

## MDU Resources Group, Inc.

# 2024 EPS Preview: Robust growth ahead of pivot to fully regulated

Reiterate Rating: BUY | PO: 23.00 USD | Price: 18.94 USD

## Reiterate Buy

We reiterate Buy on MDU and our \$23 PO given the potential double-digit total return implied by our valuation.

## 2024 Preview: Below Street, still +13% y/y

We forecast 2024 EPS of \$1.52 for MDU, +13% above our full-year 2023 estimate of \$1.35. Note that our forecast continues to *include* the earnings contribution from CSG with the pending spin expected to be completed later in the year. Rate case decisions in the Dakotas, Idaho, and Montana are expected to be the main upside drivers, as well as newly approved rates at the pipeline segment.

## Investor Day messaging to set tone for regulated future

With our estimate now meaningfully higher y/y, expect that MDU will likely offer 2024 guidance on a by-segment basis, similar to one year ago when the Knife River transaction was pending. The coming investor day is widely expected to include financial updates and targets for the regulated energy remainco – our expectation is for a capital structure and growth rate in line with peers of a similar size. Note MDU has already reduced its dividend payout earlier in 2023 in advance of the reset, taking this risk off the table for 2024.

## Reiterate Buy: 7% EPS CAGR at discount to group

We mark to market our valuation to reflect the latest 26E peer multiples of 13.3x electric and 13.9x gas. Additionally 9.5x for pipeline/9.2x for construction services applied to our 2025E EV/EBITDA estimates. As a result of the refresh our PO remains \$23. We reiterate Buy given the potential total return implied by our valuation as MDU remains a go-to SMID pick ahead of still another transformational spin expected to close later this year.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.87	1.81	1.35	1.52	1.62
GAAP EPS	1.86	1.80	1.35	1.52	1.62
EPS Change (YoY)	-4.1%	-3.2%	-25.4%	12.6%	6.6%
Consensus EPS (Bloomberg)			1.36	1.54	1.85
DPS	0.86	0.88	0.79	0.51	0.53
Valuation (Dec)					
P/E	10.1x	10.5x	14.0x	12.5x	11.7x
GAAP P/E	10.2x	10.5x	14.0x	12.5x	11.7x
Dividend Yield	4.5%	4.6%	4.2%	2.7%	2.8%
EV / EBITDA*	9.1x	8.6x	11.9x	10.8x	10.1x
Free Cash Flow Yield*	-4.2%	-3.8%	1.8%	-0.2%	2.8%

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

26 January 2024

## Equity

### Key Changes

(US\$)	Previous	Current
2023E Rev (m)	4,419.3	4,418.5
2024E Rev (m)	4,571.5	4,584.7
2025E Rev (m)	4,757.2	4,774.7
2023E EPS	1.36	1.35
2024E EPS	1.48	1.52
2025E EPS	1.58	1.62

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## Stock Data

Price	18.94 USD
Price Objective	23.00 USD
Date Established	24-Aug-2023
Investment Opinion	B-1-7
52-Week Range	18.04 USD - 22.55 USD
Mrkt Val (mn) / Shares Out (mn)	3,857 USD / 203.6
Free Float	98.5%
Average Daily Value (mn)	20.17 USD
BofA Ticker / Exchange	MDU / NYS
Bloomberg / Reuters	MDU US / MDU.N
ROE (2023E)	7.2%
Net Dbt to Eqty (Dec-2022A)	83.8%
ESGMeter™	Medium

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: 26 January 2024 07:51AM EST

# iQprofile<sup>SM</sup> MDU Resources Group, Inc.

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	5.7%	5.5%	4.1%	4.5%	4.7%
Return on Equity	11.7%	10.5%	7.2%	7.4%	7.5%
Operating Margin	9.4%	8.2%	9.6%	10.5%	10.8%
Free Cash Flow	(164)	(147)	69	(8)	109

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	1.4x	2.2x	1.9x	1.9x
Asset Replacement Ratio	2.2x	2.0x	2.4x	2.7x	2.2x
Tax Rate	19.1%	20.5%	17.0%	17.0%	16.9%
Net Debt-to-Equity Ratio	79.5%	83.8%	64.4%	62.2%	57.7%
Interest Cover	5.7x	4.8x	4.1x	4.2x	4.3x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,681	6,974	4,418	4,585	4,775
% Change	2.7%	22.8%	-36.6%	3.8%	4.1%
Gross Profit	5,681	6,974	4,418	4,585	4,775
% Change	2.7%	22.8%	-36.6%	3.8%	4.1%
EBITDA	860	909	658	722	772
% Change	0.4%	5.7%	-27.6%	9.8%	6.9%
Net Interest & Other Income	(68)	(112)	(90)	(100)	(108)
<b>Net Income (Adjusted)</b>	<b>378</b>	<b>368</b>	<b>278</b>	<b>316</b>	<b>340</b>
<b>% Change</b>	<b>-3.1%</b>	<b>-2.8%</b>	<b>-24.4%</b>	<b>13.6%</b>	<b>7.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	377	367	278	316	340
Depreciation & Amortization	299	328	219	229	242
Change in Working Capital	0	0	102	57	59
Deferred Taxation Charge	60	23	0	0	0
Other Adjustments, Net	(241)	(208)	0	0	0
Capital Expenditure	(659)	(657)	(530)	(609)	(532)
<b>Free Cash Flow</b>	<b>-164</b>	<b>-147</b>	<b>69</b>	<b>-8</b>	<b>109</b>
<b>% Change</b>	<b>NM</b>	<b>10.5%</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>
Share / Issue Repurchase	81	(9)	44	44	44
Cost of Dividends Paid	(171)	(177)	(163)	(105)	(111)
Change in Debt	479	346	50	69	(42)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	54	81	81	81	81
Trade Receivables	947	1,306	1,105	1,054	1,003
Other Current Assets	550	625	483	493	503
Property, Plant & Equipment	5,756	6,092	6,402	6,783	7,073
Other Non-Current Assets	1,603	1,557	1,557	1,557	1,557
<b>Total Assets</b>	<b>8,910</b>	<b>9,661</b>	<b>9,629</b>	<b>9,968</b>	<b>10,217</b>
Short-Term Debt	148	325	325	325	325
Other Current Liabilities	944	1,155	914	930	948
Long-Term Debt	2,594	2,763	2,421	2,490	2,448
Other Non-Current Liabilities	1,752	1,745	1,745	1,745	1,745
<b>Total Liabilities</b>	<b>5,528</b>	<b>6,074</b>	<b>5,491</b>	<b>5,575</b>	<b>5,551</b>
<b>Total Equity</b>	<b>3,383</b>	<b>3,587</b>	<b>4,138</b>	<b>4,393</b>	<b>4,665</b>
<b>Total Equity &amp; Liabilities</b>	<b>8,910</b>	<b>9,661</b>	<b>9,629</b>	<b>9,968</b>	<b>10,217</b>

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

## Company Sector

Electric Utilities

## Company Description

MDU operates through the following business segments: Electric, Natural Gas Distribution, Pipeline and Midstream, Construction Services. The company generates about one-third of its earnings from its unregulated construction business with the balance from its regulated electric, gas, and pipeline segments. MDU is headquartered in Bismarck, North Dakota.

## Investment Rationale

We are Buy rated as we see shares as attractive on a sum of the parts basis given ongoing simplification story. Going forward we expect 65-70% of EBITDA to come from regulated businesses, up from less than 50% pre-spin. The strategic review of CSG is another potential simplification catalyst with results due by mid-year. More predictable earnings growth and a focus on regulated businesses should drive a re-rating, in our view.

## Stock Data

Average Daily Volume 1,068,931

## Quarterly Earnings Estimates

	2022	2023
Q1	0.16A	0.19A
Q2	0.35A	0.81A
Q3	0.75A	0.40E
Q4	0.55A	NA

## 2024 EPS preview

We forecast MDU's 2024 EPS at \$1.52, slightly below Street consensus at \$1.54. MDU has historically offered EPS guidance although we expect that 2024 will look similar to 2023 with segment-level outlooks given the pending spin of the Construction Services Group (CSG).

- **Key drivers** – Approved rate increases are expected to drive a meaningful source of the upside in 2024, de-risking the outlook in part. Key rate increases that are in place for the first half of the year include North Dakota electric (+15m effective Jul 1, 2023), Idaho natural gas (+3m Jul 1), and Montana electric +6m Oct 1. In addition pending cases in the Dakotas for both electric and gas should provide an increase later in 2024 once rates have been set. Expect growth in the CSG segment to contribute an incremental +7c given ongoing backlog growth (we estimate +4% y/y) and continued margin expansion, with gross margins 50 bps higher at 11%.
- **Wildcard** – Contribution from the nonqualified employee plans was a substantial downside driver in 2022, driven mostly by the moves lower in asset prices. We assume a flat contribution y/y though this can swing results meaningfully. We also forecast a +25 bps expansion in CSG gross margins on ongoing improvement in the business environment but note this segment can be more cyclical and exposed to macro factors than the core utilities.

### Exhibit 1: MDU EPS walk

Our 2024 EPS estimate is \$1.52, 2c below Street consensus

	EPS	1Q	2Q	3Q	4Q
<b>FY23A Adjusted EPS</b>	<b>1.35</b>	<b>0.19</b>	<b>0.64</b>	<b>0.37</b>	<b>0.16</b>
<b>Electric Utility</b>	<b>0.03</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
<b>Gas Utility</b>	<b>0.06</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
<b>Pipeline</b>	<b>0.03</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
<b>Construction Services</b>	<b>0.07</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>
<b>Parent &amp; Other</b>	<b>-0.02</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.01</b>	<b>-0.01</b>
<b>Share Count Dilution</b>	<b>-0.01</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>FY24E Adjusted EPS</b>	<b>1.52</b>	<b>0.23</b>	<b>0.68</b>	<b>0.41</b>	<b>0.20</b>
<b>FY24 Consensus</b>	<b>1.54</b>	<b>0.41</b>	<b>0.20</b>	<b>0.29</b>	<b>0.58</b>
<b>BofA Beat (Miss) vs. Consensus</b>	<b>-1%</b>	<b>-44%</b>	<b>241%</b>	<b>41%</b>	<b>-66%</b>

Source: BofA Global Research, Bloomberg

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## Earnings: yes, EPS is solid overall growth, but we're still a shade below Street still....

Full-year estimates and long-term forecast is updated as follows reflecting latest reported actuals and our updated views. We embed an improving earned ROE at the Gas utilities from 7.5% in 2023 to the mid-8s by the 2026-27 timeframe. Since 2023 also serves as the base for our EPS CAGR, the gas growth is particularly robust in our forecast. Note mid-8s is more consistent with the gas business' historical performance. Our updated rate base growth forecasts are +5% for the electric business and +9.5% for gas. We are generally within several cents of Street consensus estimates in 2023-24 though the estimates are less reliable beyond 2024.

### Exhibit 2: MDU estimates

Gas rate base growth driving a robust CAGR across the consolidated business

	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E	2023-28 CAGR
Electric	0.28	0.28	0.26	0.28	0.29	0.32	0.33	0.34	0.35	0.37	5.0%
Gas	0.20	0.22	0.25	0.22	0.25	0.31	0.36	0.40	0.44	0.46	13.0%
Pipeline	0.15	0.18	0.20	0.17	0.24	0.27	0.28	0.28	0.29	0.30	4.8%
Services	0.47	0.55	0.54	0.61	0.65	0.71	0.74	0.77	0.80	0.83	5.3%
Other	-0.01	-0.02	-0.03	-0.06	-0.07	-0.08	-0.08	-0.08	-0.07	-0.07	2.3%
<b>MDU EPS</b>	<b>1.08</b>	<b>1.21</b>	<b>1.22</b>	<b>1.23</b>	<b>1.35</b>	<b>1.52</b>	<b>1.62</b>	<b>1.71</b>	<b>1.81</b>	<b>1.89</b>	<b>6.9%</b>
Consensus					1.36	1.54	1.85				
<b>BofAe prior</b>					1.36	1.48	1.58	1.63	1.70	1.79	
<b>CAGR off 2022A</b>					<b>9.6%</b>	<b>11.1%</b>	<b>9.6%</b>	<b>8.6%</b>	<b>7.9%</b>	<b>7.3%</b>	

Source: BofA Global Research, Bloomberg

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## PO remains \$23, reiterate Buy

We refresh our sum of the parts valuation below. We adjust our valuation premium for the utilities to in-line from -1x following constructive rate case outcomes and looking ahead to the business operating as a standalone energy delivery company. Otherwise we keep our methodology consistent while moving around components of our sum of the parts to better illustrate the implied value of CSG as well as the remainco MDU.

We mark to market the latest 26E peer multiples, applying 13.3x for electric and 13.9x for gas. We also apply 25E EV/EBITDA multiples of 9.2x for CSG and 9.5x for pipeline. Note that for CSG we utilize a comp group of four publicly-traded construction services peers, excluding Quanta (PWR) as it trades at a large premium to the group.

The resulting sum of the parts valuation is below, with our PO remaining \$23 based on our sum of the parts valuation. We reiterate our Buy rating on MDU given the total return implied by our valuation.

### Exhibit 3: MDU valuation – we see valuation support considering the consolidated EPS growth and no premiums to biz segment.

PO remains \$23, reiterate Buy

Group Peer Multiple	Base Year & Metric	Base Multiple	Group EPS CAGR	Effective Base Multiple	
US Electric Utility	2026 EPS	13.3x	5.0%	14.0x	
US Gas Utility	2026 EPS	13.9x	5.1%	14.6x	
Natural Gas Pipeline	2025 EBITDA	9.4x		9.5x	
Construction Services	2025 EBITDA	9.2x		9.2x	
MDU shares outstanding (m)	2026 average diluted	212			
<b>Business Segment Valuation</b>	<b>2026 EPS (\$/sh)</b>	<b>Effective Base Multiple</b>	<b>Premium / Discount</b>	<b>Applied Multiple</b>	<b>Equity Value (\$/sh)</b>
MDU Electric	0.34	14.0x	0.0x	14.0x	4.76
MDU Gas	0.40	14.6x	0.0x	14.6x	5.91
	<b>2025 EBITDA (\$m)</b>	<b>Effective Base Multiple</b>	<b>Premium / Discount</b>	<b>Applied Multiple</b>	<b>Enterprise Value (\$/sh)</b>
Natural Gas Pipeline	120	9.5x	0.0x	9.5x	5.41
Pipeline Net Debt	372				1.76
<b>Regulated Business Equity Value</b>					<b>14.32</b>
<b>Assets to be Separated</b>	<b>2025 EBITDA (\$m)</b>	<b>Effective Base Multiple</b>	<b>Premium / Discount</b>	<b>Applied Multiple</b>	<b>Enterprise Value (\$/sh)</b>
Construction Services Group	255	9.2x	0.0x	9.2x	11.10
CSG Net Debt	284				1.34
<b>CSG implied equity value</b>					<b>9.75</b>
<b>Parent / Holdco</b>	<b>2026 EPS (\$/sh)</b>	<b>Effective Base Multiple</b>	<b>Premium / Discount</b>	<b>Applied Multiple</b>	<b>Equity Value (\$/sh)</b>
Parent Drag	-0.08	14.3x	0.0x	14.3x	-1.07
<b>MDU EQUITY VALUE</b>					<b>23.00</b>
MDU share price					19.23
Price return implied %					20%
Dividend yield %					2%
<b>Total Potential Return Implied %</b>					<b>22%</b>

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH



## Price objective basis & risk

### MDU Resources Group, Inc. (MDU)

Our \$23 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2026 estimates and use peer multiples of 13.3x for electric and 13.9x for gas, we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO.

We value MDU's stake in publicly-traded Knife River (KNF) based on the latest reported price at the time of publishing, \$47.83.

We value the Construction Services business using a '25 EV/EBITDA estimate, applying a multiple of 9.2x based on an average of several publicly-traded specialty construction services peers.

We value the Pipeline business using a '25 EV/EBITDA est., applying a multiple of 9.5x based on an average of several publicly-traded midstream peers.

We net out total parent drag and back out remaining non-regulated debt.

Upside risks are higher utility capex, improving margins at the construction business, and infrastructure stimulus. Downside risks are a macro downturn pressuring construction margins, and adverse rate case outcomes.

## 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

## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Portland General Electric Company	POR	POR 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
<b>NEUTRAL</b>				
	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
	Bloom Energy	BE	BE 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
	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
	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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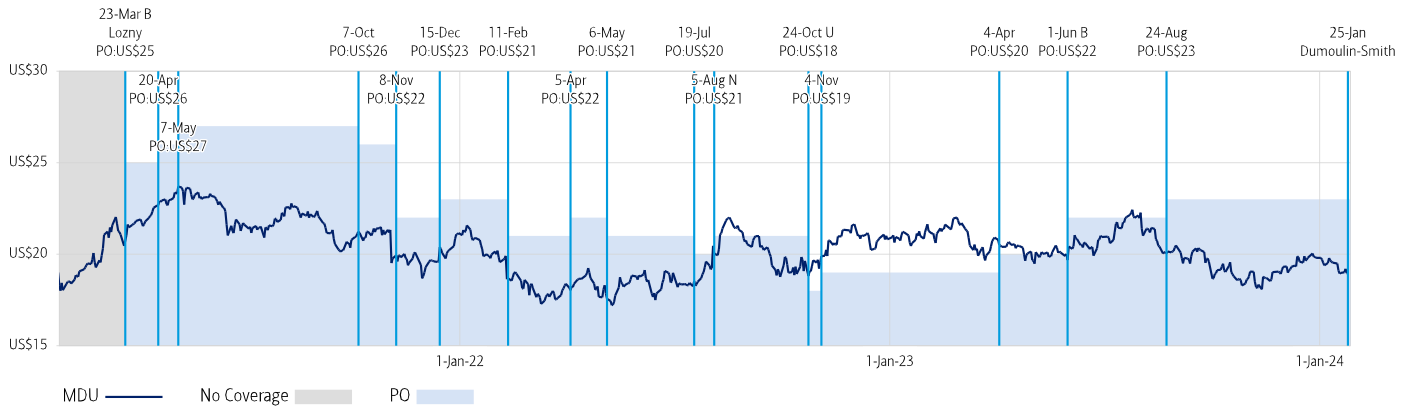
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### 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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