

February 15, 2006

United States of America

Ormat Technologies (ORA - \$ 43.41) 2-Equal weight

Change of Earnings Forecast

No Froth Valuation
Energy & Power
Power & Utilities

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Investment Conclusion

Based on updated growth projections, we are lowering our '06 and '07 EPS estimates to \$1.02 and \$1.44 from \$1.48 and \$1.85. We value the company using an average of several methods: IPP P/E and EV/EBITDA multiples, as well as a PEG metric applied to small cap renewables companies. Our \$29 target is reflective of the prior IPP multiples as well as a PEG ratio of 1.8x a growth rate of 22% and \$1.50 in NPV for Nevada projects currently in negotiations.

Summary

- Our revised estimates incorporate 2.9M and 3.3M MWh of production in the projects division in '06 and '07. We assume 4Q Puna margins (\$172/MWh) persist through 2007 and that SoCalEd contracts are repriced in 2007 at \$75/MWh. Further differences detailed below.
- We now include as a part of our valuation a group of renewable energy comparables whose '07 PEG ratio is 1.8x. We apply this to a five-year growth rate of 22%, resulting in a \$40 / share value.
- Although valuation remains a challenge at these levels, we believe ORA's strong growth prospects will help buoy the stock as some of the current excitement around renewables moderates.

Stock Rating

Target Price

New: 2-Equal weight New: \$ 29.00
 Old: 2-Equal weight Old: \$ 29.00

Sector View: 3-Negative

EPS (\$) (FY Dec)

	2004		2005		2006		% Change	
	Actual	Old	New	St. Est.	Old	New	2005	2006
1Q	N/A	0.12A	0.12A	0.12A	N/A	N/A	0.15E	N/A
2Q	N/A	0.13A	0.13A	0.13A	N/A	N/A	0.21E	N/A
3Q	0.29A	0.39A	0.39A	0.39A	N/A	N/A	0.38E	34%
4Q	0.17A	N/A	N/A	0.09E	N/A	N/A	0.20E	N/A
Year	0.70A	0.82E	0.82E	0.76E	1.48E	1.02E	1.07E	17%
P/E	51.5		52.9			42.6		24%

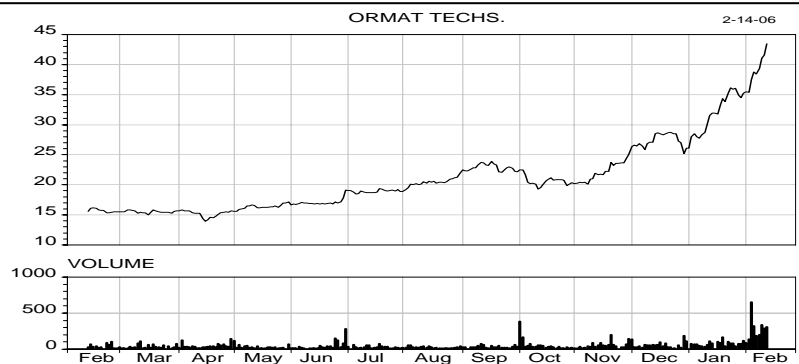
Market Data

Market Cap (Mil.)	1312
Shares Outstanding (Mil.)	31.60
Float (%)	7
Dividend Yield	0.33
Convertible	No
52 Week Range	42.64 - 13.88

Financial Summary

Revenue FY05 (Mil.)	N/A
Five-Year EPS CAGR	13.0
Return on Equity	16.30
Current BVPS	5.32
Debt To Capital (%)	78.04

Stock Overview



Summary of Model Changes

	Former		Current		Difference		EPS Effect	
	2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
Project MWh	3.12	3.26	2.91	3.30	-0.21	0.04	(\$0.14)	\$0.01
Project Gross Margin	46%	49%	43%	43%	-2%	-5%	(\$0.11)	(\$0.28)
Product Gross Margin	18%	18%	23%	23%	6%	6%	\$0.07	\$0.07
Tax Credits (\$M)	\$6.1	\$3.5	\$2.6	\$4.3	-\$3.5	\$0.8	(\$0.11)	\$0.03
Finance Costs (\$M)	\$42.9	\$40.2	\$44.1	\$43.6	\$1.2	\$3.3	(\$0.03)	(\$0.06)
Other							(\$0.14)	(\$0.18)
EPS Estimate	\$1.48	\$1.85	\$1.02	\$1.44	(\$0.46)	(\$0.41)	(\$0.46)	(\$0.41)

Source: Lehman Estimates

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Valuation Method	Equity Value	Per Share Stock Value
	\$ MM	Value
IPP Average EV/EBITDA, 2007E 7.2x	\$636	\$19.32
IPP Average 2007 P/E, 15.4x	\$729	\$22.14
Renewable Comps, Avg. 2007 PEG 1.8x on a 5-year growth rate of 22%	\$1,329	\$40.35
<hr/>		
Average	\$898	\$27.27
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SRP Projects NPV		\$1.58
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Total		\$28.85

IPP P/E and EV/EBITDA Valuation Comparables

	Current Price	Rating	Ticker	EPS			P/E		EBITDA		EV/EBITDA	
				2005E	2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
AES Corp.	\$16.95	2-Equal weight	AES	\$0.85	\$0.95	\$1.10	17.8x	15.4x	\$3,900	\$4,023	7.4x	7.x
International Power	\$25.78	2-Equal weight	IPR	\$1.30	\$1.80	\$2.30	14.3x	11.2x	\$736	\$840	8.6x	7.5x
NRG Energy	\$46.22	1-Overweight	NRG	\$1.93	\$2.95	\$2.72	15.7x	17.x	\$1,819	\$1,770	8.x	7.8x
Mirant	\$25.00	1-Overweight	MIR	\$0.66	\$1.41	\$1.51	19.2x	18.x	1,476	1,500	7.3x	6.5x
IPP Average							16.8x	15.4x	IPP Average		7.8x	7.2x
British Pound	\$1.91											
<hr/>												
	Current Price	Rating	Ticker	2005E	2006E	2007E	2006E	2007E	2006E	2007E	2006E	2007E
Ormat	\$43.41	2-Equal weight	ORA	\$0.78	\$1.02	\$1.44	42.5x	30.2x	\$139	\$165	14.1x	12.x

Renewable Comps

	Ticker	Current Price	Shares	Market Cap	EV	% Wt	PEG		P/E		Growth Rate	Earnings Estimates	
							CY06	CY07	CY06	CY07		CY06	CY07
Acciona	ANA-ES	\$111.95	63.3	\$7,085		36%	1.3x	1.2x	21.4x	19.7x	17%	\$5.24	\$5.67
Evergreen Solar	ESLR	\$14.17	61.3	\$869	\$718	4%	NM	8.6x	NM	301.5x	35%	-\$0.21	\$0.05
Energy Conversion Devices	ENER	\$44.01	29.3	\$1,291	\$889	7%	NM	4.9x	NM	161.8x	33%	-\$0.67	\$0.27
Ersol	ES6-DE	\$59.00	9.8	\$578	\$355	3%	1.x	.7x	34.6x	24.1x	35%	\$1.70	\$2.45
Qcells	QCE-DE	\$87.48	30.3	\$1,963	\$1,919	10%	1.5x	1.1x	53.9x	38.8x	35%	\$1.62	\$2.26
SunTech	STP	\$38.40	144.7	\$5,555	\$5,555	28%	2.x	1.2x	68.4x	40.6x	35%	\$0.56	\$0.95
SunPower	SPWR	\$37.09	59.8	\$2,218	\$2,107	11%	3.x	1.5x	120.4x	59.6x	40%	\$0.31	\$0.62
Market - Weighted Average				\$19,559			1.5x	1.8x	47.3x	54.1x			
							Ormat Valuation		\$40.35				
							'04-'08 Growth Rate		22%				

Source: Lehman Brothers estimates for IPP comparables, First Call Consensus estimates for renewable comparables

Analyst Certification:

I, Daniel Ford, CFA, hereby certify (1) that the views expressed in this research Company Note accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

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Company Description:

ORA is a renewable energy company focusing on geothermal production with 330 MW in production as of January 2006 and a related product sales business.

Important Disclosures:

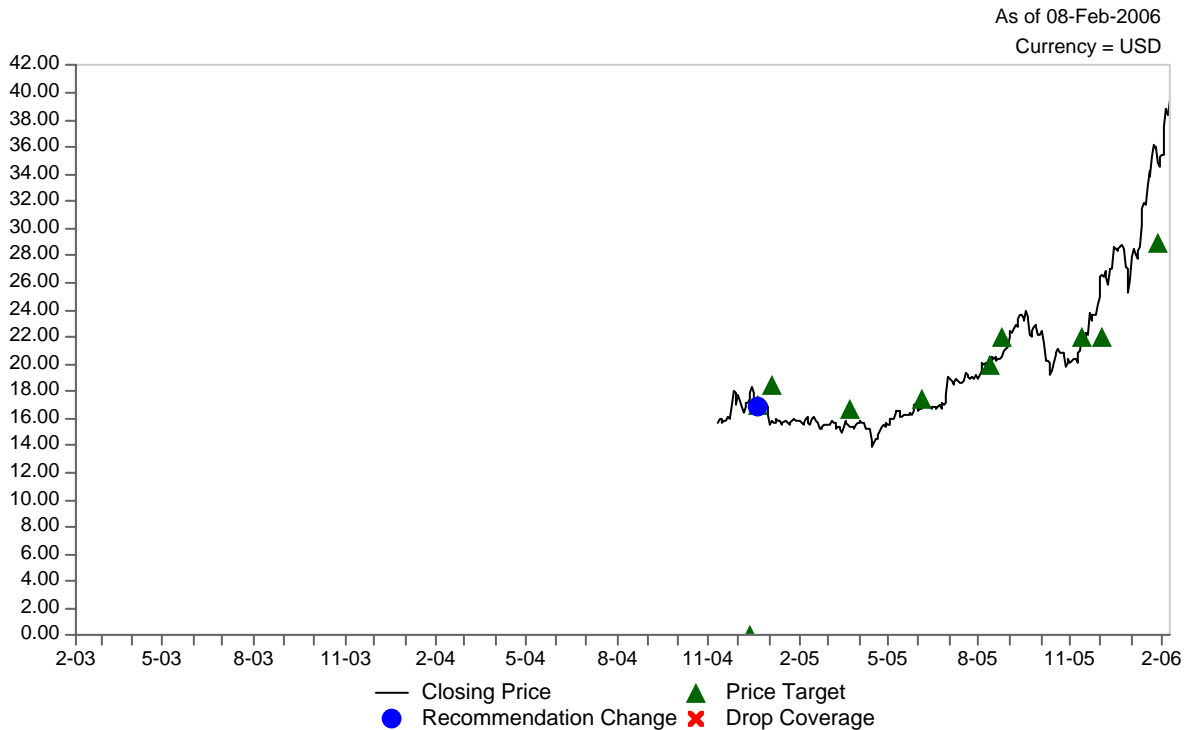
Ormat Technologies (ORA)

\$ 43.41 (10-Feb-2006)

2-Equal weight / 3-Negative

Rating and Price Target Chart:

ORMAT TECHNOLOGIES



Source: FactSet

Currency=\$

Date	Closing Price	Rating	Price Target
27-Jan-06	34.89		29.00
02-Dec-05	26.56		22.00
14-Nov-05	21.64		22.00
24-Aug-05	20.55		22.00
11-Aug-05	20.49		20.00
03-Jun-05	16.76		17.50

Date	Closing Price	Rating	Price Target
23-Mar-05	15.45		16.75
04-Jan-05	15.82		18.50
21-Dec-04	16.94		17.00
21-Dec-04	16.94	2-Equal weight	
13-Dec-04	17.39		0.00

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Valuation Methodology: Our target is \$29, reflective of a 7.2x IPP EV/EBITDA multiple, a 15.4x IPP P/E multiple, a Renewable PEG ratio of 1.8x a LT growth rate of 22% and \$1.50 in NPV for Nevada projects.

Risks Which May Impede the Achievement of the Price Target: Risks for Ormat Technologies include geological changes that impact geothermal performance, regulation, commodity prices, and subordinate structure to Israeli-based parent.

Important Disclosures Continued:

The analysts responsible for preparing this report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities

Company Name	Ticker	Price (10-Feb-2006)	Stock / Sector Rating
Ormat Technologies	ORA	\$ 43.41	2-Equal weight / 3-Negative

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AES Corp (AES)	Alliant Energy (LNT)
Ameren Corp (AEE)	American Electric Power (AEP)
Aquila, Inc (ILA)	Cinergy Corp (CIN)
CMS Energy (CMS)	Consolidated Edison (ED)
Constellation Energy (CEG)	Dominion Resources (D)
DPL Inc (DPL)	DTE Energy (DTE)
Duke Energy (DUK)	Duquesne Light Holdings (DQE)
Edison International (EIX)	Empire District Electric (EDE)
Entergy Corp (ETR)	Exelon Corp (EXC)
FirstEnergy Corp (FE)	FPL Group (FPL)
Great Plains Energy (GXP)	Hawaiian Electric Inds (HE)
ITC Holdings (ITC)	Mirant Corp. (MIR)
NiSource, Inc (NI)	Northeast Utilities (NU)
NRG Energy (NRG)	OGE Energy (OGE)
Ormat Technologies (ORA)	Pepco Holdings (POM)
PG&E Corp (PCG)	Pinnacle West Capital (PNW)
PPL Corporation (PPL)	Progress Energy (PGN)
Public Service Enterprise Gp (PEG)	Puget Energy (PSD)
Sempra Energy (SRE)	Sierra Pacific Resources (SRP)
Southern Co (SO)	TECO Energy (TE)
TXU Corp (TXU)	Westar Energy (WR)
Wisconsin Energy (WEC)	Xcel Energy (XEL)

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Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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