

SolarEdge Technologies, Inc.

SEDG

Analyst: Zach Collins

BUY on SEDG

Price Target: \$ 33.80

Key Statistics as of 12/4/15

Market Price: \$25.05
 Industry: Information technology
 Market Cap: \$1007.5 M
 52-Week Range: \$15.02-43.00
 1 Year Beta: 1.7

Thesis Points:

- Increasing margins
- Consistently outperforming estimates
- High growth industry

Company Description:

SolarEdge Technologies was founded in 2006 and began commercial shipments in 2010. The company went public on March 25, 2015. SolarEdge provides solar power optimization and photovoltaic monitoring solutions. The company offers optimizers, inverters, monitoring equipment, and accessories for power harvesting, conversion, and efficiency. SolarEdge has invented an intelligent inverter solution that has changed the way power is harvested and managed in a solar PV system. The direct current optimized inverter system maximizes power generation at the individual PV module level, while lowering the cost of energy produced by the solar PV system.

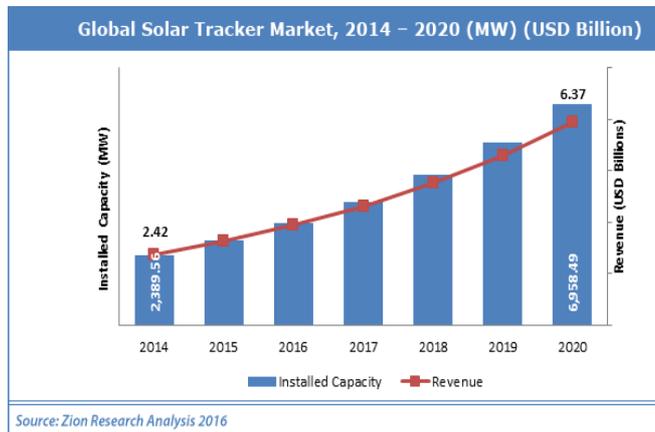


Thesis

Since their IPO on March 25, 2015, SolarEdge has outperformed their earnings estimates in each quarter. SolarEdge has positioned themselves with a high potential to be a prominent company within the solar equipment sector of the information technology industry. Since 2013, SolarEdge has increased their profitability margins down the income statement, and shows strong signs of further improvement. SolarEdge is also best in class in terms of value creation. The information technology industry as a whole has demonstrated high growth, which is forecasted to continue in the near future.

Industry Outlook

The graph below illustrates the growth of the solar industry from 2014, up to analysts' estimates of growth for 2020.



As you can see there is a positive outlook on future growth within the solar market. This industry is projected to grow at a CAGR growth percentage of 18% to 2020, from \$2.4 B in 2014 to over \$6 B in 2020. The primary factors that have influenced this trend include advancements in technology, improvements on the efficiency of solar equipment, as well as improvements on the installation methods of solar equipment. As the global population grows and technology continues to rapidly advance, the demand for energy will rise substantially.

Solar PV prices are dropping, cheaper to use solar energy



This chart illustrates how the improvements made to solar equipment continue to lower the cost of using solar energy. Which makes this form of renewable energy particularly attractive. This provides high growth potential for any firm within this industry that can capitalize on this trend. That being said, the solar industry as a whole has come under scrutiny recently with the expiration of the Federal Investment Tax Credit "ITC" at the end of 2016. This has blown over however as the ITC has been extended to 2021. With a 30% tax credit through 2019, 26% in 2020, and 22% in 2021. Thus further improving the outlook of this industry.

Porter's Five Forces

Bargaining power of suppliers: **HIGH**

SolarEdge does not have internal manufacturing capabilities and currently relies on two contract manufacturers to build all of their products.

Bargaining power of customers: **HIGH**

The top customer for SolarEdge accounted for 24.6% of their revenue for fiscal 2015. While their next top five largest customers accounted for 29.9% of their revenue. SolarEdge may be reliant on these customers, but continues to expand their customer network.

Threat of substitutes: **MODERATE**

The threat of substitutes for SolarEdge is moderate as there are other sources of renewable energy. However, solar energy shows a more positive outlook than other sources of renewable energy.

Existing rivalry: **HIGH**

The intensity of competition within the solar equipment industry is very high, as the nature of this industry is rapidly evolving.

Threat of new competition: **LOW**

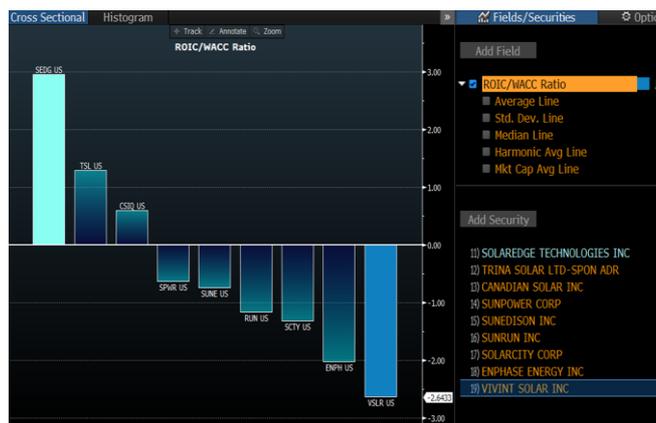
The solar industry is an industry with extremely high barriers to entry. As the startup costs for a solar equipment company are very high.

Increasing Margins

Since fiscal year 2013, SolarEdge has consistently improved their profitability margins each year.

12 Months Ending	06/30/2013	06/30/2014	06/30/2015	12/31/2015
Revenue	79.0	133.2	325.1	424.7
- Cost of Revenue	94.4%	83.5%	74.8%	70.8%
Gross Profit	5.6%	16.5%	25.2%	29.2%
+ Other Operating Income	0.0%	0.0%	0.0%	0.0%
- Operating Expenses	40.3%	30.3%	16.5%	16.1%
Operating Income	-34.7%	-13.8%	8.7%	13.1%
- Interest Expense	1.4%	1.5%	-	-
- Foreign Exchange Losses (Gains)	-0.4%	0.5%	0.1%	0.1%
- Net Non-Operating Losses (Gains)	-0.3%	0.1%	1.5%	1.5%
Pretax Income	-35.5%	-15.9%	7.1%	11.7%
- Income Tax Expense	0.1%	0.2%	0.6%	-1.0%
Income Before XO Items	-35.7%	-16.0%	6.5%	12.7%
- Extraordinary Loss Net of Tax	0.0%	0.0%	0.0%	0.0%
- Minority Interests	0.0%	0.0%	0.0%	0.0%
Net Income	-35.7%	-16.0%	6.5%	12.7%

This common size income statement illustrates SolarEdge's improvement in managing their operating expenses, as well as the costs associated with selling their products. The gross margin, EBITDA margin, and net margin have all increased in each year. And analysts' estimates of the next four years show further signs of increasing margins.



This cross sectional analysis illustrates how SolarEdge is generating a higher ROIC/WACC ratio than their peers within the industry. This demonstrates how SolarEdge is creating more value for their firm than that of their competition.

Outperforming Estimates

Since SolarEdge went public, they have consistently outperformed their earnings estimates in each quarter.



This chart illustrates the actual EPS for SolarEdge in comparison to analyst estimates. Analysts are also forecasting an increase in earnings for the next four quarters.

Quarter ending	Past Earning Surprises	
	Revenue	EBITDA
12/31/2014	N/A	N/A
3/31/2015	18.72%	245.04%
6/30/2015	3.43%	80.86%
9/30/2015	4.51%	14.67%
12/31/2015	4.48%	30.89%

SolarEdge has significantly outperformed their EBITDA estimates. And is at the top of their industry in terms of their EBITDA margin.



The peers identified in this analysis include Canadian Solar (CSIQ), SunPower Corp. (SPWR), SunEdison Inc. (SUNE), SolarCity Corp. (SCTY), Enphase Energy Inc. (ENPH), and SunRun Inc. (RUN).

When valuing this stock on the proforma, the sensitivity analysis showed that this stock was extremely sensitive to changes in operating costs. If the last reported operating costs were used in the continuing period, a substantial amount of value for this stock was lost. However, based on management's focus on cutting operating expenses, analysts' forecasts, and the improvements SolarEdge has shown each year since 2013 with lowering these costs, I believe a slightly lower value for their operating costs in the continuing period can be justified.

Conclusion

After a thorough analysis of SolarEdge it is clear that this company is undervalued. As they continue to improve their margins with high revenue growth, this firm will generate significant value to their firm. SolarEdge is also showing they can generate value without taking on a substantial amount of debt. What cannot be emphasized enough is the high growth potential within this industry. Despite the risk associated with limited financial data, the high return potential of this stock outweighs this level of risk. For the above reasons identified and the analysis conducted on the financials for SolarEdge, this stock is a BUY.

SolarEdge Technologies, Inc.
(sedg)

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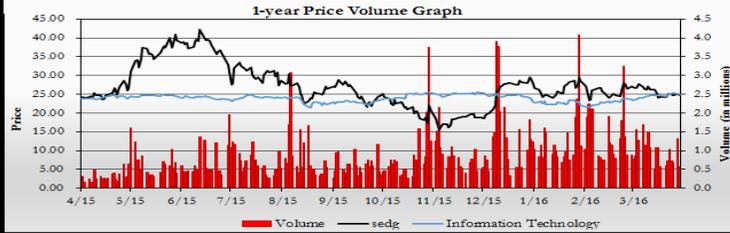
BULLISH

Analysis by Zach Collins
4/9/2016

Current Price: \$24.99
Divident Yield: 0.0%

Intrinsic Value: \$24.40
Target Price: \$30.88

Target 1 year Return: 23.55%
Probability of Price Increase: 98%

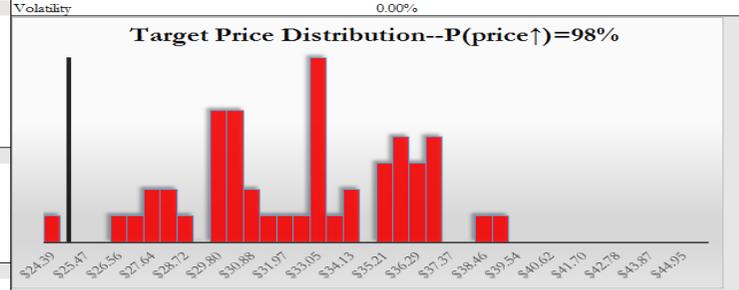


Description	
SolarEdge Technologies, Inc. designs, develops, manufactures, and sells direct current (DC) optimized inverter systems for solar photovoltaic (PV) installations in Israel, Europe, the United States, and internationally.	
General Information	
Sector	Information Technology
Industry	Semiconductors and Semiconductor Equipment
Last Guidance	November 3, 2015
Next earnings date	May 4, 2016
Estimated Country	Risk Premium 6.50%
Effective Tax rate	36%
Effective Operating Tax rate	43%

Market Data	
Market Capitalization	\$1,011.14
Daily volume (mil)	0.40
Shares outstanding (mil)	40.22
Diluted shares outstanding (mil)	35.98
% shares held by institutions	55%
% shares held by investments Managers	26%
% shares held by hedge funds	18%
% shares held by insiders	3.94%
Short interest	11.00%
Days to cover short interest	3.72
52 week high	\$43.00
52-week low	\$15.02
Levered Beta	1.73
Volatility	0.00%

Past Earning Surprises	
Quarter ending	Revenue
12/31/2014	N/A
3/31/2015	18.72%
6/30/2015	3.43%
9/30/2015	4.51%
12/31/2015	4.48%
Mean	7.78%
Standard error	3.7%

EBITDA	
12/31/2014	N/A
3/31/2015	245.04%
6/30/2015	80.86%
9/30/2015	14.67%
12/31/2015	30.89%
Mean	92.86%
Standard error	52.6%



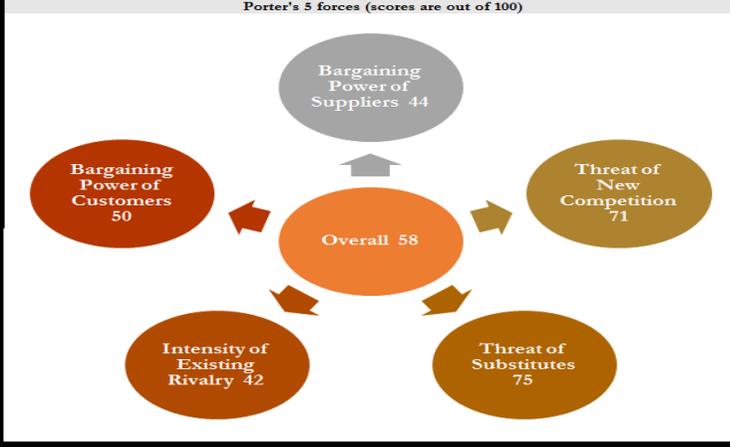
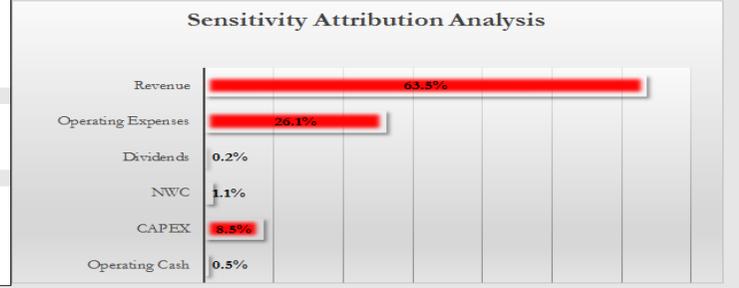
Management	
Sella, Guy	Founder, Chairman and Chief
Faier, Ronen	Chief Financial Officer
Lando, Zvi	Vice President of Global Sal
Handelsman, Lior	Founder and Vice President o
Galin, Yoav	Founder and Vice President o
Adest, Meir	Founder and Vice President o

Total compensations growth	
217.9%	per annum over 2y
35.25%	per annum over 2y
25.54%	per annum over 2y

Peers	
Enphase Energy, Inc.	
Veeco Instruments Inc.	
SunPower Corporation	
SunEdison, Inc.	
Canadian Solar Inc.	

Profitability	
ROIC	22.8%
NOPAT Margin	11%
Revenue/Invested Capital	2.02
ROE	18.1%
Adjusted net margin	11%
Revenue/Adjusted Book Value	1.63

Total return to shareholders	
217.9%	per annum over 2y
35.25%	per annum over 2y
25.54%	per annum over 2y



Revenue growth	
Period	97.2%
Base Year	12/31/2016
12/31/2016	31.4%
12/31/2017	12.6%
12/31/2018	9.3%
12/31/2019	8.5%
12/31/2020	7.7%
12/31/2021	6.9%
12/31/2022	6.1%
12/31/2023	5.4%
12/31/2024	4.6%
12/31/2025	3.8%
Continuing Period	3.0%

Valuation	
NOPAT margin	11.3%
ROIC/WACC	1.60
	2.26
	1.89
	1.75
	1.68
	1.65
	1.65
	1.66
	1.70
	1.75
	1.80
	1.85

Invested Capital	
Period	\$0.00
Base Year	12/31/2016
12/31/2016	\$15.79
12/31/2017	\$32.55
12/31/2018	\$59.94
12/31/2019	\$210.29
12/31/2020	\$295.19
12/31/2021	\$400.05
12/31/2022	\$472.41
12/31/2023	\$535.29
12/31/2024	\$594.64
12/31/2025	\$650.30
Continuing Period	

Net Claims	
	\$81.84
	\$35.60
	-\$50.08
	-\$148.77
	-\$254.08
	-\$365.93
	-\$485.04
	-\$612.23
	-\$861.62
	-\$1,006.98
	-\$1,161.22