

Ormat Technologies (ORA)

\$70.65 (As of 03/03/20)

Price Target (6-12 Months): **\$60.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: C

Summary

A volcanic eruption close to its Hawaii-based Puna geothermal power plant resulted in the company incurring losses. This, further, led to delayed restoration operations that ultimately resulted in a shutdown. The company is still assessing the damages in the Puna facilities. Further, any unexpected delay in the scheduled restart of the plant might cause Ormat Technologies to incur further losses. The consequent straining of U.S.-Turkey diplomatic relation is also worrisome. A comparative analysis of its historical P/E ratio reflects a relatively gloomy picture that might be a cause for investors' concern. In the past three months, the company underperformed the industry. However, with increased adoption of renewable energy sources, Ormat has a solid opportunity to expand in the global geothermal energy market.

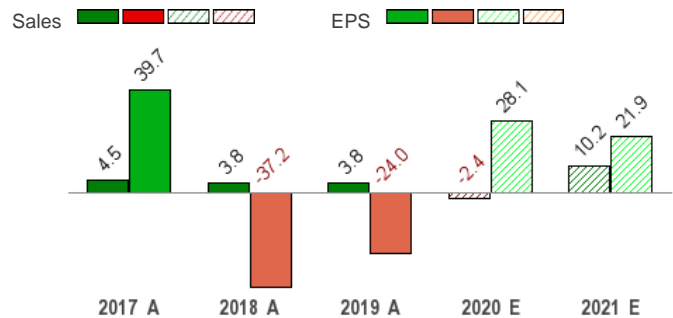
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$87.07 - \$54.00
20 Day Average Volume (sh)	233,182
Market Cap	\$3.6 B
YTD Price Change	-5.2%
Beta	0.93
Dividend / Div Yld	\$0.44 / 0.6%
Industry	Alternative Energy - Other
Zacks Industry Rank	Bottom 38% (158 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-57.1%
Last Sales Surprise	5.0%
EPS F1 Est- 4 week change	-13.5%
Expected Report Date	05/04/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					802 E
2020	186 E	175 E	176 E	192 E	728 E
2019	199 A	184 A	171 A	192 A	746 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.28 E
2020	\$0.50 E	\$0.42 E	\$0.39 E	\$0.57 E	\$1.87 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.

P/E TTM	48.7
P/E F1	37.8
PEG F1	3.4
P/S TTM	4.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/03/2020. The reports text is as of 03/04/2020.

Overview

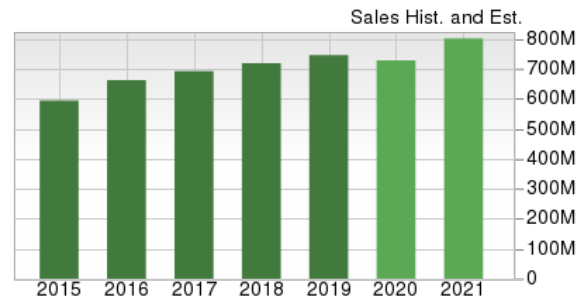
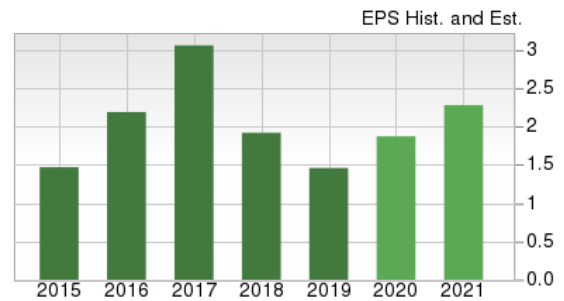
Ormat Technologies, Inc. is the only vertically integrated company that is primarily engaged in the geothermal and recovered energy generation (REG) business. The company designs, develops, owns and operates clean, environmentally friendly geothermal and recovered energy-based power plants. Its robust 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 Sell:

▼ For delivering power to customers, the company depends on power transmission facilities owned and operated by others. In case of disruption, or inadequate transmission capacity infrastructure, its ability to deliver power may be adversely impacted. This, in turn, may lead the company to incur additional costs. Additionally, lack of access to new transmission capacity may affect Ormat Technologies' ability to develop new projects.

▼ 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 damages in the Puna facilities and continues to coordinate with Hawaii Electric Light Company (HELCO) and local authorities to bring the power plant back to operation.

Commercial operation of Puna power plant and the full capacity is expected in the third quarter of 2020. However, any unexpected delay in the scheduled restart of the plant might cause Ormat Technologies to incur further losses, which in turn, may continue to have a material adverse impact on the company's revenues. This may hurt investor confidence going ahead. Notably, shares of the company have declined 8.2% in the past year compared to the industry's 3.6% decline.

▼ Recent trends of U.S. sanctions on Turkey and the consequent straining of U.S.-Turkey diplomatic relation may impact potential demand and price competitiveness for the geothermal equipment and services that Ormat Technologies provide in the Turkish market. If such unfavorable trends continue to prevail, then the company may witness continuation of a slowdown in the Turkish market, which in turn, may decrease its segment profit margins, cash flows and financial condition.

▼ Similarly, a comparative analysis of its historical P/E ratio reflects a relatively gloomy picture that might be a cause for investors' concern. The stock currently has a trailing 12-month P/E ratio of 48.72. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 14.76.

Strained U.S.-Turkey relationship, volcanic eruption near the Puna plant, unfavorable valuation poses threat to the stock's growth

Risks

- 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.
 - 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. Moreover, the company's Wister Solar project is expected to add 20 MW to its generation capacity by 2021. Ormat also plans to replicate its successful hybrid system at tungsten in the Steamboat complex, adding 5 MW of solar power.
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Last Earnings Report

Ormat Technologies Q4 Earnings Miss, Revenues Up Y/Y

Ormat Technologies fourth-quarter 2019 adjusted earnings per share (EPS) came in at 24 cents, missing the Zacks Consensus Estimate of 56 cents by a massive 57.1%. Earnings also plummeted 42.9% from the prior-year quarter's 42 cents per share.

Barring one-time items, the company's GAAP earnings were 24 cents per share compared with the year-ago quarter's 36 cents.

For 2019, Ormat Technologies' operating EPS came in at \$1.46, down 29.8% from the prior-year quarter's \$2.08. The reported figure also missed the Zacks Consensus Estimate of \$1.77 by 17.5%.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	4.97%
EPS Surprise	-57.14%
Quarterly EPS	0.24
Annual EPS (TTM)	1.45

Revenues

In the fourth quarter, Ormat Technologies generated revenues of \$192.4 million, which exceeded the Zacks Consensus Estimate of \$183.3 million by 5%. Also, the top line improved 1% on a year-over-year basis.

For 2019, Ormat Technologies' revenues summed \$746 million, up 3% from the prior-year quarter's \$719.3 million. The figure also outpaced the Zacks Consensus Estimate of \$737 million by 1.22%.

Segment Revenues

Electricity Segment: Revenues increased 4.4% year over year to \$144.4 million from the prior-year quarter's \$138.3 million.

Product Segment: Segment revenues declined 11.9% year over year to \$43.8 million from the year-earlier quarter's \$49.7 million.

Other Segment: Revenues for this division surged 75.5% year over year to \$4.3 million compared with the \$2.4 million recorded in the prior-year quarter.

Operational Update

In the December-end quarter, Ormat Technologies' total operating expenses were \$20 million, down 12.3% year over year.

Operating income during the quarter totaled \$54.5 million compared with the \$68 million registered in the year-ago period.

The company's total cost of revenues in the fourth quarter was \$117.9 million, up 18.3% year on year.

Interest expenses were \$17.6 million during the quarter, down 20.3% on a year-over-year basis.

Financial Condition

Ormat Technologies had cash and cash equivalents of \$71.2 million as of Dec 31, 2019, compared with \$98.8 million as of Dec 31, 2018.

Total long-term debt was \$1,011.9 million as of Dec 31, 2019, compared with \$1,040.7 million as of Dec 31, 2018.

Guidance 2020

Ormat Technologies projects full-year 2020 total revenues of \$720-\$740 million, with electricity segment revenues estimated at \$560-\$570 million. Likewise, the company's Product segment revenues are expected to be \$140-\$150 million. The Zacks Consensus Estimate for the same is pegged at \$787 million, higher than the company's guided range.

The company also anticipates annual adjusted EBITDA of \$405-415 million for 2020. It expects annual adjusted EBITDA attributable to minority interest to be approximately \$26 million.

Recent News

On **Jan 13, 2020**, Ormat Technologies announced the signing of two similar Power Purchase Agreements (PPA) with Silicon Valley Clean Energy (SVCE) and Monterey Bay Community Power (MBCP). Under the PPAs, SVCE and MBCP will each purchase 7MW (for a total of 14 MW) of power generated by the expected 30MW Casa Diablo-IV (CD4) geothermal project located in Mammoth Lakes, California.

The CD4 power plant is expected to be on-line by the end of 2021, which will be the first geothermal power plant built within the California Independent System Operator (CAISO) balancing authority in the last 30 years and will be the first in Ormat's portfolio that will sell its output to a Community Choice Aggregator.

On **Jan 6, 2020**, Ormat Technologies announced that its subsidiary, Puna Geothermal Venture (PGV), and Hawaiian Electric's Hawaii Electric Light subsidiary have reached an agreement on an amended and restated power purchase agreement (PPA) for dispatchable geothermal power sold from Ormat's Puna complex, located on the Big Island of Hawai'i.

The new PPA extends the term until 2052 with an increased contract capacity of 46MW and a fixed price of \$70 per MWh with no escalation, regardless of changes to fossil fuel pricing. The amended PPA was filed with the Public Utilities Commission (PUC) on December 31, 2019 for its review and approval, which is anticipated during 2020.

Valuation

Ormat Technologies' shares slipped 2.4% in the past six months period and up 27% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oils-Energy sector are down 3.7% and 17.2% in the past six months period, respectively. Over the past year, the Zacks sub-industry is down 9.6% whereas the sector plunged 29.3%.

The S&P 500 index is up 1% in the past six months period and up 6.3% in the past year.

The stock is currently trading at 32.4X of forward 12-month earnings, which compares to 11.6X for the Zacks sub-industry, 12X for the Zacks sector and 17.2X 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 Underperform recommendation indicates that the stock will perform worse than the market. Our \$60 price target reflects 27.5X 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	32.37	11.63	11.98	17.15
	5-Year High	42.4	22.79	32.4	19.34
	5-Year Low	18.68	11.63	11.27	15.18
	5-Year Median	24.57	16.12	18.49	17.44
P/S F12M	Current	4.65	0.73	0.7	3.16
	5-Year High	5.55	30.75	1.45	3.43
	5-Year Low	2.68	0.73	0.67	2.54
	5-Year Median	3.74	5.22	0.99	3.01
P/B TTM	Current	2.39	1.51	0.96	4.01
	5-Year High	2.93	2.29	1.6	4.54
	5-Year Low	1.51	1.01	0.96	2.85
	5-Year Median	2.13	1.69	1.31	3.62

As of 03/03/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (158 out of 255)



Top Peers

Evergy Inc. (EVRG)	Outperform
Ameresco, Inc. (AMRC)	Neutral
Avista Corporation (AVA)	Neutral
Clearway Energy, Inc. (CWEN)	Neutral
CLEARWAY ENERGY, INC. (CWENA)	Neutral
FuelCell Energy, Inc. (FCEL)	Neutral
NextEra Energy Partners, LP (NEP)	Neutral
Quintana Energy Services Inc. (QES)	Neutral

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	ORA Underperform	X Industry	S&P 500	AMRC Neutral	CWEN Neutral	NEP Neutral
VGM Score	F	-	-	D	B	B
Market Cap	3.61 B	463.08 M	21.37 B	1.06 B	4.08 B	3.84 B
# of Analysts	3	2	13	4	3	3
Dividend Yield	0.62%	0.00%	2.04%	0.00%	3.98%	3.65%
Value Score	F	-	-	B	B	C
Cash/Price	0.05	0.11	0.05	0.04	0.10	0.03
EV/EBITDA	13.22	3.47	12.65	16.82	10.47	13.32
PEG Ratio	3.43	3.35	1.87	1.33	1.27	3.26
Price/Book (P/B)	2.38	1.54	2.96	2.63	1.80	0.52
Price/Cash Flow (P/CF)	16.31	9.00	11.68	14.67	8.50	15.80
P/E (F1)	37.78	22.10	16.98	23.26	15.62	29.30
Price/Sales (P/S)	4.83	1.34	2.44	1.22	3.95	4.50
Earnings Yield	2.65%	4.11%	5.87%	4.31%	6.40%	3.41%
Debt/Equity	0.68	0.60	0.70	0.63	2.29	0.60
Cash Flow (\$/share)	4.33	1.31	7.01	1.53	2.48	3.72
Growth Score	D	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	6.73%	13.63%	10.85%	38.77%	38.46%	56.99%
Proj. EPS Growth (F1/F0)	28.31%	27.02%	6.36%	16.57%	1,450.00%	232.67%
Curr. Cash Flow Growth	-6.26%	8.05%	6.07%	13.57%	1.48%	-38.92%
Hist. Cash Flow Growth (3-5 yrs)	12.67%	16.85%	8.52%	24.08%	18.55%	17.25%
Current Ratio	1.10	1.13	1.23	1.38	0.30	1.44
Debt/Capital	40.85%	37.32%	42.57%	41.46%	69.61%	36.90%
Net Margin	11.81%	-1.07%	11.57%	5.13%	-1.07%	-8.89%
Return on Equity	5.01%	-0.52%	16.66%	10.18%	-0.52%	-1.30%
Sales/Assets	0.23	0.34	0.54	0.75	0.12	0.08
Proj. Sales Growth (F1/F0)	-2.35%	1.30%	4.01%	4.84%	21.26%	59.02%
Momentum Score	C	-	-	B	F	B
Daily Price Chg	-2.20%	-0.29%	-2.60%	-2.17%	-2.32%	-0.78%
1 Week Price Chg	-19.18%	-9.82%	-12.06%	-9.22%	-8.00%	-5.51%
4 Week Price Chg	-15.08%	-5.63%	-10.01%	8.80%	-1.03%	2.86%
12 Week Price Chg	-6.63%	2.37%	-7.46%	37.11%	6.84%	13.02%
52 Week Price Chg	27.00%	-29.33%	2.54%	25.35%	42.60%	31.56%
20 Day Average Volume	233,182	35,602	2,406,738	284,515	682,362	549,146
(F1) EPS Est 1 week change	-13.54%	0.00%	0.00%	-1.53%	-17.68%	0.00%
(F1) EPS Est 4 week change	-13.54%	-0.08%	-0.06%	-1.53%	-17.68%	0.00%
(F1) EPS Est 12 week change	-13.54%	-1.13%	-0.39%	-1.53%	-11.18%	11.19%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-0.45%	0.00%	-74.51%	0.00%

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	F
Growth Score	D
Momentum Score	C
VGM Score	F

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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