

US Utilities & Clean Tech

US Offshore Wind Woes: Orsted pursuing asset sales in latest financial refresh

Industry Overview

Orsted stops dividend and cuts guidance

This morning offshore wind developer Orsted hosted its Capital Markets Update where the company (1) suspended its dividend for FY23-FY25; (2) cut its financial guidance; and (3) announced that the Chair of the Board of Directors is stepping down. Orsted is the joint venture partner and financial counterparty with offshore wind developer and regulated utility Eversource Energy (ES). Orsted is maintaining its target returns of 150-300bp above its undisclosed weighted average cost of capital, while noting that some projects may not be in that target range. See: [our European peers recent thoughts here](#).

More US offshore assets on the market

Orsted stated that it is exploring US asset sales. Orsted would not comment on Eversource's sale process and stated that they expect Eversource to provide an update on its sale processes on their earnings call, implying that it is not yet completed. Orsted is evaluating a 50% sale in the US onshore and assets and below 50% stakes in its Revolution Wind and South Fork Wind offshore assets (Eversource joint venture). Dominion is evaluating the sale of a portion of its ~\$10Bn Coastal Virginia Offshore Wind (CVOW) project and Eversource has stated multiple times that it is close to a sale for its offshore wind assets in a delayed process. *The high supply of offshore wind assets on the market and public guidance from sellers to exit could lead to less robust outcomes.*

Orsted assumes 75% odds it wins NY contract

For Sunrise Wind, Orsted lists it as having an awarded contract subject to re-award in 1Q24. The 2026 COD was maintained but the company notes it has not secured all major contracts and is considering a backup vessel. If the Sunrise bid is unsuccessful, Orsted disclosed that there would be 6-7Bn DKK (\$870-\$1,010Mn USD) cancellation costs, higher than previous disclosures. In the impairment details disclosed, Orsted assumes a 75% probability of receiving a new offshore wind contract from New York. Orsted increased the probability from 50% based on evaluating the RFP, its competitors, the price bid, and auction size. Orsted continues to assume a 95% probability of a +10pp energy community investment tax credit (ITC) premium for Sunrise Wind and Revolution.

Vessel(s) remains a pain point for developers

Orsted and Eversource have previously disclosed that the US development projects are contracted with Dominion Energy's (D) new build Charybdis installation vessel. Orsted stated that it does not know when it will receive the offshore wind construction vessel for its US projects due to ramp up challenges and the replacement vessel capacity will be "very expensive". Orsted's business update is negative for partner Eversource and Dominion. Orsted's plans to sell its US offshore wind assets separately from Eversource sends a cautious signal about the assets and adds to the supply of offshore assets in the market. The lack of conviction in timing for receiving the offshore wind vessel from Dominion and the scarcity of alternative vessels casts a cautious backdrop for US offshore wind construction. *We maintain Underperform on shares of both ES and D.*

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Equity
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Utilities & Clean Tech

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COD: Commercial operations date
ITC: Investment tax credit
RFP: Request for proposal
Coastal Virginia Offshore Wind
ES: Eversource
D: Dominion Energy

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Orsted does not know when it will get the offshore vessel

"What has an additional cost and in many cases also a meaningful additional cost is in the situation where we, for example, with Revolution, we actually have two parallel contracts. So we have a contract with a Jones Act-compliant vessel which we don't have certainty as to when we will get. Unfortunately, we know it's delayed, but we still don't have a fixed certainty. So we've actually had to now, we have chosen to now contract the full scope with an additional vessel." [emphasis added]

Orsted is waiting for ES on that sale review process

Per Eversource, it was waiting for Orsted to approve the joint venture agreement transfer to a third party. On the 3Q23 earnings call, Eversource management stated "What remains to be completed is for the buyer and Orsted to finalize several documents, such as their new joint-venture agreement. We expect this process to wrap up shortly, allowing us to execute our sales agreement with the buyer and announce the terms of the sale." *Today Orsted indicated that the ball is in Eversource's court.*

Revolution looking for a second vessel. South Fork delayed

At Revolution Wind, all major contracts are now signed and Orsted is working on a **second** back-up construction vessel to support offshore construction starting in 2Q24 for a 2025 commercial operations date (COD). The small South Fork wind asset is delayed with a 1Q24 COD and two turbines left to install.

Exhibit 1: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ES	ES US	Eversource Energy	US\$ 53.74	B-3-7
D	D US	Dominion Energy	US\$ 45.09	B-3-7

Source: BofA Global Research

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Price objective basis & risk

Dominion Energy (D)

We value Dominion Energy at \$40 using a 2026E sum-of-the-parts analysis. For the utilities we apply the comparable 13.5x electric peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5x discount for base Virginia and -1.0x for South Carolina. We apply discount adjustments to lower value utility sources in South Carolina (NND nuclear and bill credits). The pension income is valued 4x P/E, consistent with the 12/31/22 valuation levels.

Contracted assets are valued using 2026 EV/EBITDA: 5x Millstone (13% FCF Yield), and 5x for renewables. For remaining debt beyond that allocated to state utilities, we include a 50% weight towards a straight netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for diversified utilities with relatively higher levers of leverage. The interest rate hedge is valued at the stated \$1Bn value 9/30/23 less tax.

Risk to achievement of the Price Objective are 1) regulatory, legislative, and political actions, 2) ability to earn or exceed the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure and rate base forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, 7) natural disasters, nuclear accidents, and weather, 8) nuclear performance, 9) inflation, & 10) offshore wind construction.

Eversource Energy (ES)

Our sum of the parts based price objective of \$50 uses P/E multiples on 2025E earnings. The valuation is based on a 2025 sum of the parts analysis. We apply the 2025 average peer P/Es of 13.5x electric, 13.5x natural gas, and 20.0x water. For Connecticut electric & gas utilities, we value at -20% discount (-2.8x) to reflect historical challenges and prospective earnings risks. Connecticut water is valued in-line with natural gas. The other utilities are valued at a -15% discount (-2.1x) for below-average consolidated growth and weaker balance sheet metrics. Parent net loss per share is valued at an -1x discount to the electric utility average.

Upside and downside risks to our Price Objective are 1) regulatory/political/legislative changes, 2) capital expenditures forecasts, 3) ability to earn the regulatory allowed ROE, 4) offshore wind review, 5) natural disasters & storms, 6) operational performance and gas incidents, 7) integration of historical and prospective M&A, 8) pension plan performance, and 9) equity issuances.

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
	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
	Nextacker 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
	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
	Maxeon 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



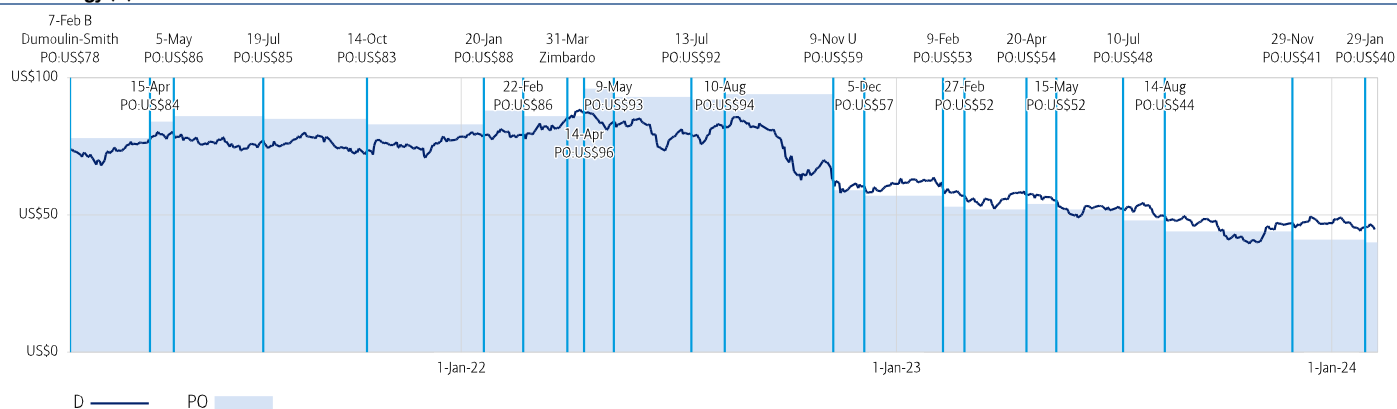
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
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	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

Disclosures

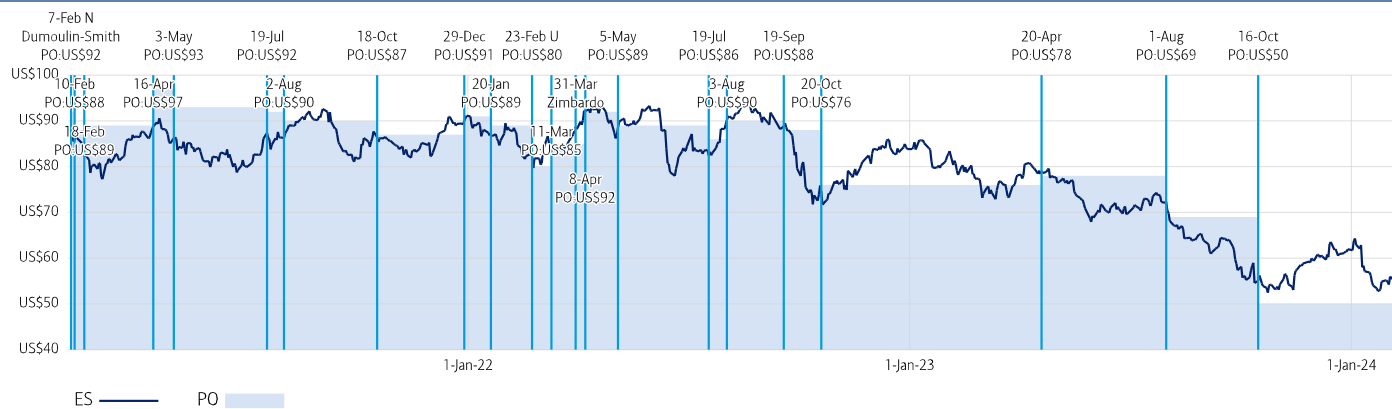
Important Disclosures

Dominion Energy (D) Price Chart



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.

Eversource Energy (ES) Price Chart

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 ^{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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Underperform	N/A	≥ 20%

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