

Avangrid

Iberdrola offers to acquire remaining Avangrid public shares at \$34.25/sh

Rating Change: NO RATING | PO: NA | Price: 36.11 USD

Move to no rating after Iberdrola bid for remaining stock

We move to No Rating on shares of Northeast diversified utility and offshore wind developer Avangrid (AGR) after parent company and ~81.6% shareholder Iberdrola (IBE) launched a tender offer for the remaining ~18.4% of shares it does not own. Iberdrola's tender offer is at \$34.25/sh, a +10% premium to the \$32.08/sh last close, a +9% premium to the \$31.55 YTD average, and a -2% discount to the ~\$35/sh 52-week high. Avangrid confirmed receipt of the offer and is evaluating it. The current transaction requires the majority of non-IBE Avangrid shareholders to approve. Investors should no longer rely on our prior ratings or price objectives.

Not a surprise after M&A growth strategy ended

This is not an overly surprising decision after the PNM Resources (PNM) acquisition was terminated at the start of 2024. At Avangrid's IPO, the company discussed extensive earnings per share and dividend per share growth - EPS and DPS have been essentially flat. We had anticipated another Avangrid long term EPS growth guidance reset this month at the March 21st Capital Markets Day. *We emphasize that our AGR estimates do not include a dividend cut or any near-term equity with the balance sheet metrics healthy.*

What regulatory approvals are required is the question

We do not believe that the proposed transaction will require extensive regulatory approval but that is the key question. Iberdrola's filing states that the proposed transaction is subject to regulatory authorizations amongst other things. The original approval of the UIL Holdings (UIL) merger was tumultuous but we assume acquiring the remaining 18% stub of shares will be easier. Connecticut specifically prefers local ownership of its utilities. The Connecticut Attorney General has been active in litigating against Avangrid for alleged failure to meet requirements of the original merger agreement. At a minimum, we expect states to open regulatory dockets (similar to Dominion East Ohio-Enbridge). Maine has been focused on foreign ownership of its regulated utilities.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026
EPS	2.33	2.00	2.14	2.36	NA
GAAP EPS	2.28	1.58	2.22	2.44	NA
EPS Change (YoY)	6.9%	-14.2%	7.0%	10.3%	NA
Consensus EPS (Bloomberg)			2.26	2.43	2.50
DPS	1.76	1.76	1.76	1.76	NA
Valuation (Dec)					
P/E	15.5x	18.1x	16.9x	15.3x	NA
GAAP P/E	15.8x	22.9x	16.3x	14.8x	NA
Dividend Yield	4.9%	4.9%	4.9%	4.9%	NA
EV / EBITDA*	16.2x	16.1x	15.6x	14.8x	NA
Free Cash Flow Yield*	-10.6%	-2.2%	-16.2%	0.1%	NA

* For full definitions of *IQmethod*SM measures, see page 6.

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

12668257

Timestamp: 07 March 2024 10:31AM EST

07 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	A-3-7	-6-
Inv. Rating	UNDERPERFORM	NO RATING
Price Obj.	31.00	NA
2024E Rev (m)	8,267.6	8,262.0
2025E Rev (m)	8,548.1	8,524.5
2024E EPS	2.16	2.14
2025E EPS	2.42	2.36

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Stock Data

Price	36.11 USD
Price Objective	NA
Date Established	NA
Investment Opinion	-6-
52-Week Range	27.46 USD - 41.22 USD
Mrkt Val (mn) / Shares Out (mn)	13,986 USD / 387.3
Free Float	18.3%
Average Daily Value (mn)	27.38 USD
BofA Ticker / Exchange	AGR / NYS
Bloomberg / Reuters	AGR US / AGR.N
ROE (2024E)	4.2%
Net Dbt to Eqty (Dec-2023A)	49.7%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Avangrid

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Return on Capital Employed	2.8%	2.6%	2.6%	2.6%	NA
Return on Equity	4.7%	4.0%	4.2%	4.6%	NA
Operating Margin	10.8%	12.4%	13.6%	14.1%	NA
Free Cash Flow	(1,484)	(304)	(2,269)	19	NA

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash Realization Ratio	1.1x	2.4x	2.4x	2.3x	NA
Asset Replacement Ratio	2.3x	1.9x	3.6x	1.7x	NA
Tax Rate	2.4%	5.8%	NM	NM	NA
Net Debt-to-Equity Ratio	44.9%	49.7%	63.6%	66.0%	NA
Interest Cover	3.8x	3.1x	2.9x	3.0x	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Sales	7,923	8,361	8,262	8,525	NA
% Change	13.6%	5.5%	-1.2%	3.2%	NA
Gross Profit	5,467	5,757	5,919	6,156	NA
% Change	4.0%	5.3%	2.8%	4.0%	NA
EBITDA	2,229	2,239	2,314	2,444	NA
% Change	12.8%	0.4%	3.4%	5.6%	NA
Net Interest & Other Income	(303)	(351)	(394)	(406)	NA
Net Income (Adjusted)	901	773	828	913	NA
% Change	15.4%	-14.2%	7.0%	10.3%	NA

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Net Income from Cont Operations (GAAP)	821	707	859	946	NA
Depreciation & Amortization	1,085	1,140	1,170	1,222	NA
Change in Working Capital	0	0	0	0	NA
Deferred Taxation Charge	18	53	53	53	NA
Other Adjustments, Net	(889)	(21)	(118)	(119)	NA
Capital Expenditure	(2,519)	(2,183)	(4,234)	(2,083)	NA
Free Cash Flow	-1,484	-304	-2,269	19	NA
% Change	-4.9%	79.5%	-646.6%	NM	NA
Share / Issue Repurchase	(1)	0	0	0	NA
Cost of Dividends Paid	(681)	(681)	(681)	(681)	NA
Change in Debt	662	985	2,950	662	NA

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026
Cash & Equivalents	72	72	72	72	NA
Trade Receivables	1,742	1,742	1,742	1,742	NA
Other Current Assets	1,396	1,396	1,396	1,396	NA
Property, Plant & Equipment	30,994	32,037	35,101	35,961	NA
Other Non-Current Assets	6,919	6,854	6,886	6,918	NA
Total Assets	41,123	42,101	45,197	46,089	NA
Short-Term Debt	980	1,124	1,450	1,523	NA
Other Current Liabilities	3,436	3,436	3,436	3,436	NA
Long-Term Debt	8,223	9,063	11,688	12,277	NA
Other Non-Current Liabilities	8,142	8,109	8,075	8,041	NA
Total Liabilities	20,781	21,732	24,649	25,277	NA
Total Equity	20,342	20,369	20,547	20,812	NA
Total Equity & Liabilities	41,123	42,101	45,197	46,089	NA

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Electric Utilities

Company Description

Avangrid is the publicly listed operating subsidiary of Iberdrola (over 80% ownership) and was formed through the combination of Iberdrola's 5GW+ renewable portfolio with UIL holding company's regulated utilities. The regulated utilities span across eight operating subsidiaries and four states, while the Avangrid renewables business operates in over half of the states and owns primarily wind and solar assets. AGR is developing offshore wind assets as well.

Investment Rationale

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Stock Data

Average Daily Volume

758,123

Quarterly Earnings Estimates

	2023	2024
Q1	0.64A	0.49E
Q2	0.21A	0.54E
Q3	0.27A	0.25E
Q4	0.89A	0.86E

Cost cut synergies could be large in a transaction

A consolidation would likely have significant synergies and cost savings for the pro-forma entity by removing duplicative costs. Avangrid has a history of over-earning at some utilities but underperforms in its largest New York business. Avangrid's guidance is to earn the allowed ROE in part through cost initiatives and "optimizations".

Iberdrola offering a P/E premium to where IBE trades

Iberdrola trades at 13.3x 2026 Consensus (IFRS) vs Avangrid trading at 13.6x BofA (GAAP) and the \$34.25/sh bid at 14.5x 2026 BofA. US utilities trade at ~13.5x FY26.

Avangrid has significantly underperformed peers

Per Avangrid's calculator, an equity investment in AGR shares from December 17, 2015 to March 6, 2024 has -11% total return and -1.4% compound annual decline rate. Over the past five years, AGR has underperformed utility peers -43%.

Avangrid's board is chaired by Iberdrola CEO and seven of the fourteen Board members are currently or historically associated with IBE.

Below is the current Avangrid Board of Directors. Half are currently or formerly associated with Iberdrola. The other seven members do not have extensive regulated utility or renewable experience from their non-Avangrid roles.

Avangrid stated that the "Unaffiliated Committee" will review the proposal.

Exhibit 1: Avangrid Board of Directors

Avangrid's current board of directors

Member	Avangrid Classification	Details
Ignacio S. Galán	Non-executive, non-independent	Iberdrola Executive Chairman
John E. Baldacci	Independent	Former Maine Governor
Daniel Alcain López	Non-executive, non-independent	Iberdrola Director of Group Administration & Control
Pedro Azagra Blázquez	Chief Executive Officer	Former Iberdrola Chief Development Officer
María Fátima Báñez García	Independent	Former Iberdrola subsidiary board member
Robert Duffy	Independent	Former New York Lieutenant Governor
Patricia Jacobs	Independent	Former Northern US AT&T Executive
Teresa Herbert	Independent	President of IHC Insurance Company
John L. Lahey	Independent	Quinnipiac University President Emeritus
Agustín Delgado Martín	Non-executive, non-independent	Iberdrola Innovation Director
Santiago Martínez Garrido	Non-executive, non-independent	Iberdrola Head of Legal Services
José Sáinz Armada	Non-executive, non-independent	Iberdrola Chief Finance, Control and Corporate Development Officer
Alan D. Solomont	Independent	Dean Emeritus of the Jonathan M. Tisch College. Prior US Ambassador to Spain
Camille Joseph Varlack	Independent	Chief of Staff to New York City Mayor Adams

Source: Company Filings

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle

[Avangrid: 4Q23/FY23 Beats on taxes, FY24 Higher than BofA/in-line with Street](#)
[Avangrid: Fireside Chat Feedback: Working to get on EPS growth track – starting with 2024](#)
[Avangrid: Waiting for the new long-term guidance from the new CFO. 3Q23 highlights & more](#)
[Avangrid: EPS uncertainty continues to climb: AGR keeps FY23 guide despite steep 2Q miss](#)
[Avangrid: 2Q23 Highlights challenges: FY23 guidance under renewed pressures](#)
[Avangrid: Refreshing our view ex. PNM: Earnings uncertainty remains underappreciated](#)
[Avangrid: 1Q23 underwhelms but mgmt reaffirms FY23 guide. Regulatory outcomes key.](#)
[US Utilities & IPPs: PowerPoints: PNM M&A, PEG & OGE cases, PPL-TLN, & ES/IDA/AGR/Oregon regulatory](#)
[US Utilities & IPPs: Connecticut Legislation Negative for Utilities: Watching ES and AGR Impacts](#)
[US Utilities & IPPs: Connecticut Regulatory & Political Profile Set to Spread? Underperform ES & AGR](#)

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02 January 2024
06 June 2023
01 May 2023



Price objective basis & risk

Avangrid (AGR)

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

Analyst Certification

I, Paul Zimbardo, 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
	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
	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
	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	Cameron Lochridge
	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
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	Pinnacle West	PNW	PNW 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
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR 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
	Stem, Inc.	STEM	STEM 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	Cameron Lochridge



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

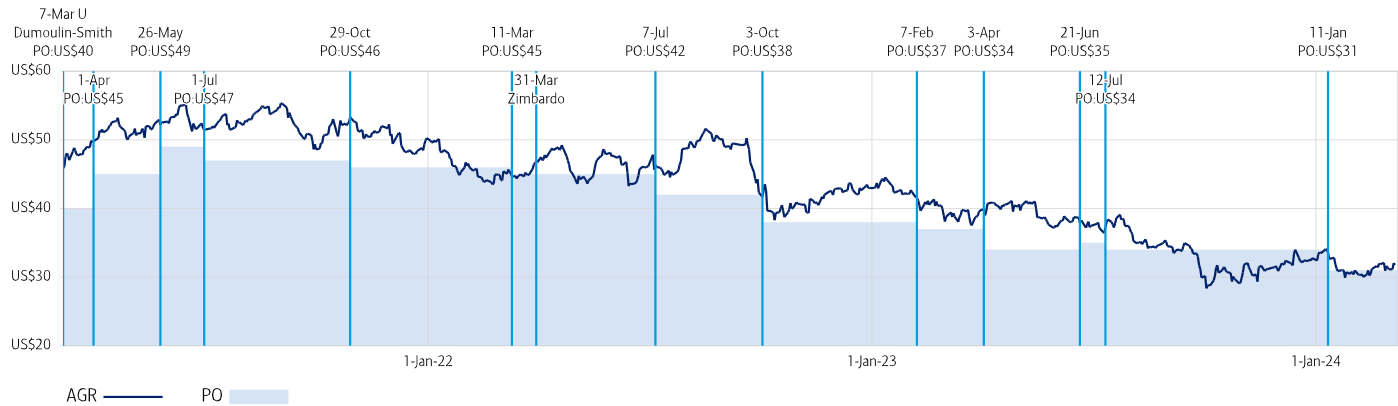
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Disclosures

Important Disclosures

Avangrid (AGR) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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