

## CMS Energy

# Best-in-class utility gets even better: CMS warrants the largest utility premium

Reiterate Rating: BUY | PO: 63.00 USD | Price: 56.41 USD

## Top decile EPS growth – with upside potential. Buy

We reiterate Buy on shares of Michigan regulated utility CMS Energy (CMS) after a strong 4Q23 earnings update and our latest management meeting. We have increasing confidence that CMS can compound EPS growth 7-8% (7.5% BofA 2023-2028) for the foreseeable future, even before embedding the benefits of the 2023 Michigan energy legislation and all of the Michigan resiliency spending opportunities (~50% in the plan). Look for enhanced clarity on how much and how fast the new spending and earnings opportunities manifest with the 2H24 renewable energy plan filing (2H25 approval). The \$7Bn electric reliability roadmap is another pathway to more spending. The tail risk for Michigan utilities related to high profile outage activity from storms so this spending is not just accretive but reduces regulatory/political risk.

## Affordability story is strong with high price PPAs roll-off

Historically the largest impediment to utilities consistently growing earnings at above average rates is regulation: either customer bill fatigue or reliability/customer service. CMS has a strong story on customer bills with a 2-3% blended electric & natural gas bill CAGR in the current plan and the ability to convert high price power purchase agreements (PPAs) and market purchases at ~\$60/MWh to less expensive PPAs at \$50/MWh over time. An example is the \$60Mn+ MCV contract change in 2025 (in the plan). With ~50% of the energy component of customer bills in this category (~\$1.5Bn), the probable savings here are an underappreciated tailwind to manageable bills.

## Premium has room to expand for growth & safety

CMS trades at ~12% premium to utilities peers, an already respectable level but we see stronger merits to CMS warranting the single highest P/E in the utility sector. It can be argued that the 150-200bp of higher EPS growth compounding are not reflected in shares currently, before reflecting any potential upside or qualitative defensive attributes. If there is regulatory progress on a service restoration tracker and/or investment recovery mechanism, the plan could be further derisked. We fine-tune EPS, and reduce our PO to \$63 from \$66 reflecting the de-rating of the utilities sector: see details on Page 5.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.89	3.11	3.35	3.61	3.84
GAAP EPS	2.82	2.98	3.32	3.58	3.81
EPS Change (YoY)	9.1%	7.6%	7.7%	7.8%	6.4%
Consensus EPS (Bloomberg)			3.34	3.61	3.87
DPS	1.84	1.95	2.06	2.18	2.31
Valuation (Dec)					
P/E	19.5x	18.1x	16.8x	15.6x	14.7x
GAAP P/E	20.0x	18.9x	17.0x	15.8x	14.8x
Dividend Yield	3.3%	3.5%	3.7%	3.9%	4.1%
EV / EBITDA*	17.9x	17.5x	14.8x	14.0x	12.8x
Free Cash Flow Yield*	-9.2%	-6.8%	-6.2%	-9.3%	-4.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

08 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	66.00	63.00
2024E Rev (m)	9,198.5	7,957.0
2025E Rev (m)	9,383.0	8,156.8
2026E Rev (m)	NA	8,469.4
2024E EPS	3.34	3.35
2025E EPS	3.59	3.61
2026E EPS	NA	3.84
2024E DPS	2.07	2.06

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### Stock Data

Price	56.41 USD
Price Objective	63.00 USD
Date Established	8-Feb-2024
Investment Opinion	A-1-7
52-Week Range	49.87 USD - 63.76 USD
Mrkt Val (mn) / Shares Out (mn)	16,511 USD / 292.7
Free Float	99.5%
Average Daily Value (mn)	126.61 USD
BofA Ticker / Exchange	CMS / NYS
Bloomberg / Reuters	CMS US / CMS.N
ROE (2024E)	13.0%
Net Dbt to Eqty (Dec-2023A)	183.7%
ESGMeter <sup>TM</sup>	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".

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Timestamp: 08 February 2024 06:15AM EST

PPA: Power purchase agreement

# iQprofile<sup>SM</sup> CMS Energy

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	3.9%	3.4%	4.1%	4.3%	4.4%
Return on Equity	12.7%	12.7%	13.0%	13.4%	13.4%
Operating Margin	14.2%	16.6%	18.8%	20.4%	21.7%
Free Cash Flow	(1,519)	(1,120)	(1,032)	(1,531)	(735)

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	2.3x	2.4x	2.3x	2.3x
Asset Replacement Ratio	2.1x	2.7x	2.6x	3.0x	2.4x
Tax Rate	10.3%	15.4%	6.2%	7.2%	8.0%
Net Debt-to-Equity Ratio	186.0%	183.7%	195.4%	200.1%	196.1%
Interest Cover	2.4x	1.9x	2.3x	2.3x	2.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,596	7,462	7,957	8,157	8,469
% Change	17.3%	-13.2%	6.6%	2.5%	3.8%
Gross Profit	4,431	4,549	5,044	5,244	5,556
% Change	4.0%	2.7%	10.9%	4.0%	6.0%
EBITDA	2,348	2,412	2,836	3,007	3,281
% Change	4.3%	2.7%	17.6%	6.1%	9.1%
Net Interest & Other Income	(322)	(281)	(500)	(554)	(614)
<b>Net Income (Adjusted)</b>	<b>839</b>	<b>907</b>	<b>1,001</b>	<b>1,102</b>	<b>1,198</b>
<b>% Change</b>	<b>9.4%</b>	<b>8.1%</b>	<b>10.4%</b>	<b>10.0%</b>	<b>8.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	813	807	932	1,033	1,129
Depreciation & Amortization	1,126	1,180	1,343	1,343	1,443
Change in Working Capital	(1,113)	0	0	0	0
Deferred Taxation Charge	89	128	128	128	128
Other Adjustments, Net	(60)	0	0	0	0
Capital Expenditure	(2,374)	(3,235)	(3,435)	(4,035)	(3,435)
<b>Free Cash Flow</b>	<b>-1,519</b>	<b>-1,120</b>	<b>-1,032</b>	<b>-1,531</b>	<b>-735</b>
<b>% Change</b>	<b>-491.1%</b>	<b>26.3%</b>	<b>7.9%</b>	<b>-48.4%</b>	<b>52.0%</b>
Share / Issue Repurchase	69	508	20	350	350
Cost of Dividends Paid	(546)	(569)	(616)	(666)	(721)
Change in Debt	0	1,219	1,628	1,847	1,106

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	164	182	182	182	182
Trade Receivables	1,580	1,580	1,580	1,580	1,580
Other Current Assets	1,689	1,689	1,689	1,689	1,689
Property, Plant & Equipment	22,713	24,768	26,860	29,552	31,544
Other Non-Current Assets	5,207	5,207	5,207	5,207	5,207
<b>Total Assets</b>	<b>31,353</b>	<b>33,426</b>	<b>35,518</b>	<b>38,210</b>	<b>40,202</b>
Short-Term Debt	1,099	1,099	1,099	1,099	1,099
Other Current Liabilities	1,866	1,866	1,866	1,866	1,866
Long-Term Debt	13,190	14,409	16,037	17,884	18,990
Other Non-Current Liabilities	7,583	7,711	7,839	7,967	8,095
<b>Total Liabilities</b>	<b>23,738</b>	<b>25,085</b>	<b>26,841</b>	<b>28,816</b>	<b>30,050</b>
<b>Total Equity</b>	<b>7,595</b>	<b>8,341</b>	<b>8,677</b>	<b>9,394</b>	<b>10,152</b>
<b>Total Equity &amp; Liabilities</b>	<b>31,333</b>	<b>33,426</b>	<b>35,518</b>	<b>38,210</b>	<b>40,202</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Electric Utilities

## Company Description

CMS Energy is based in Jackson, Michigan and has one of the country's largest combined electric and natural gas utilities. Consumers Energy, CMS' regulated utility, provides natural gas and electricity to all 68 Lower Peninsula counties in Michigan. Consumers Electric owns and operates the majority of its generation, and has the largest renewable energy program in Michigan. CMS also has non-regulated generation operated through CMS Enterprises primarily in the Midwest.

## Investment Rationale

We rate CMS Buy reflecting solid fundamentals through above-average regulated earnings growth in a solid jurisdiction (Michigan). We see greater scrutiny of operations following recent storm events as potentially driving further investment in distribution infrastructure.

We anticipate 7%+ EPS and approximately 6% dividend growth, driven by investments primarily by infrastructure modernization and generation capex. The credit profile is solid with equity supporting robust rate base growth.

## Stock Data

Average Daily Volume 2,244,421

## Quarterly Earnings Estimates

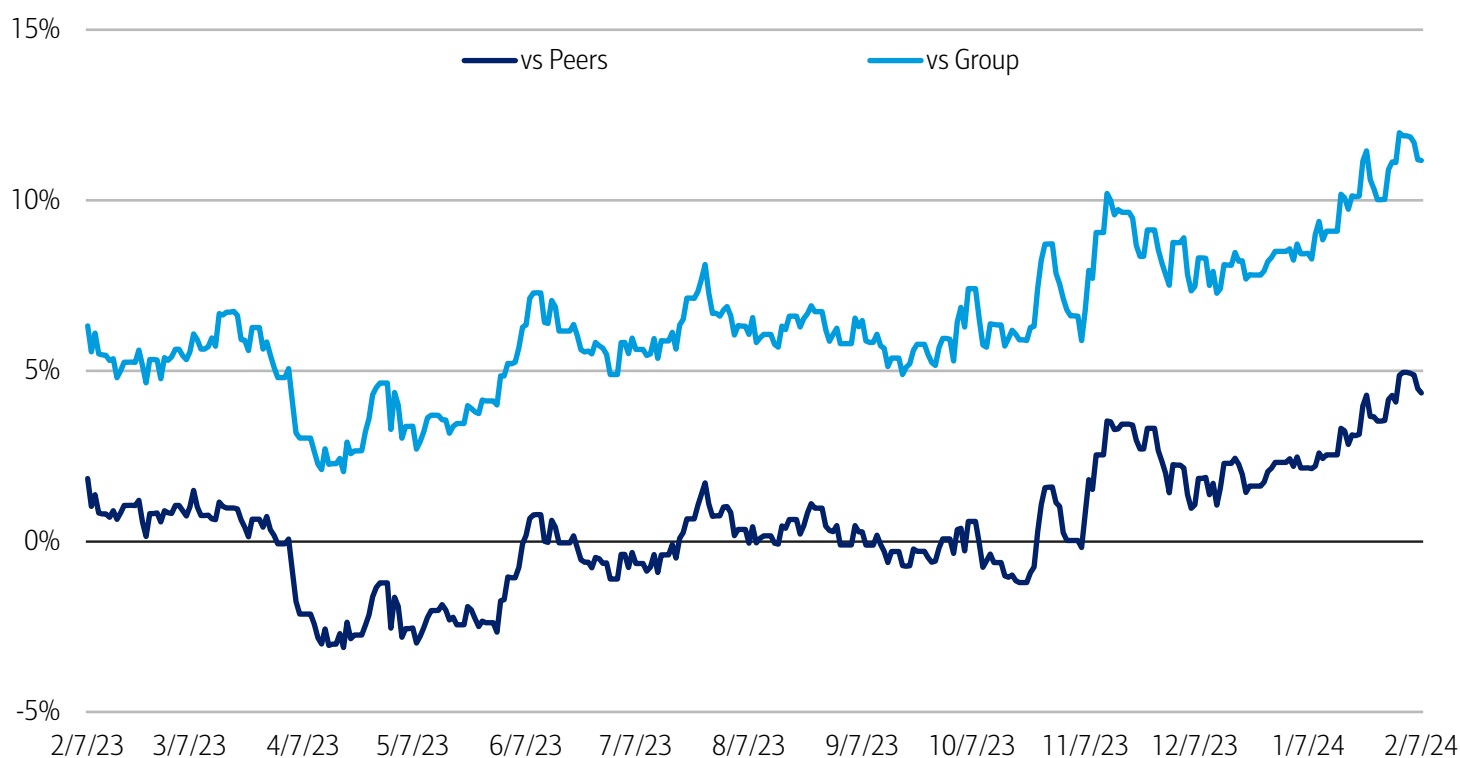
	2023	2024
Q1	0.70A	0.69E
Q2	0.75A	0.28E
Q3	0.61A	-0.01E
Q4	1.05A	2.29E

## Defense + offense = premium utility

The events of 2023 showed why CMS should command the highest utility valuation in the sector with over \$300Mn weather offset, although some of the parent items were less robust. While CMS' fundamentals and growth rate has strengthened with the 2023 Michigan energy law, the profile of utility peers has generally weakened. This is true not just for many discount utilities resetting their outlooks in the past year-plus, but for select premium- and formerly-premium utilities that have faced headwinds. While CMS has compounded EPS at a premium rate for years, there is a large number of companies which have negatively rebased and otherwise faced slowing profiles. This makes CMS' 7-8% growth rate relatively more attractive. Many utility investors we speak to tend to gravitate towards more of the discounted 'value' utility opportunities, we see merits to owning the best-in-class utility that offers a rare mix of defensive stability and offensive growth characteristics.

### Exhibit 1: CMS Relative 2025E P/E versus Similar P/E Peers (Dark Blue) and Overall Utilities Index (Light Blue)

CMS has steadily re-rated from a 5% to 10%+ premium to the group but we believe more can be easily justified



Source: Company Filings, Bloomberg, & BofA Global Research

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### BofA Global Research Reports

#### Title: Subtitle

[US Utilities & Clean Tech: PowerPoints: WEC Capex, CMS Growth Accelerating, UGI Beat, & SR Reaffirm](#)  
[CMS Energy: Clean energy bill, capacity drive one of the top upside stories](#)

[US Electric Utilities & IPPs: Michigan legislation offers unexpected upside to renewables & outlook](#)  
[CMS Energy: Near-term drivers set up constructively for 2024 and beyond](#)  
[CMS Energy: Above-average EPS growth warrants widening relative premium, U/G to Buy](#)

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## Adjusted EPS

Our financial profile is below with minimal near-term changes following the earnings update. The most impactful is the improved credit as discussed next with the positive change in Moody's methodology. We have moderated the dividend growth slightly to 5.9% CAGR after the 2024 increase which was below our expectations.

### Exhibit 2: CMS Energy Financial Profile

7.5% EPS growth profile has room for upside while also offering elements of conservatism

CMS Energy EPS & Financials	2022A	2023A	2024E	2025E	2026E	2027E	2028E	'23-'28 CAGR
Electric	1.99	1.95	2.40	2.58	2.74	2.95	3.16	10.2%
Gas	1.32	1.12	1.41	1.48	1.54	1.62	1.70	8.8%
<b>Utility</b>	<b>3.31</b>	<b>3.07</b>	<b>3.81</b>	<b>4.06</b>	<b>4.28</b>	<b>4.57</b>	<b>4.87</b>	<b>9.7%</b>
North Star	0.12	0.23	0.18	0.21	0.25	0.30	0.33	7.5%
Parent	(0.54)	(0.19)	(0.63)	(0.65)	(0.68)	(0.70)	(0.72)	3.3%
<b>Consolidated EPS</b>	<b>2.89</b>	<b>3.11</b>	<b>3.35</b>	<b>3.61</b>	<b>3.84</b>	<b>4.16</b>	<b>4.47</b>	<b>7.5%</b>
YoY EPS Growth	9.2%	7.5%	7.7%	7.7%	6.5%	8.3%	7.6%	
<b>Guidance: 6-8% High-End</b>	<b>2.87-2.89</b>	<b>3.06-3.12</b>	<b>3.29-3.35</b>	<b>3.59</b>	<b>3.86</b>	<b>4.15</b>	<b>4.46</b>	<b>7.6%</b>
<b>BofA vs Guidance</b>	<b>0.4%</b>	<b>0.6%</b>	<b>0.8%</b>	<b>0.4%</b>	<b>-0.5%</b>	<b>0.2%</b>	<b>0.3%</b>	
Consensus	2.88	3.10	3.34	3.61	3.87	4.16	4.40	7.2%
<b>BofA vs Consensus</b>	<b>0.4%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.0%</b>	<b>-0.9%</b>	<b>0.0%</b>	<b>1.8%</b>	
BofA Change vs Prior	0.1%	0.0%	0.2%	0.4%				
FFO / Debt: <b>Mid-teens Guidance</b>	<b>14.2%</b>	<b>15.8%</b>	<b>16.1%</b>	<b>15.1%</b>	<b>15.0%</b>	<b>14.8%</b>	<b>14.7%</b>	<b>-1.2%</b>
DPS: 6-8% Target	1.84	1.95	2.06	2.18	2.31	2.45	2.60	5.9%
Payout Ratio: ~60% Payout Ratio	63.6%	62.7%	61.5%	60.5%	60.2%	58.9%	58.1%	-4.6%

Source: Company Filings, Bloomberg, & BofA Global Research. \* Parent CAGR is 2024-2028

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Our credit metrics weaken in the future years to below 15% in 2028 from ~16% in 2024 with equity flat annually and equity issuance assumptions flat at \$350Mn/year 2025+. Our aggregate cash flow from operations \$13.4Bn is within 1% of the \$13.2Bn guidance; however, we have a relatively stable tax credit monetization profile vs back-half weighted guidance. We calculate +50bp adjusted funds from operations / debt benefit from the change in Moody's equity credit to 50% from 25%, consistent with management's guidance of 50-60bp improvement. With ~\$2Bn junior subordinated debt, CMS is one of the larger beneficiaries of this change. Potential capital recycling at North Star to support self-funding business model could be an opportunity.

## Valuation: Reduce to \$63 on sector mark-to-market

We update our 2026 sum-of-the-parts valuation to reflect the latest 13.0x electric (down from 13.6x) and 13.3x natural gas (down from 13.9x) average P/E multiples. The base multiples are grossed-up +5% to reflect sector capital appreciation opportunities. We continue to apply a +3.0x premium to the electric utilities due to the leading growth, upside opportunities, constructive regulation, and track record of consistency. **The reduction in sector peer multiples causes -\$2/sh of the -\$3/sh price objective change.**

The unregulated assets are valued using discounted cash flow and EV / EBITDA analyses with a blended 9x 2026 multiple. The parent costs offsets are a blended of P/E multiple and 50% net debt / 50% interest expense methodology to reflect overall leverage.

### Exhibit 3: CMS Energy Valuation Summary

Bulk of the value is at the electric utilities

CMS Valuation Summary	2026E EPS	Equity value (\$/Sh)	P/E
Electric	2.74	\$45.56	16.7x
Gas	1.54	\$26.13	17.0x
North Star	0.25	\$4.15	16.4x
Parent	(0.68)	(\$12.93)	19.0x
<b>Total Potential Value</b>	<b>3.84</b>	<b>\$63.00</b>	<b>16.4x</b>

Source: Company Filings, Bloomberg, & BofA Global Research estimates

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**Exhibit 4: CMS Energy Sum of the Parts**

Large premium to the utilities sector is more than warranted for high growth and visibility

CMS Energy Sum of the Parts	Valuation	EPS	2026 Net Income	Multiple		Equity Value	
Utility				Peer	Prem/ Discount	\$/Sh	
Group Peer Multiple - Electric				13.0x			
Group EPS CAGR - Electric				5.00%			
				13.7x			
Consumers - Electric	P/E	2.74	\$854		3.0x	16.7x	\$45.56
Group Peer Multiple - Gas				13.3x			
Group EPS CAGR - Gas				5.10%			
				14.0x			
Consumers - Gas	P/E	1.54	\$480		3.0x	17.0x	\$26.13
Corp & Other	P/E	(0.68)	(\$212)		3.0x	16.7x	(\$11.33)
HoldCo Debt Adjustment							
Add Back: 50% of Interest Expense		0.29	\$90		3.0x	16.7x	\$4.78
Subtract: HoldCo Debt (Net out 50%)		3,985	(\$1,993)				(\$6.38)
Utility & Parent							
Equity Value						\$58.77	
Non-Utility			2026 EBITDA	Peer	Prem/ Discount	Base	
				7.0x			
DIG & Other Peakers Michigan	DCF	Implied	\$97		3.3x	10.3x	\$3.20
Other NorthStar	EV/EBITDA		\$43		0.0x	7.0x	\$0.95
Total Non-Utility Value							\$4.15
Total Equity Value							\$63.00
NTM Dividend							\$2.06
Dividend Yield							3.7%
Potential Total Return							15.3%
CMS Valuation Summary	Price	EPS	P/E	Prem	Prem %		
BofA P/E	\$63.00	\$3.84	16.4x	3.4x	26.2%		
Consensus P/E	\$56.41	\$3.87	14.6x	1.6x	12.0%		

Source: Company Filings, Bloomberg, &amp; BofA Global Research

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## Price objective basis & risk

### CMS Energy (CMS)

Our \$63 PO is based on a 2026E sum-of-the-parts analysis. We use 2026E forward P/E multiples for the utility business and a 2026E forward EV/EBITDA multiple for CMS' power assets. For the utility segments, we apply a +3.0x prem to the average 2026E regulated multiple P/E of 13.0x for the electric segment and of 13.3x for the gas segment, with the 10-yr capex update providing clear sight on rate base growth and further upside, as well as continued favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range. Both electric and gas peer P/E multiples are grossed up +5% to reflect capital appreciation across the sector, a consistent approach across the coverage universe. For CMS' unregulated assets we apply a blended 9x EV/EBITDA, supported by a discounted cash flow analysis at the largest asset - Dearborn Industrial Generation (DIG) The parent cost offsets are a blended of P/E and net debt approaches

Downside risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices, 4) regulatory, legislative, or political changes, 5) interest rates, 6) natural disasters and storms, and 7) pension plan performance.

## Analyst Certification

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
<b>BUY</b>				
	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
	Duke Energy	DUK	DUK 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
	Hydro One	YH	H CN	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

## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
<b>NEUTRAL</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	Algonquin Power & Utilities Corp	AQN	AQN US	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
	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
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	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
<b>UNDERPERFORM</b>				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	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

## iQmethod<sup>SM</sup> 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 &amp; 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

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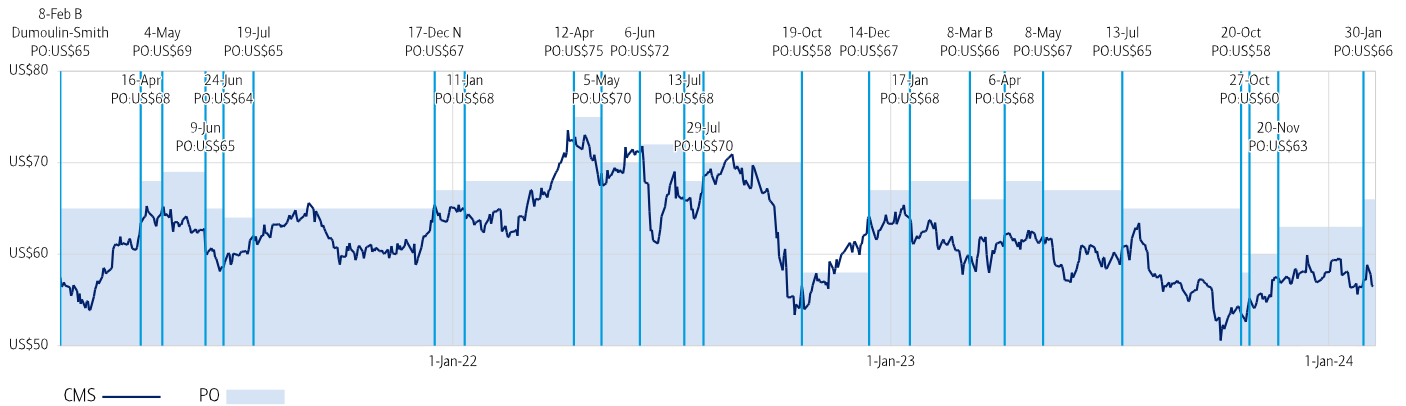
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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