenues may be adversely impacted because of restrictions on travel and because of customers' decision that can impact the company's efforts to sign new contracts. In energy storage and management services segment, the company experienced a decline in ancillary services prices, driven primarily by mild winter and lower natural gas prices. Ormat may face further decline in energy storage facilities revenue on account of the COVID-19 impact, along with lower natural gas price. Given the uncertainties regarding the duration and potential future impact of COVID-19, Ormat's business segments may face adverse effects.

Last Earnings Report

Ormat Technologies Q1 Earnings Beat, Revenues Drop Y/Y

Ormat Technologies' first-quarter 2020 earnings per share (EPS) came in at 51 cents, which surpassed the Zacks Consensus Estimate of 50 cents by 2%. The bottom line remained flat year over year.

Revenues

In the quarter under review, Ormat Technologies generated revenues of \$192.1 million, which exceeded the Zacks Consensus Estimate of \$186 million by 3.3%. However, the top line declined 3.5% on a year-over-year basis due to lower revenues from product and energy storage & management services segments.

Segment Revenues

Electricity Segment: Revenues at this segment amounted to \$142.9 million in the first quarter.

Product Segment: Revenues at this segment declined 9% year over year to \$47.4 million from \$52.1 million.

Other Segment: Revenues at this division amounted to \$1.85 million compared with \$4 million in the prior-year quarter.

Operational Update

In the reported quarter, Ormat Technologies' total operating expenses were \$20.8 million, compared with operating expenses of \$20.5 million in the first quarter of 2019.

The company's operating income increased 13.8% to \$61.1 million from \$53.7 million in the year-ago quarter.

The company's total cost of revenues was \$110.3 million, down 11.7% year over year.

Interest expenses were \$17.2 million, which declined 18.6% year over year.

Financial Condition

Ormat Technologies had cash and cash equivalents of \$231.1 million as of Mar 31, 2020, compared with \$71.1 million as of Dec 31, 2019.

Total long-term debt was \$996 million as of Mar 31, 2020, compared with \$1,012 million as of Dec 31, 2019.

Guidance 2020

Ormat Technologies has updated its expectations for 2020 due to uncertainties concerning the COVID-19 implications as well as the recent update in Puna. It now expects 2020 total revenues of \$710-\$740 million. The Zacks Consensus Estimate for the same, pegged at \$726.2 million, lies just above the midpoint of the company's guided range.

Segment-wise, the company now expects electricity segment revenues of \$550-\$570 million. Likewise, the company's Product segment revenues are expected to be \$140-\$150 million. It also anticipates annual adjusted EBITDA view of \$400-\$415 million for 2020.

Quarter Ending 03/2020

Report Date	May 11, 2020
Sales Surprise	3.27%
EPS Surprise	2.00%
Quarterly EPS	0.51
Annual EPS (TTM)	1.45

Valuation

Ormat Technologies' shares went down 2% in the year-to-date period and up 21.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oils-Energy sector are down 17.8% and 35.5% in the past year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 12%, whereas the sector plunged 33.9%.

The S&P 500 index is down 4.6% in the year-to-date period and up 13.3% in the past year.

The stock is currently trading at 37.5X of forward 12-month earnings, which compares to 20.6X for the Zacks sub-industry, 69.1X for the Zacks sector and 22.1X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.4X and as low as 18.7X, with a 5-year median of 24.6X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$77 price target reflects 39.7X forward 12-month earnings.

The table below shows summary valuation data for ORA

Valuation Multiples - ORA					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	37.46	20.59	69.05	22.09
	5-Year High	42.4	22.8	69.05	22.09
	5-Year Low	18.68	11.41	11.27	15.23
	5-Year Median	24.59	16.13	18.44	17.49
P/S F12M	Current	4.94	0.93	0.73	3.43
	5-Year High	5.55	31.25	1.46	3.44
	5-Year Low	2.68	0.71	0.58	2.53
	5-Year Median	3.83	5.23	0.99	3.02
P/B TTM	Current	2.42	1.45	0.87	4.16
	5-Year High	2.91	2.28	1.54	4.56
	5-Year Low	1.51	1.01	0.51	2.83
	5-Year Median	2.11	1.69	1.31	3.65

As of 05/29/2020

Industry Analysis Zacks Industry Rank: Top 25% (63 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Ameresco, Inc. (AMRC)	Neutral	3
Avista Corporation (AVA)	Neutral	2
Central Puerto S.A. Sponsored ADR (CEPU)	Neutral	3
Clearway Energy, Inc. (CWEN)	Neutral	3
Evergy Inc. (EVERG)	Neutral	3
FuelCell Energy, Inc. (FCEL)	Neutral	3
Quintana Energy Services Inc. (QES)	Neutral	4
NextEra Energy Partners, LP (NEP)	Underperform	3

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	ORA	X Industry	S&P 500	AMRC	CWEN	NEP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	C	B	C
Market Cap	3.72 B	411.81 M	21.48 B	1.02 B	4.37 B	3.35 B
# of Analysts	3	2	14	4	3	4
Dividend Yield	0.60%	0.00%	1.96%	0.00%	3.83%	4.34%
Value Score	B	-	-	B	B	C
Cash/Price	0.09	0.18	0.06	0.06	0.09	0.04
EV/EBITDA	12.14	9.29	12.56	16.36	11.75	12.60
PEG Ratio	3.72	3.84	2.87	1.34	1.33	43.79
Price/Book (P/B)	2.42	1.37	2.92	2.36	1.93	0.55
Price/Cash Flow (P/CF)	16.81	8.94	11.74	12.43	9.08	13.76
P/E (F1)	40.94	21.77	21.35	23.45	16.94	1,076.00
Price/Sales (P/S)	5.03	1.17	2.27	1.10	4.07	3.76
Earnings Yield	2.42%	1.51%	4.52%	4.29%	5.89%	-2.00%
Debt/Equity	0.67	0.57	0.76	0.73	2.34	0.69
Cash Flow (\$/share)	4.33	0.74	6.96	1.73	2.41	3.72
Growth Score	B	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	1.61%	18.79%	10.87%	41.64%	31.16%	56.99%
Proj. EPS Growth (F1/F0)	20.77%	-0.10%	-10.48%	10.24%	1,393.30%	32.78%
Curr. Cash Flow Growth	-6.26%	1.48%	5.39%	15.63%	1.48%	-38.92%
Hist. Cash Flow Growth (3-5 yrs)	5.70%	10.66%	8.55%	18.73%	10.60%	17.25%
Current Ratio	1.03	1.13	1.29	1.39	0.32	1.55
Debt/Capital	40.19%	38.67%	44.54%	44.51%	70.08%	39.96%
Net Margin	11.93%	-1.86%	10.59%	5.00%	-1.86%	-31.46%
Return on Equity	4.95%	-5.94%	16.26%	11.23%	-0.82%	-4.53%
Sales/Assets	0.22	0.47	0.55	0.73	0.12	0.07
Proj. Sales Growth (F1/F0)	-3.46%	0.00%	-2.53%	8.61%	11.54%	46.81%
Momentum Score	C	-	-	B	A	D
Daily Price Chg	1.66%	0.00%	-0.11%	0.47%	0.78%	-0.56%
1 Week Price Chg	5.26%	1.10%	4.99%	11.50%	3.93%	6.16%
4 Week Price Chg	16.66%	6.59%	4.40%	18.83%	9.39%	1.63%
12 Week Price Chg	1.83%	-12.64%	-2.75%	-4.75%	1.48%	-15.48%
52 Week Price Chg	24.50%	-23.89%	0.07%	41.93%	44.62%	15.97%
20 Day Average Volume	317,085	54,990	2,425,602	215,955	684,894	393,984
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.37%	0.00%	-1.70%	1.67%	19.39%	0.00%
(F1) EPS Est 12 week change	-5.87%	-21.35%	-16.00%	-6.87%	-4.20%	-97.88%
(Q1) EPS Est Mthly Chg	-9.60%	0.00%	-3.25%	-50.00%	34.77%	4.81%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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