

## Ormat Technologies (ORA)

**\$86.24** (As of 02/05/20)

Price Target (6-12 Months): **\$91.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: B

### Summary

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. Ormat Technologies is lately witnessing increased growth opportunities in nations like New Zealand, Chile, Kenya, Honduras, China, Ethiopia and Philippines. Such expanding overseas footprint may have aided the company to outperform the industry in a year's time. However, a volcanic eruption close to its Hawaii-based Puna geothermal power plant has resulted in the plant's shutdown. Any unexpected delay in the scheduled restart of the plant might cause Ormat Technologies to incur further losses. Recent trends of U.S. sanctions on Turkey and the consequent straining of U.S.-Turkey diplomatic relation is also worrisome.

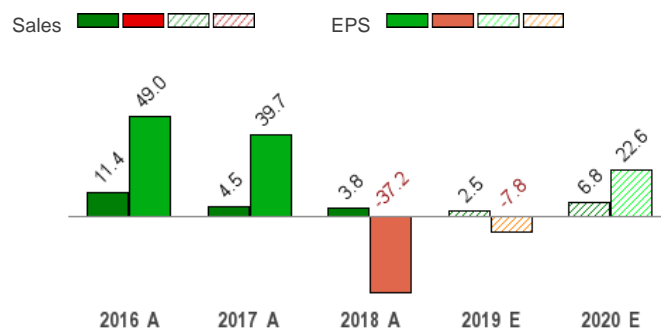
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$86.76 - \$54.00</b>
20 Day Average Volume (sh)	<b>143,963</b>
Market Cap	<b>\$4.4 B</b>
YTD Price Change	<b>15.7%</b>
Beta	<b>1.01</b>
Dividend / Div Yld	<b>\$0.44 / 0.5%</b>
Industry	<a href="#">Alternative Energy - Other</a>
Zacks Industry Rank	<b>Top 21% (53 out of 255)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-9.1%</b>
Last Sales Surprise	<b>-0.5%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>02/25/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>49.9</b>
P/E F1	<b>39.7</b>
PEG F1	<b>3.6</b>
P/S TTM	<b>5.9</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					787 E
2019	199 A	184 A	171 A	183 E	737 E
2018	184 A	178 A	166 A	190 A	719 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$2.17 E
2019	\$0.51 A	\$0.40 A	\$0.30 A	\$0.56 E	\$1.77 E
2018	\$0.48 A	\$0.32 A	\$0.31 A	\$0.52 A	\$1.92 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 02/05/2020. The reports text is as of 02/06/2020.

## Overview

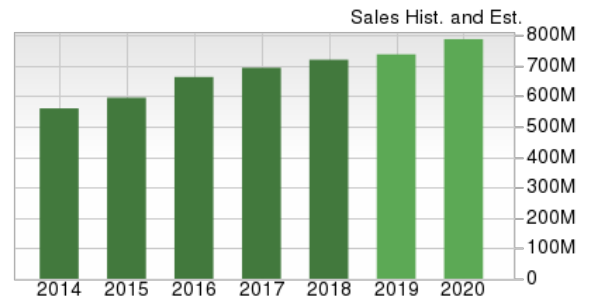
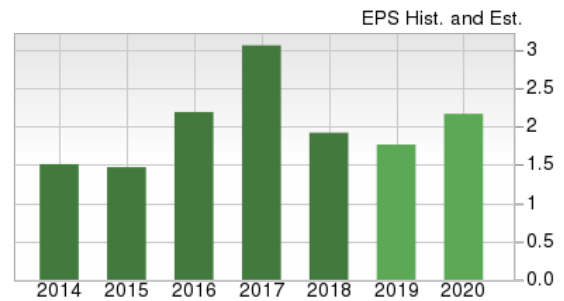
Ormat Technologies, Inc. is the only vertically integrated company that is primarily engaged in the geothermal and recovered energy generation (REG) business. The company designs, develops, owns and operates clean, environmentally friendly geothermal and recovered energy-based power plants. Its robust 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 revenue in 2018 amounted to \$509.9 million, representing 70.9% of the company's total revenues in 2018.

**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 revenue in 2018 amounted to \$201.7 million, representing 28% of the company's total revenues in 2018.

**Other Segment:** Other segment segment's revenue in 2018 amounted to \$7.64 million, representing 1.1% of the company's total revenues in 2018.



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## 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 February 2019, 27 countries across the globe generated geothermal power at the end of 2018, with a total installed power generation capacity of 14,600 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 4,100 MW to get added to the world's geothermal capacity by 2023, Ormat Technologies plans to add 125-135 MW by the end of 2021 from organic growth.

Ormat Technologies bears a solid opportunity to expand in the global geothermal energy market.

▲ Outside the United States as well, many countries are increasingly adopting geothermal energy. According to a 2018 report from the International Renewable Energy Agency entitled Rethinking Energy, more than 170 countries have established renewable energy targets, and nearly 150 have enacted policies to catalyze investments in renewable energy technologies. With Turkey being the fastest growing geothermal market worldwide with the theoretical potential for 31 GW of geothermal capacity; since 2004, Ormat Technologies has established strong relationships in the Turkish market.

Apart from Turkey, Ormat Technologies is lately witnessing increased growth opportunities in New Zealand, Chile, Kenya, Honduras, China, Indonesia, Ethiopia, Philippines and Latin America. These should further boost its revenue prospects. Such expanding overseas footprint may have aided the company to outperform the industry in the past year. Shares of the company have rallied 51.7% compared to the industry's 2.8% growth.

▲ In July 2019, Ormat Technologies completed the acquisition of 49% ownership in the Ijen geothermal project, which is currently under development in Indonesia. The acquisition has further bolstered Ormat Technologies' global portfolio and will strengthen its position in Indonesia. These developments are backed by systematic investments made by the company in the last few quarters.

In terms of investment, the company currently expects to spend \$156 million in 2019 for construction of new projects and enhancement of its existing power plants. It also aims to spend \$25 million for the maintenance of its operating power plants, excluding drilling in Puna power plant. For exploration and development activities, it projects to invest approximately \$10 million and an additional \$10 million in storage activity. Ormat Technologies also plans to invest \$6 million in its production facilities. These, in turn, should expand its operations, improve customer reliability and thereby boost growth.

▲ 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. Increasing solar power supply has initiated the need for energy storage. To this end, Ormat Technologies signed a 20-year Energy Storage Resource Adequacy Agreement, which is subject to California PUC approval, for 10-40 MW per hour project that it plans to commission by the end of 2020. This agreement will provide Ormat Technologies' project with a fixed income stream and is expected to generate additional revenues for the company.

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## 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.

▼ Last year, a volcanic eruption close to the company's Hawaii-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.

The restart and reconstruction efforts of Puna are on schedule and refurbishment activities are expected to be completed by the end of the year. 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.

▼ 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 46.59. This level compares unfavorably with what the stock saw in the past 12 months. The ratio is higher than the industry's average of 16.56.

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

## Last Earnings Report

### Ormat Technologies Q3 Earnings Miss, Revenues Up Y/Y

Ormat Technologies' third-quarter 2019 adjusted earnings per share (EPS) came in at 30 cents, which missed the Zacks Consensus Estimate of 33 cents by 9.1%. The bottom line also declined 3.2% from 31 cents registered in the prior-year quarter.

Excluding the one-time impact of its Puna Plant in Hawaii, the company reported GAAP earnings of 35 cents per share compared with 26 cents in the year-ago quarter.

The year-over-year improvement in the bottom line can be attributed to higher revenues as well as operating income generated in the reported quarter.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	-0.47%
EPS Surprise	-9.09%
Quarterly EPS	0.30
Annual EPS (TTM)	1.73

### Revenues

Ormat Technologies' third-quarter revenues of \$170.5 million missed the Zacks Consensus Estimate of \$171 million by a whisker. The top line also improved 2.4% on a year-over-year basis, primarily driven by revenue growth at its Electricity segment.

### Segment Revenues

*Electricity Segment:* Revenues at this segment increased 6.1% year over year to \$124 million from \$116.9 million. The upside was primarily driven by expanded operations at McGuinness Hills and Olkaria. Also, contributions from the USG acquisition boosted this unit's top line.

*Product Segment:* Revenues at this segment decreased 11.2%

year over year to \$43 million from \$48.4 million.

*Other Segment:* Revenues at this division amounted to \$3.5 million compared with \$1.2 million in the prior-year quarter.

### Operational Update

In the reported quarter, Ormat Technologies' total cost of revenues was \$115 million, down 2.3% year over year.

The company's total operating expenses were \$16.8 million, down 26.7% year over year.

Consequently, operating income rose 49.5% year over year to \$38.7 million.

Interest expenses were \$20.1 million, up 7.4% year over year.

### Financial Condition

Ormat Technologies had cash and cash equivalents of \$97.6 million as of Sep 30, 2019, compared with \$98.8 million as of Dec 31, 2018. Total liabilities amounted to \$1.75 billion as of Sep 30, 2019, compared with \$1.67 billion as of Dec 31, 2018.

### 2019 Guidance

Ormat Technologies updated its full-year guidance. The company currently expects to generate total revenues in the range of \$731-\$742 million, compared with the earlier guidance of \$720-\$742 million. The Zacks Consensus Estimate for the same, pegged at \$735.2 million, lies just below the midpoint of the company's guided range.

Segment-wise, the company currently expects revenues at the Electricity segment to be in the range of \$535-\$540 million, compared with the prior guidance range of \$530-\$540 million, excluding any impact from Puna during 2019.

The company's Product segment revenues are now expected in the range of \$185-\$190 million, compared with the prior guided range of \$180-\$190 million.

Furthermore, annual adjusted EBITDA for 2019 is anticipated in the range of \$385-\$390 million compared with \$375-\$385 million projected earlier, with no Puna-related EBITDA.

## 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 are up 32.7% in the past six months period and up 51.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oils-Energy sector are up 14.2% and 0.3% in the past six months period, respectively. Over the past year, the Zacks sub-industry is up 2.8% whereas the sector is down 10.1%.

The S&P 500 index is up 17.1% in the past six months period and up 24.8% in the past year.

The stock is currently trading at 39.03X of forward 12-month earnings, which compares to 12.47X for the Zacks sub-industry, 13.01X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.4X and as low as 18.68X, with a 5-year median of 24.50X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$91 price target reflects 41.18X 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	39.03	12.47	13.01	18.88
	5-Year High	42.4	22.79	32.35	19.34
	5-Year Low	18.68	11.74	11.3	15.18
	5-Year Median	24.5	16.19	18.64	17.46
P/S F12M	Current	5.55	0.78	0.8	3.5
	5-Year High	5.55	30.75	1.44	3.5
	5-Year Low	2.18	0.78	0.67	2.54
	5-Year Median	3.73	5.26	1	3
P/B TTM	Current	2.92	1.64	1.14	4.54
	5-Year High	2.92	2.29	1.6	4.54
	5-Year Low	1.51	1.01	1.03	2.85
	5-Year Median	2.11	1.69	1.32	3.62

As of 02/05/2020

## Industry Analysis Zacks Industry Rank: Top 21% (53 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 Neutral	X Industry	S&P 500	AMRC Neutral	CWEN Neutral	NEP Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>D</b>	<b>A</b>	<b>B</b>
Market Cap	4.40 B	422.33 M	24.26 B	959.00 M	4.21 B	3.44 B
# of Analysts	2	2	13	4	2	3
Dividend Yield	0.51%	0.00%	1.75%	0.00%	3.67%	3.79%
<b>Value Score</b>	<b>D</b>	-	-	<b>B</b>	<b>A</b>	<b>B</b>
Cash/Price	0.04	0.11	0.04	0.05	0.10	0.06
EV/EBITDA	15.63	3.80	14.19	15.50	9.63	10.12
PEG Ratio	3.60	3.20	2.04	1.19	1.33	3.13
Price/Book (P/B)	2.92	1.74	3.31	2.39	2.06	0.59
Price/Cash Flow (P/CF)	18.55	9.63	13.70	13.29	8.90	8.56
P/E (F1)	39.60	17.46	19.17	20.75	13.29	28.21
Price/Sales (P/S)	5.91	1.40	2.67	1.23	4.11	4.02
Earnings Yield	2.52%	4.29%	5.22%	4.81%	7.53%	3.54%
Debt/Equity	0.70	0.60	0.71	0.63	2.12	0.64
Cash Flow (\$/share)	4.65	1.05	6.92	1.53	2.45	6.61
<b>Growth Score</b>	<b>C</b>	-	-	<b>F</b>	<b>B</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	10.56%	10.77%	10.80%	38.77%	38.46%	56.99%
Proj. EPS Growth (F1/F0)	22.76%	30.94%	7.35%	28.85%	142.96%	232.67%
Curr. Cash Flow Growth	-10.90%	20.63%	10.12%	13.57%	-7.18%	41.22%
Hist. Cash Flow Growth (3-5 yrs)	12.67%	12.67%	8.55%	24.08%	18.55%	41.32%
Current Ratio	1.23	1.32	1.20	1.38	0.28	1.60
Debt/Capital	41.55%	37.45%	42.91%	41.46%	67.94%	37.58%
Net Margin	12.59%	-3.24%	11.79%	4.35%	-7.12%	-8.89%
Return on Equity	6.00%	-3.45%	17.21%	7.44%	-3.45%	-1.38%
Sales/Assets	0.23	0.34	0.54	0.67	0.12	0.08
Proj. Sales Growth (F1/F0)	6.78%	4.55%	4.15%	6.45%	17.55%	70.49%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Daily Price Chg	3.65%	0.00%	1.40%	-1.40%	2.25%	-0.96%
1 Week Price Chg	-2.52%	-0.48%	-2.60%	-4.72%	-0.61%	1.52%
4 Week Price Chg	15.03%	0.39%	1.96%	6.03%	7.87%	8.44%
12 Week Price Chg	14.01%	10.09%	6.04%	26.96%	12.67%	10.18%
52 Week Price Chg	51.91%	-19.88%	16.68%	36.57%	52.91%	42.22%
20 Day Average Volume	143,963	55,877	1,966,046	144,863	575,914	437,508
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.21%	0.00%	0.00%	6.49%	22.13%
(F1) EPS Est 12 week change	3.50%	0.61%	-0.08%	-0.76%	7.89%	13.31%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	30.77%	-6.25%

## 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>D</b>
Growth Score	<b>C</b>
Momentum Score	<b>B</b>
VGM Score	<b>C</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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