

Pinnacle West

Upgrade to Buy: The Road to a Long Improving ROE & Investment Cycle

Rating Change: BUY | PO: 80.00 USD | Price: 70.98 USD

Improving regulation points to a long runway of growth

We upgrade shares of Arizona based regulated utility Pinnacle West Capital Corp. (PNW) to Buy to reflect an improving regulatory environment. We see the adoption of the System Reliability Benefit (SRB) surcharge, the regulator-led initiative towards a forward or hybrid test year, and the Integrated Resource Plan (IRP) consideration process pointing to an improving earnings and growth outlook through the end of the decade.

Proposed test year change points to higher earned ROE's

The Arizona Corporation Commission (ACC) is investigating the adoption of a forward or hybrid test year for general rate case filings to modernize regulation. We believe this change could address PNW's long standing regulatory lag and underearning issues. The next hearings are scheduled for March 19, with the expectation for a decision by year end. [See background from our recent regulatory meetings here](#). We believe this process will yield a positive result and reflect a +40bp improvement in earned returns for PNW YoY in 2026 (~8.5% vs. ~8.1%). With this change, the gap between earned and allowed returns (9.85%) should continue to narrow, allowing EPS to grow faster than rate base.

SRB mechanism boosts EPS quality & transparency

The ACC approved the SRB in PNW's most recent rate case. The company can now earn a return on generating assets shortly after they enter service. With new generation forecasted for 2026, this mechanism will be accretive to earnings from 2027 forward.

Updated EPS estimates & equity issuance assumptions

We are raising our 2024/2025 EPS to \$4.82/\$4.99 from \$4.77/\$4.97 to reflect the recent rate case. Additionally, we are lifting 2026 +12% to \$5.59 from \$5.00 and +5% vs \$5.29 Consensus. We incorporate the 8.5% ROE mentioned as well as strong industrial demand and customer growth. Embedded in our above-Consensus estimates are 2-3% of market cap annual equity issuance to support the balance sheet.

Price target to \$80; total 12mt return potential of 18%

We are updating our valuation target to incorporate the revised 2026 EPS and average multiple (14.0x vs. 13.8x prior) on an unchanged methodology: imputing a premium for FERC transmission (+3x) and a modest discount for Arizona regulation (-1x).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.26	4.42	4.82	4.99	5.59
EPS Change (YoY)	-22.1%	3.8%	9.0%	3.5%	12.0%
Consensus EPS (Bloomberg)			4.75	4.94	5.29
DPS	3.42	3.48	3.54	3.62	3.69
Valuation (Dec)					
P/E	16.7x	16.1x	14.7x	14.2x	12.7x
Dividend Yield	4.8%	4.9%	5.0%	5.1%	5.2%
EV / EBITDA*	18.1x	16.6x	15.6x	13.8x	12.7x
Free Cash Flow Yield*	-5.3%	-7.3%	-6.6%	-5.6%	-4.5%

* For full definitions of *IQmethod*SM measures, see page 11.

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Timestamp: 18 March 2024 06:00AM EDT

18 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	71.00	80.00
2024E Rev (m)	4,775.6	4,995.9
2025E Rev (m)	4,970.9	5,244.8
2026E Rev (m)	5,151.3	5,487.5
2024E EPS	4.77	4.82
2025E EPS	4.97	4.99
2026E EPS	5.00	5.59

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Stock Data

Price	70.98 USD
Price Objective	80.00 USD
Date Established	18-Mar-2024
Investment Opinion	B-1-7
52-Week Range	65.20 USD - 86.03 USD
Mkt Val (mn) / Shares Out (mn)	8,753 USD / 123.3
Free Float	99.7%
Average Daily Value (mn)	122.34 USD
BofA Ticker / Exchange	PNW / NYS
Bloomberg / Reuters	PNW US / PNW.N
ROE (2024E)	8.8%
Net Dbt to Eqty (Dec-2023A)	143.5%

ACC: Arizona Corporation

Commission

SRB: System Reliability Benefit

iQprofileSM Pinnacle West

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.1%	3.2%	3.3%	3.8%	4.0%
Return on Equity	8.1%	8.2%	8.8%	9.2%	9.5%
Operating Margin	16.9%	17.6%	18.6%	21.0%	22.3%
Free Cash Flow	(466)	(639)	(576)	(490)	(397)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.6x	2.4x	2.5x	2.4x	2.3x
Asset Replacement Ratio	2.1x	2.2x	2.5x	2.4x	2.3x
Tax Rate	13.0%	12.9%	14.3%	14.3%	14.3%
Net Debt-to-Equity Ratio	125.6%	143.5%	155.9%	134.6%	134.5%
Interest Cover	2.9x	2.5x	2.8x	2.7x	2.9x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,324	4,696	4,996	5,245	5,488
% Change	13.7%	8.6%	6.4%	5.0%	4.6%
Gross Profit	1,708	1,845	1,960	2,195	2,383
% Change	0.6%	8.0%	6.3%	12.0%	8.5%
EBITDA	1,485	1,619	1,723	1,946	2,122
% Change	2.0%	9.0%	6.5%	13.0%	9.0%
Net Interest & Other Income	(156)	(229)	(269)	(342)	(360)
Net Income (Adjusted)	483	503	549	632	728
% Change	-22.0%	4.1%	9.0%	15.2%	15.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	484	502	548	632	722
Depreciation & Amortization	818	854	794	846	898
Change in Working Capital	0	(146)	1	1	1
Deferred Taxation Charge	37	(24)	67	67	67
Other Adjustments, Net	(97)	23	(36)	(36)	(36)
Capital Expenditure	(1,707)	(1,846)	(1,950)	(2,000)	(2,050)
Free Cash Flow	-466	-639	-576	-490	-397
% Change	24.0%	-37.0%	9.8%	14.9%	18.9%
Share / Issue Repurchase	(3)	(4)	0	900	250
Cost of Dividends Paid	(379)	(386)	(403)	(458)	(480)
Change in Debt	774	899	1,029	98	678

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	5	5	33	62	91
Trade Receivables	453	659	0	0	0
Other Current Assets	1,293	1,263	1,922	1,921	1,921
Property, Plant & Equipment	16,854	17,980	19,189	20,396	21,601
Other Non-Current Assets	4,118	4,754	4,754	4,754	4,754
Total Assets	22,723	24,661	25,898	27,133	28,366
Short-Term Debt	0	1,485	1,477	1,495	1,571
Other Current Liabilities	1,762	1,405	1,405	1,406	1,406
Long-Term Debt	7,741	7,541	8,577	8,657	9,258
Other Non-Current Liabilities	7,060	7,946	8,013	8,080	8,147
Total Liabilities	16,564	18,376	19,472	19,637	20,382
Total Equity	6,160	6,285	6,426	7,496	7,984
Total Equity & Liabilities	22,723	24,661	25,898	27,133	28,366

* For full definitions of iQmethodSM measures, see page 11.

Company Sector

Electric Utilities

Company Description

Pinnacle West, through its regulated utility, Arizona Public Service (APS), provides electricity to more than one million customers in 11 counties in Arizona, including the Phoenix metropolitan area. APS provides power to over 1Mn customers and is a vertically integrated utility with ownership of transmission, distribution, and generation assets.

Investment Rationale

We rate Pinnacle West (PNW) Buy with an attractive risk/reward profile. Arizona remains a discount jurisdiction given a below-average regulatory scheme, but treatment of utilities is showing signs of improvement and we have confidence that PNW will be able to achieve its long-term 5-7% EPS target CAGR. Assuming successful regulatory reforms, we believe that PNW can grow EPS faster than rate base and improve the relative valuation.

Stock Data

Average Daily Volume 1,723,553

Quarterly Earnings Estimates

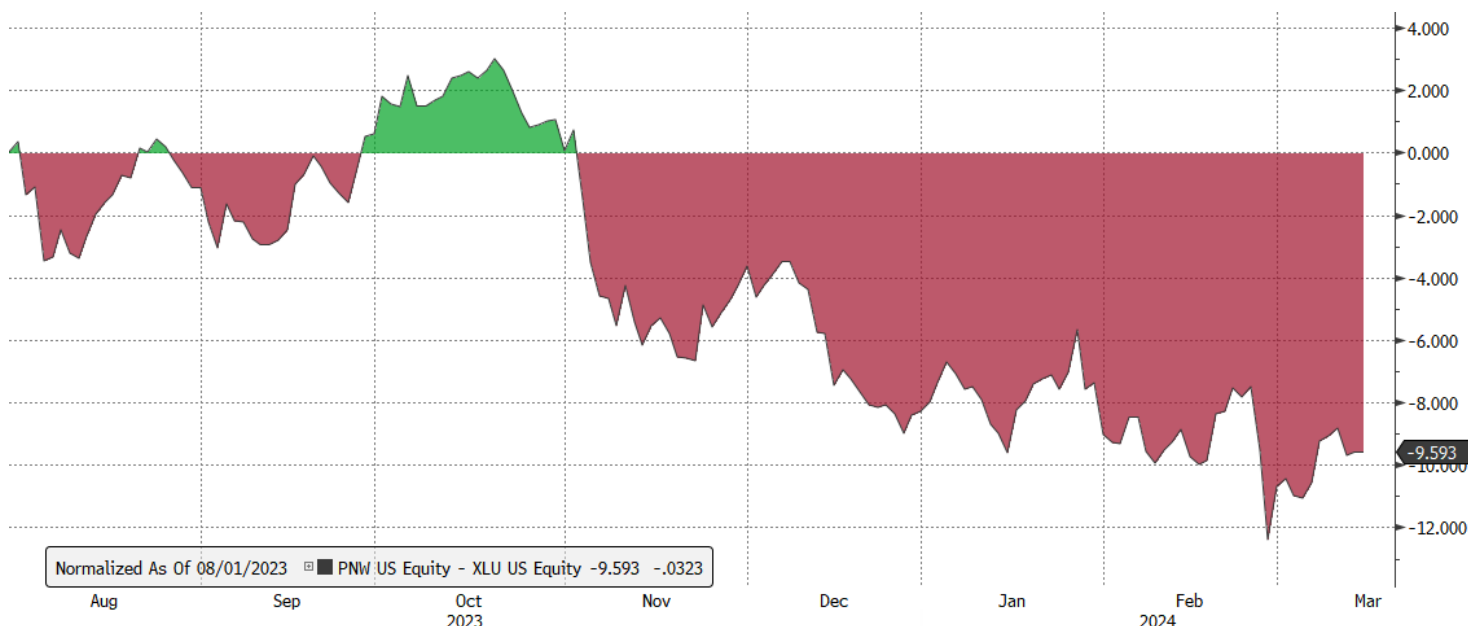
	2023	2024
Q1	0.09A	0.03E
Q2	0.94A	1.32E
Q3	3.50A	3.64E
Q4	-0.11A	-0.17E

Valuation/Performance Comment

Pinnacle West Capital (PNW) shares have underperformed the peer group (XLU) by approximately 5% over the past year and are now trading at an 9% relative discount on our revised 2026 EPS estimates. This underperformance can largely be explained by the vagaries of the general rate case proceeding in the state of Arizona, which traditionally has been challenging jurisdiction.

Exhibit 1: PNW Equity Relative to Utilities Peers

PNW has underperformed -10% since August 2023 and is minimally changed YTD compared with peers



PNW US Equity (Pinnacle West Capital Corp) Daily 01AUG2023-14MAR2024

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14-Mar-2024 19:50:01

Source: Bloomberg

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Now that the 2022 general rate case proceeding is complete (new rates implemented in early March 2024), and the forward block equity issuance is complete (\$750mm including the underwriter's option through a forward issued on February 29th) investors can begin to focus on the positive regulatory changes being considered by the Arizona Corporation Commission (ACC).

We believe there are three regulatory developments that warrant investors' attention and focus:

1. Corporation Commission investigation of a forward test year format for rate cases.
2. PNW's development pipeline of System Reliability Benefit (SRB) surcharge eligible generation projects.
3. Commission consideration of PNW's Integrated Resource Plan (IRP) filing.

ACC investigation of a forward test year format

On January 5th, 2023, ACC Chairman Meyers requested a docket be opened allowing the commission to investigate possible modifications to the test year rules used in the execution of general rate case proceedings in the state (docket #: AU-00000A-23-0012).

Current practice requires utilities to use a **historical** test year in general rate case proceedings. As these cases can run in excess of 12 months, by the time new rates are effective the associated financial data is two years old. This reliance on stale financial data results in regulatory lag for the utilities such that they cannot recover current operating costs through rates and/or cannot earn a return on the investments made over that two-year period.



This docket will be used to explore the possibility of either using a forward or hybrid test year to help eliminate or reduce the impact of regulatory lag. This structure, which is currently used in 29 states, would mark a positive regulatory change for the utilities in Arizona. Further, it would reduce the ACC and stakeholders' workload as there would be fewer general rate case filings, and it would benefit customers by smoothing the impact of rate increases over longer periods.

To date, several utilities (both public & private) have submitted filings in support of this effort. The filing submitted by Arizona Public Service (PNW's operating subsidiary in the state) made additional suggestions around formula rate plans and multi-year rate plans. We believe these suggestions exceed the scope of this docket but illustrate the constructive nature of the conversation. The ACC has scheduled a special open meeting for Tuesday, March 19, to hold a workshop on this docket. Current expectations are that it could be wrapped up by the end of the year, or the first quarter of 2025. *We stress the timeline on this workshop remains among the biggest understated risks to our call (could stretch thru the entirety of 2025 into 2026 – extending out timeline for a subsequent rate case recovery).*

New rates in March 2024 reflect the 'test year' in 2021-2022

The concept of regulatory lag can be seen in the results of PNW's most recently decided general rate case. By using a 2022 June test year, among the issues that the financial data supporting the rate increase failed to capture was the impact of economy wide cost inflation, higher interest rates and a change in the performance profile of the utilities pension plan. The new rates that were implemented in March 2024 reflect a reasonable allowed 9.85% effective ROE (9.55% base plus a 25-bps fair market increment), we expect the actual earned return in both 2024 and 2025 will be approximately 8%.

At the conclusion of this review process, we expect PNW will file its next rate case incorporating the final changes in the test year methodology. The preparation for this filing should take approximately four months (file in early spring 2025) and absent a settlement, the subsequent case could run for a further 12 months (new rates in effect spring of 2026). There is flexibility built into this schedule, PNW's most profitable operating period occurs over the summer months.

To reflect our optimism that this process will produce a positive result, we are reflecting a 40bp improvement in the PNW's earned return from 2025 to 2026 (from 8.12% to 8.52%). This step-up in earned return assumption drives a \$0.17 EPS improvement in the 2026 earnings year.

Exhibit 2: Authorized Return on Equity (ROE) vs. Earned Return on Equity

Forecast shows an improving earned return over the forecast period. Finally see an outline ahead to a narrowed discount ROE.

	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
APS Authorized ROE	10.00%	10.00%	8.90%	8.90%	9.85%	9.85%	9.85%	9.85%	9.85%
APS Earned ROE	9.39%	9.83%	7.73%	7.72%	7.70%	8.12%	8.52%	8.86%	8.97%
APS over/under earning	-0.61%	-0.17%	-1.17%	-1.18%	-2.15%	-1.73%	-1.33%	-0.99%	-0.88%

Source: BofA Global Research, Company Reports

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SRB surcharge reduces regulatory lag.

In its 2022 general rate case decision (E-01345A-22-0144) the Arizona Corporation Commission (ACC) approved a System Reliability Benefit surcharge mechanism that will allow PNW to earn a modified return on qualifying generation facilities that are placed in service between general rate case proceedings.

The mechanics of this surcharge mechanism is that the relevant generation project must have been deemed prudent and assigned through a competitive request for proposal (RFP) process. Such qualifying facilities, after 180 days in service, will be allowed to earn at the company's prevailing Weighted Average Cost of Capital (less 100 bps) until the next rate case, at which time those facilities will be included in base rates.

PNW has identified five generation projects (three new/two expansions) that will qualify for the SRB surcharge. These projects were successfully bid in the associated RFP held in July 2023 and are scheduled to enter service from 2026 through 2028. The results of the RFP will come before the ACC shortly for final recognition.

If each of the identified projects enter service in the by the middle of assigned year, they will be eligible for the SRB surcharge in the following year (180 days later). In that context, we see potential earnings accretion of \$0.11/\$0.15 and \$0.25 in the years 2027/2028 and 2029, respectively.

Exhibit 3: System Reliability Surcharge mechanism

Projects are assumed to enter service mid-year, with returns being earned 180 days later.

Project Name	MWs	Fuel	Est. In Svs.	Price/KW	Total Cost	WACC 6.81%	2026	2027	2028	2029
						(~100bps)				
Agave Bess (Phase I)	150	Solar	2026	\$1,200	\$180,000	5.81%		\$10,458	\$10,458	\$10,458
Sundance Expansion	90	Gas	2026	\$1,400	\$126,000	5.81%		\$7,321	\$7,321	\$7,321
Ironwood Solar	168	Solar	2026	\$1,200	\$201,600	5.81%		\$11,713	\$11,713	\$11,713
Agave Bess (Phase II)	150	Solar	2027	\$1,200	\$180,000	5.81%			\$10,458	\$10,458
Redhawk Expansion	327	Gas	2028	\$1,400	\$457,800	5.81%				\$26,598
					\$1,145,400		\$0	\$29,492	\$39,950	\$66,548
Implied Debt	50%									
Implied Interest Rate	5.0%									
Implied Interest Expense								\$12,690	\$17,190	\$28,635
							\$0	\$16,802	\$22,760	\$37,913
						After Tax		\$14,632	\$19,821	\$33,018
						Per Share Impact		\$0.11	\$0.15	\$0.25

Source: BofA Global Research, Company Reports

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Integrated Resource Plan points to further opportunity.

PNW filed an Integrated Resource Plan (IRP) in November of 2023 (E-999999A-22-0046). This filing addresses Arizona's projected energy and infrastructure needs, along with PNW's plan for serving those needs over a 15-year time horizon from 2023 through 2038. The filing addresses both the generation and transmission need of the state.

Through the '23-'38 periods, PNW projects that annual peak demand in its service territory will increase at compounded and annual growth rates of 2.4% and 3.7% respectively. This projection includes assumptions around distributed generation, demand side management and increased energy efficiency and is premised on significant growth in industrial demand (including data centers), 1.3% annual population growth and more than 1 mm electric vehicles in the service territory by 2038.

PNW expects that approximately 6.9GW's of new generating capacity will be needed in the by the end of the decade to meet the needs of its service territory. In-line with recent guidance provided by the company, and the competitive nature of the associated RFP processes, we believe PNW **could win approximately half of this generation need**. This would represent a clear uptick in total capex should forthcoming procurements play out as such (<1GW above in the plan vs ~3.5GWs implied over 5-year period per IRP). We see an improving comfort with the ACC driving yet further direct investment opportunity vs more muted generation-focused investments given the protracted period for recovery. *This is part of the circular nature around an improving regulatory backdrop. It's not limited to a higher earned ROE.*

To the extent that PNW is successful in the RFPs being run this year for power delivery in 2029/2030, incremental equity would likely be required. Given that these projects and the associated equity are not occurring within our investment timeframe we do not include them in our forecast.

The forward schedule for this proceeding calls for Arizona's Load Serving Entities (LSE's) to respond to stakeholder comments on or by May 31, 2024. The Commission



staff will publish its assessment and proposed order on or by August 30, 2024. The full commission will then take up the issue at an open meeting before handing down a final decision.

C&I customers represent an important source of growth.

Large commercial and industrial (C&I) customers are an important part of the PNW growth story. In its 2%-4% year-over-year sales growth guidance for 2024, 2.5%-3.5% is derived from large commercial and industrial customers. These customers include large data centers and manufacturing facilities. While the largest customer that PNW currently serves in a miner (80mw of load), this will change in mid-2025 when the first semiconductor fabrication facility built by TSMC (Taiwan Semiconductor Manufacturing Company) (TSM) will reach full production. At that point, the power usage of TSMC is projected to be four times that of PNW's mining customer.

Construction on TSMC's first fabrication facility (Fab21) is complete, major equipment has been installed and testing is being carried out. Full production is currently expected in mid-2024. Construction on a second facility is underway at the same site with production slated to begin in 2027.

Large commercial and industrial customers pay lower rates than residential customers (the 'extra high load factor rate plan') but it still represents a positive margin for the company. As a rule of thumb, PNW suggests that every 1% change in commercial and industrial load results in a \$5-\$10mm improvement in gross margin while every 1% change in residential load results in margin improvement of \$20-\$25mm. Further benefits of having these large industrial customers in the service territory include the ecosystem of additional companies they attract, the new residential customers (employees) they bring to the region and the rate headroom they create by covering a greater share of the utilities fixed costs.

Current forecasts and guidance provided by PNW around new C&I and residential load growth is relatively conservative, there is no speculative component (only 'shovel in the ground' projects). We therefore believe that as new manufacturing enters the region, particularly toward the back half of the decade, there may be positive revisions to growth forecasts.

Addressing the impact of rate increases on consumers.

A potential area of difficulty or conflict as PNW moves to close the gap between its earned and allowed ROE is the associated impact on customer rates. PNW has a stated aim of keeping annual customer rate increases below the rate of inflation while also maintaining high levels of service quality and customer satisfaction.

We see several possible offsets that will help mitigate the impact of future rate increases in PNW's service territory:

- **Nuclear production tax credits (PTC's):** While PNW has not quantified the potential financial benefit associated with this program, they do believe that they will qualify for the credit. Given the company's regulated structure, the financial benefit associated with these credits would flow back to ratepayers (in a manner decided through a general rate case proceeding) and would serve as an offset to a future rate increase. *Knowing precisely what the implied LCOE under the depreciated rates of Palo Verde is opaque, but we acknowledge mgmt's clear comments this could help affordability. Also note that this minimizes 2025 (and 2024) rate lag prior to the next rate case too. Stay tuned on how this is implemented, final rules and a mid-yr update. Unexpected upside considering few investors having been asking this question.*
- **Department of Energy (DOE) Grants or Loan Guarantees:** As PNW increases its spending on both new generation and transmission, it will become eligible to

participate in several DOE funded programs. To the extent these programs reduce the overall cost of the projects to consumers then that benefit would be reflected in rates. *The ability to tap cheaper debt at T+3/8ths vs the current cost of Investment Grade (IG) debt could both mitigate lag again prior to new rates in 2026, as well as help minimize inflation on customers. Reducing the ask in the next rate case remains paramount given the need to both recover accelerating generation capex and a major step-up in rates due to sizable inflation/lag. Recall AZ has seen among the highest regional inflation in the US – and its latest rate case still employs a historical test year.*

- Customer growth: As PNW's customer count increases (both residential & industrial), the costs associated with its investment plan can be spread over a wider base.

November Election at the ACC

The Arizona Corporation Commission is composed of five elected members. The terms of Commissioners O'Connor, Tovar and Peterson will expire this November. It is our understanding that Commissioner Peterson will stand for re-election, Commissioner O'Connor has not yet announced his intentions.

April 1 is the filing deadline to register in this year's election, the election primary will be held on July 30 and the election itself will be held on November 5th. Historically the ACC election cycle has driven uncertainty in shares.

Bottom line, while we perceive status quo pervading at the ACC with 3 of 5 commissioners staying in place, alongside trends to suggest the current slate of candidates are also aligned with this turnaround too. We see consistency in the ACC as a key risk and input to watch.

EPS Estimate Update

We are updating our EPS estimates to reflect the following:

- 2024/2025: EPS estimates to \$4.82/\$4.99 from \$4.77/\$4.97 per share. These changes reflect the most recently completed general rate case proceeding, equity issuances (both completed and guided), updated line-item guidance from the company and our assumptions around the regulatory proceedings in the state. Both revised estimates are modestly above consensus. Stress inflation risks bias '25 to the downside: we are still confident in our call considering regulatory uptick ahead.
- 2026: EPS estimate to \$5.59 from \$5.00 to reflect our assumption that PNW will successfully complete a rate case following the forward test year proceeding, close the gap in its earned vs. allowed return by 40bps (earning a return of 8.52% vs. allowed of 9.85% and prior year earned return of 8.12%). *This EPS estimate is meaningfully above current consensus (+6%).*

Exhibit 4: Revised EPS Forecasts vs. Consensus and Guidance

Revised EPS estimates illustrate improving growth profile- we are well above Street on forward estimates

	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Arizona Public Service	\$5.20	\$5.74	\$4.78	\$4.96	\$5.39	\$5.72	\$6.25	\$6.71	\$7.04
Corporate	(\$0.15)	(\$0.12)	(\$0.37)	(\$0.40)	(\$0.42)	(\$0.59)	(\$0.57)	(\$0.57)	(\$0.60)
Non-controlling interest	(\$0.17)	(\$0.15)	(\$0.15)	(\$0.14)	(\$0.15)	(\$0.14)	(\$0.13)	(\$0.13)	(\$0.13)
PNW EPS	\$4.87	\$5.47	\$4.26	\$4.42	\$4.82	\$4.99	\$5.59	\$6.01	\$6.36
Previous BofA estimate					\$4.77	\$4.97	\$5.00		
EPS y/y % CAGR	2.1%	12.2%	-22.0%	3.7%	9.0%	3.6%	12.0%	7.6%	5.8%
EPS % CAGR from 2022 midpoint (\$4.00, guide 5-7%)				10.6%	9.8%	7.7%	8.7%	8.5%	8.0%
						6.4%			
EPS Guidance					4.60-4.80				
Consensus PNW EPS	\$5.06	\$5.06	\$5.06	\$4.27	\$4.75	\$4.94	\$5.29	\$5.53	\$5.88

Source: BofA Global Research, Company Reports

BofA GLOBAL RESEARCH



Valuation: Increase to \$80 from \$71

We value PNW using a 2026 sum-of-the-parts valuation. Our valuation is based on a 14.0x 2026 average P/E ratio, up from 13.8x previously. The base multiple is grossed-up +5% to reflect capital appreciation, a consistent approach across our coverage universe. Of the \$9 change in the price objective, \$1 relates to the updated group multiple and \$8 relates to our updated earnings estimate for 2026. Our valuation methodology is unchanged, we continue to apply a premium valuation to FERC regulated earnings (+3x) while assigning a modest discount to earnings derived from the historically challenging regulated utility environment in Arizona (-1x).

Exhibit 5: Price objective to \$80 from \$71

Calculation methodology is unchanged, total return potential of 18%

Price Objective \$80		
PNW Valuation: P/E Based on 2026 EPS		
Price Objective		
Group Peer Multiple - Electric		14.0x
Group EPS CAGR - Electric		5.00%
P/E Multiple - Utility Average		14.7x
ACC Relative Discount		-1.0x
FERC Relative Premium		3.0x
ACC 2026 Earnings (\$m)	674	
EPS (\$/sh)	5.18	
Multiple applied		13.7x
\$/sh Equity value		\$70.9
FERC 2026 Earnings (\$m)	140	
EPS (\$/sh)	1.07	
Multiple applied		17.7x
\$/sh Equity value		\$19.0
Parent drag (\$/sh)		(\$0.57)
Non-controlling interest (\$/sh)		(\$0.13)
Multiple applied		14.7x
\$/sh Equity value		(\$10.4)
Price objective		\$80
Shares outstanding (2026 BofAe)	130.2	
2024 Dividend		\$3.5
Dividend Yield		5.0%
Total Return (%)		18.0%

Source: BofA Global Research, Company Reports

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Price objective basis & risk

Pinnacle West (PNW)

Our price objective of \$80 is based on a peer utility P/E multiple of 14.0x, grossed up for a year by 5% to reflect capital appreciation across the sector.

For Arizona Corporation Commission (ACC) regulated assets we apply a -1x discount to reflect the relative quality of the jurisdiction and ongoing earned ROE lag.

For Federal Energy Regulatory Commission (FERC) regulated assets we apply a +3x premium to reflect a premium ROE and rider recovery of invested capital.

Upside and downside risks to the Price Objective are changes in 1) regulatory, political, and legislative relationships/outcomes, 2) load growth in territory versus expectations, 3) riders and capital trackers implementation 4) weather, nuclear, and natural disasters, 5) interest rates, 6) pension liabilities and asset returns, 7) equity needs relative to forecasts, 8) capital expenditures, and 9) ability to control costs to earn a return on equity.

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I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RVW				
	New Fortress Energy	NFE	NFE US	Julien Dumoulin-Smith

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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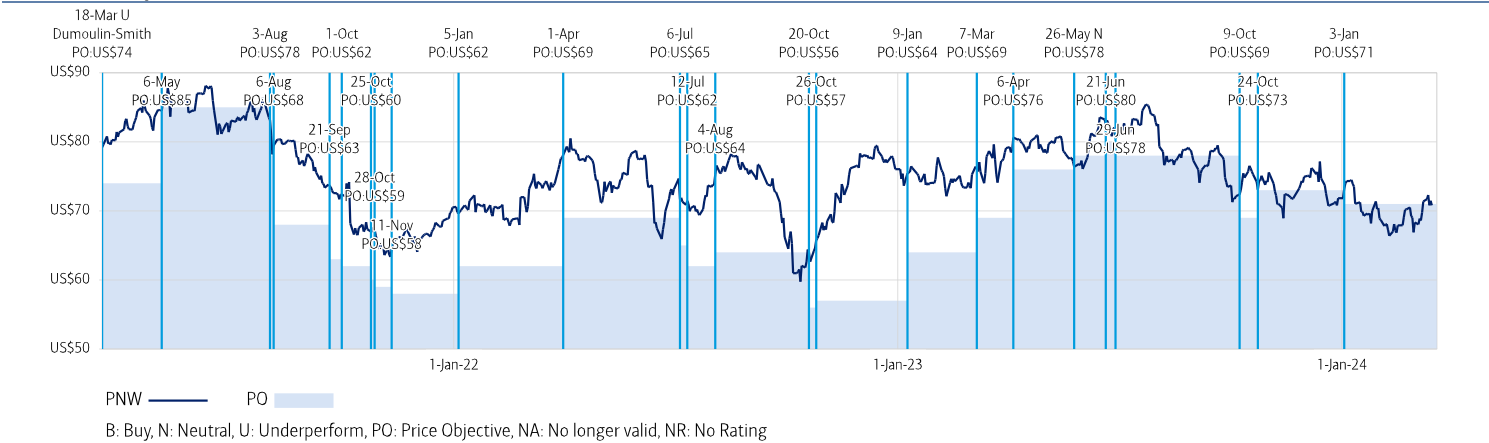
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Important Disclosures

Pinnacle West Cap (PNW) Price Chart



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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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