Ellomay Capital Ltd.

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Corporate Credit Rating	ilA-/Stable

Rationale

Business Risk	Financial Risk
• Relatively low geographic diversification. • Major source of income generated by single field of operation. • Uncertain regulatory environment. • No construction risk, all facilities operating at full capacity.	• Flat amortization schedule of financial debt. • Maintaining a liquidity cushion sufficient for one year's debt service. • Majority of revenues based on regulatory tariffs. • Minority stake in Dorad Energy that may generate cashflows in the future.

Outlook: Stable

The stable outlook on Ellomay Capital Ltd., owner of energy projects in Italy, Spain, and Israel, reflects our assessment that its cash flow and liquidity cushion will remain stable in the short term despite any unexpected changes in Italian or Spanish regulations. The stable outlook also reflects our assessment that Ellomay will maintain coverage ratios that we consider to be commensurate with the current rating, i.e. FFO (funds from operations) to adjusted debt above 12% and adjusted debt to EBITDA below 5.0x.

Downside Scenario

We may consider a negative rating action if Ellomay consistently fails to maintain coverage ratios commensurate with the current rating. This could happen, in our opinion, as a result of a deterioration in cash flows from projects due to continuous malfunctions, or of an aggressive investment policy that would increase the debt burden.

Upside Scenario

We may consider a positive rating action if the company's financial risk profile improves, as reflected in an FFO to adjusted debt ratio above 20% and a debt to adjusted EBITDA ratio below 4.0x, alongside an improvement in its business risk profile, as reflected in lower concentration due to new projects or material, continuous cashflows from Dorad Energy.

Standard & Poor's Base-Case Scenario

In our base-case scenario we estimate that no further regulatory changes concerning renewable energy production will occur in Italy and Spain, and that the current subsidies will remain in effect. We did not include any additional material investments, but we understand that the company will not make any investments that may adversely affect its financial metrics. We also did not assume any cashflows from Dorad Energy, as their timing, scope and potential use are still uncertain. We note that a one-off dividend from Dorad Energy may improve Ellomay's financial metrics, but this improvement depends on how the company chooses to use it.

Principal Assumptions

- Stability in Italian and Spanish regulation after subsidies for renewable energy were reduced in previous years.
- No investments in new projects in the short term.
- Dividend distribution or share buyback of up to 33% of net profit, according to the company's stated policy.
- Maintaining the current coverage ratios in 2016 and 2017.

Key Metrics

	2014A	2015E	2016E
EBITDA margin	57%	57%-60%	57%-60%
FFO/debt	13.6%	11%-14%	17%-20%
Debt/EBITDA	5.2x	4.0x-6.0x	4.0x-6.0x

A – Actual, E – Estimate.

Business Risk

Relatively high geographic concentration, exposure to regulatory changes

Ellomay owns 16 solar energy products, with total production capacity of about 30 megawatt, of which 12 facilities are in Italy (generating about 75% of the company's revenues) and four are in Spain (generating the remaining 25%). The company also owns a minority stake, through Dori Energy, of about 9.2% in Dorad Energy, operating a power plant with a capacity of about 850 megawatt in Israel. We believe this holding supports Ellomay's business profile, and expect it to increase its cash flow in the future. About 80% of the company's revenues are guaranteed by the Italian and Spanish regulators, but the economic crisis in these countries has resulted in a reduction in subsidies for renewable energy production. This reduction has been implemented retroactively on existing facilities, and at this point we do not foresee any additional regulatory changes, although these may occur in the future. Although tariff changes have decreased Ellomay's revenues from in Italy and Spain, the company still maintains financial metrics we consider to be commensurate with the current rating. We note that new renewable energy facilities no longer receive subsidies in Italy or in Spain, and derive their revenues solely from the sale of electricity. We also note that, as of EOY 2015, Ellomay's stake in Dorad has not generated any cash flows.

In our opinion, the company's field of operation, which includes the production of solar energy and other forms of renewable energy, is competitive, with relatively low barriers to entry due to the simple technology. The company mostly invests in the acquisition of existing solar energy facilities, and faces fierce competition from venture capital funds when attempting to acquire additional facilities. However, the company is not exposed to competition on its existing projects. The company does face additional risks in future areas of activity, e.g. pumped-storage hydroelectricity, as it would also expose it to construction risks. The company's business risk profile is also affected by its exposure to spot prices in Italy and in Spain, although this exposure is limited to up to about 20% of revenues.

On the other hand, it should be noted that company's operations carry no construction risks at the moment and all its projects are operating at full capacity. In addition, the projects are at an early stage of their lifecycle, with the oldest ones operating for about five years.

Financial Risk

Majority of project revenues are subsidy-based; no regulatory changes expected in the short term

In order to calculate the financial ratios, we consolidate the cash flows from the projects in Italy and Spain and the debt of these projects (if any), with the debt at the holding company level. It should be noted that most of the company's debt is at the parent company level, and therefore, there are basically no limitations on distributions to the parent company. We do not consolidate the Dorad project due to the low holding stake and the lack of control of Ellomay in this project.

Ellomay's financial risk profile is underpinned by the fact that about 80% of its revenues are subsidy-based, by the maintenance of a liquidity cushion sufficient for one year's debt service, and by a flat amortization schedule of the financial debt. On the other hand, the concentration of revenues in Italy and Spain exposes the company to the risk of regulatory changes in these countries. The company is also exposed to exchange rate fluctuations, as most of its revenues are in Euro whereas its debt and operating expenses at the parent company level are in Israeli Shekels. We understand that the company hedges part of its debt in order to protect itself against these fluctuations.

In our base-case scenario we estimate that no further regulatory changes will occur in Italy and Spain at this stage, and that 80% of the company's revenues shall continue to be subsidy-based. We view this factor as a strength in the company's financial risk profile. Our base-case scenario does not include any new investments in projects in the upcoming year. However, we believe that excess cash flows from projects will not be used to reduce the company's leverage, which we expect to stand at a ratio of FFO to adjusted debt of about 11%-14%, which we view as commensurate with the current rating, but instead serve to finance dividend distribution or share buyback, both at up to 33% of net profit, or for new investments in the future. Our base-case scenario also excludes any receipts from the company's minority stake in Dorad Energy, as their timing and scope are somewhat uncertain. We note that a one-off dividend receipt from Dorad Energy could improve Ellomay's financial metrics, but this improvement depends on how the company chooses to use this receipt.

Table 1.

Ellomay Capital Ltd. -- Financial Summary					
Industry Sector: Developer					
	--Fiscal year ended Dec. 31--				
(Mil. $)	**2014**	**2013**	**2012**	**2011**	**2010**
Revenues	15.8	13.0	8.9	6.1	0.0
EBITDA	9.0	6.7	4.1	1.8	(3.1)
Funds from operations (FFO)	6.4	5.6	1.2	(0.6)	(1.7)
Operating income	3.2	2.4	1.2	(0.1)	(3.2)
EBIT	7.2	1.5	1.4	(0.3)	(1.9)
Interest Expense	4.7	2.3	3.9	3.2	0.0
Net income from continuing operations	6.6	10.1	(2.1)	(1.0)	(1.8)
Working capital changes	(1.6)	1.0	3.7	(6.5)	(2.5)
Cash flow from operations	3.7	6.7	6.1	(2.9)	(4.8)
Capital expenditures	0.7	9.2	1.2	24.9	14.7
Free operating cash flow	3.0	(2.5)	4.9	(27.9)	(19.5)
Dividends paid	0.0	0.0	0.0	0.0	0.0
Discretionary cash flow	3.0	(2.5)	4.9	(27.9)	(19.5)
Cash and short-term investments	23.7	12.4	38.6	38.9	76.6
Debt	46.7	38.2	21.0	16.2	0.0
Equity	94.1	99.7	83.1	84.0	88.6
Debt and equity	140.8	138.0	104.1	100.3	88.6
Adjusted ratios					
Annual revenue growth (%)	21.6	46.0	45.4	N.M.	N.M.
EBITDA margin (%)	57.0	51.5	45.9	29.1	N.M.
EBIT interest coverage (x)	1.5	0.6	0.4	(0.1)	(80.7)
EBIT margin(%)	45.9	11.6	15.4	(4.5)	N.M.
Return on capital (%)	5.2	1.2	1.3	(0.3)	(2.1)
EBITDA interest coverage (x)	1.9	2.9	1.0	0.5	(135.9)
EBITDA cash int. cov. (x)	2.3	3.5	3.2	5.5	N.M.
FFO cash int. cov. (x)	2.8	4.1	4.0	8.2	N.M.
CFO cash int. cov. (x)	0.9	3.5	4.8	(9.1)	N.M.
Debt/EBITDA (x)	5.2	5.7	5.2	9.1	0.0
FFO/debt (%)	13.6	14.7	5.5	(3.7)	N.M.
Cash flow from operations/debt (%)	7.9	17.4	29.0	(18.0)	N.M.
Free operating cash flow/debt (%)	6.4	(6.5)	23.3	(171.9)	N.M.
Discretionary cash flow/debt (%)	6.4	(6.5)	23.3	(171.9)	N.M.
Discretionary cash flow/EBITDA (%)	33.2	(37.1)	119.8	(1,567.5)	625.8
Debt/debt and equity (%)	33.1	27.7	20.2	16.2	0.0

Liquidity

In accordance with our methodology, Ellomay's liquidity is "Adequate". We estimate the ratio between the company's liquidity sources and its liquidity uses to exceed 1.2x in the next 12 months. This assessment is based on the current cash balance, estimated cash flows from projects, and debt maturities in the next 12 months. We note that, in accordance with our methodology, our liquidity calculation does not include investments in future projects that have not yet matured into actual transactions, nor any dividend receipt from Dorad Energy, in light of the uncertainty as to its scope and timing.

We assume the company's liquidity sources and uses in the 12 months following June 30, 2015, to be as follows:

Principal Liquidity Sources	Principal Liquidity Uses
• Cash and marketable financial assets amounting to about $ 17 million; • Operating cash flow from projects amounting to about $ 4.5 million.	• Interest expenses of about $ 3 million; • Debt maturities of about $ 5.5 million; • General and administrative expenses of about $ 2.5 million.

As of June 2015, the company complied with all its financial covenants, presenting an equity of $ 92 million, a debt/debt+equity ratio of 24.6%, and an equity/balance-sheet ratio of 58.8%.

Modifiers

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Liquidity: Neutral
- Financial policy: Neutral (no impact)
- Management and governance: Neutral
- Comparable rating analysis: Neutral

Reconciliation

In order to create a basis for comparison with other rated companies, we adjust the data reported in the company's financial statements which we use to calculate coverage ratios. Following are the main adjustments we made to Ellomay Capital's consolidated data for 2014:

- Deducting cash surplus, according to our definition, from reported financial debt.
- Adding discounted long term operating lease contracts to reported debt.
- Adjusting EBITDA for valuation gains/losses.

Table 2.

Reconciliation Of Ellomay Capital Ltd. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2014--						
Ellomay Capital Ltd. reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**EBITDA**	**Cash flow from operations**
Reported	55.3	94.1	15.7	10.2	4.6	15.7	3.3
Standard & Poor's adjustments							
Interest expense (reported)	--	--	--	--	--	(4.6)	--
Interest income (reported)	--	--	--	--	--	2.2	--
Current tax expense (reported)	--	--	--	--	--	(0.2)	--
Operating leases	1.1	--	0.4	0.1	0.1	0.4	0.4
Surplus cash	(9.7)	--	--	--	--	--	--
Non-operating income (expense)	--	--	--	2.2	--	--	--
Non-controlling Interest/Minority interest	--	0.0	--	--	--	--	--
EBITDA - Income (expense) of unconsolidated companies	--	--	(1.8)	(1.8)	--	(1.8)	--
EBITDA - Valuation gains/(losses)	--	--	(4.0)	(4.0)	--	(4.0)	--
EBITDA - Other income/(expense)	--	--	(1.3)	(1.3)	--	(1.3)	--
EBIT - Income (expense) of unconsolidated companies	--	--	--	1.8	--	--	--
Total adjustments	(8.6)	0.0	(6.7)	(3.0)	0.1	(9.3)	0.4
Standard & Poor's adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	46.7	94.1	9.0	7.2	4.7	6.4	3.7

Related Criteria And Research

- National And Regional Scale Credit Ratings, September 22, 2014
- Corporate Methodology, November 19, 2013
- Criteria For Rating Non-Financial Corporate Issuances On Standard & Poor's Maalot's Local Rating Scale, September 22, 2014.
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, December 16, 2014
- Corporate Methodology: Ratios And Adjustments, November 19, 2013
- Group Rating Methodology, November 19, 2013
- Use Of CreditWatch And Outlooks, September 14, 2009
- Key Credit Factors For The Unregulated Power And Gas Industry, March 28, 2014
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, October 24, 2013
- Standard & Poor's Ratings Definitions, November 20, 2014
- Standard & Poor's National And Regional Scale Mapping Tables, January 19, 2016

Rating Details (As of 28-Jan-2016)	
Ellomay Capital Ltd.	
Corporate Credit Rating	ilA-/Stable
Senior Unsecured Debt	
Series A	ilA-
Corporate Credit Rating history	
31-Dec-2013	ilA-/Stable

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