

US Clean Tech

Solar FLASH: NOVA sentiment, SPWR exec returns from GNRC, CAD panel detention

Industry Overview

NOVA: cash is a “show-me” story to resolve Street fears

Shares of residential solar company Sunnova Energy International (NOVA) have fallen -72% YTD and -64% in the last month after 4Q23 cash burn was stronger than anticipated, opening the door for scrutiny over FY24 cash generation and intended avoidance of parent capital. From our conversations with investors, company messaging has unintentionally supported longstanding short theses regarding the ability to sustainably generate cash to manage 2026 corporate maturities. We see investor concerns contemplating runaway cash burn in 1Q24 and perceived need for equity to shore liquidity to be generally unfounded. Management continues to reiterate its objective for no significant cash burn in 1Q24. Given lack of credible data to the contrary, continued health in the solar ABS market, channel checks that have so far not indicated abnormal cash management, and solid capital adequacy ratios exiting 4Q23 (cash asset coverage ratio of 3.9x exiting 4Q23 versus covenant level of 2.0x, sequentially improved from 3Q23), we see no major justification for the recent share price movement. We expect any concrete messaging from management indicating progressive cash build or organically strengthened liquidity could provide significant uplift to shares. *Reiterate Buy on NOVA given attractive valuation well below opco value.*

SPWR/GNRC: Seasoned sales exec returns to SunPower

On Thursday, residential solar company SunPower (SPWR) announced it has hired Tony Garzolini as Executive Vice President, Chief Revenue Officer of the company, effective April 1, 2024. Mr. Garzolini joins SPWR from Generac (GNRC), where he led the Clean Energy and Consumer Power business units from July 2023 to March 2024. Prior experience includes executive and sales leadership positions at SunPower from 2009 to 2022. Over his previous tenure at SunPower, Mr. Garzolini played an instrumental role in building the company's dealer network and launching a direct sales channel. We view this to be incrementally positive to SPWR, which we contemplate will need to ramp sales considerably to avoid even further financing dilution following the capital agreement with sponsor Sol Holding announced in February. Conversely, we see this to be a cautious sign for Generac, from which Mr. Garzolini departed less than a full year after joining the company. Maintain Underperform on SunPower given potential dilution from incremental financing. Maintain Neutral on Generac on what we think is a fair valuation..

Ethical supply chain sourcing focus in Canada, EU

The Canadian Border Services Agency (CBSA) has increased its enforcement of combating forced labor within its supply chains by detaining containers filled with solar modules to ensure compliance with ethical standards. The CBSA will detain any shipments of modules that are suspected of being produced with forced labor and if after inspection, the shipments are determined to have been produced with forced labor, they will be prohibited from entering Canada. This move aligns with the broader initiative by the Government of Canada to improve ethical sourcing and supply chain transparency. The government plans to introduce legislation in 2024 to further prohibit the importation of goods produced through forced labor.

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EU enforcing forced labor too.

Along these same lines, the European Parliament and Council reached a provisional agreement on new rules that will ban products made with forced labor from entering the EU market. Suspected use of forced labor in products will be investigated and, if proven, products will be withdrawn from the market and confiscated at the borders. The regulation also creates a framework for enforcing the ban, including investigation processes, IT solutions and cooperation with other authorities and countries. After final sign off which is expected very soon, the regulation will be published in the Official Journal and enter into force the following day. EU countries will thereafter have 3 years to start applying the new rules. We view the increasing global focus on ethical supply chain sourcing as positive for FSLR and similar premier manufacturers as UFLPA type policies spread globally. *Maintain Buy on FSLR given uncontroversial manufacturing footprint and attractive valuation.*

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
FSLR	FSLR US	First Solar	US\$ 149.39	C-1-9
GNRC	GNRC US	Generac	US\$ 112.74	C-2-9
NOVA	NOVA US	Sunnova Energy	US\$ 4.2	C-1-9
SPWR	SPWR US	SunPower Corp.	US\$ 2.67	C-3-9

Source: Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

First Solar, Inc. (FSLR)

Our price objective is \$187/share, based on an EV/EBITDA method. We apply a 3.2x multiple from a group of Chinese and other international solar comp group/module peers, and add a 0.5x premium for FSLR's lower risk to protectionist trade policies. We value FSLR's core EBITDA at a lower than historical multiple given significant pressure to 2027+ pricing from Chinese oversupply. We also add net cash balance and \$84/share net present value to account for production tax credits stipulated in Inflation Reduction Act.

Downside risks: 1) worse/declining price environment, 2) declining margins or worse-than-expected cost structure, 3) unfavorable trade policy dynamics, 5) worse Chinese/global demand environment, 6) worse execution on systems business, and 7) technology fails to live up to expectations 8) FSLR capture of production tax credits fall short of expectations

Generac Holdings Inc. (GNRC)

Our PO of \$128/share is based on a blended 50 / 50 EV/EBITDA / DCF valuation methodology. To account for growth, we use 11.5x 2025E EV/EBITDA, which implies a valuation of \$146/share. Our target multiple is the average of industrial peers, and does not credit a premium for the developing clean energy business. Our DCF uses a 13.1% discount rate and a 9x terminal multiple, resulting in a valuation of \$110/share.

Upside and downside risks to our Price Objective are changes in 1) interest and discount rates, 2) supply chain efficiency and access, 3) margins, 4) home standby order intake, 5) cost of raw materials, 6) competition in the energy storage market, 7) a large accretive or dilutive clean energy acquisition, 8) regulatory, legislative, or tax policy, 9) power

outages, 10) market share, 11) equity markets activity, and 12) macroeconomic conditions including householder formations.

Sunnova Energy (NOVA)

Our price objective for Nova is \$16/share based on sum-of-the-parts valuation. We value the PowerCo portion of the company by taking NPV of Net Customer Value (excl. Net Cash), equivalent to discounting cash flows from the existing asset base by a 15% discount rate. This equates to \$11/sh.

We value expected future installed assets through 2030 on a DCF basis with value created discounted to present at a 20% cost of equity assumption. Including a 6x terminal value multiple on 2030E NPV and the NPV of G&A expense, including non-cash SBC costs and future expected corp capital needs, this equates to \$5/sh.

Downside risks to PO being achieved: NOVA is particularly exposed to rate sensitivity, credit spreads, net metering policies, and risk of broadly competitive environment for customer acquisition squeezing development margins.

Upside risks to PO being achieved: Better than expected recovery in rates and capital market conditions, better than expected growth prospects, better NEM 3.0 outcome, and if the ITC is extended beyond the current schedule.

SunPower Corp. (SPWR)

Our \$2.50/sh PO is based on a combination of SOTP and NPV. For future growth assets we use a DCF based on FCF to equity ests from '23 to '29. We apply a 6x terminal value multiple and a 18% discount rate, in-line with our approach for resi solar peers which reflects recent market volatility and higher execution risk on long term growth. We add back the net cash position, and value for contracted assets in SPWR's joint venture financing partnership, SunStrong. On SunStrong, we include 20% credit for renewal value stake.

Upside risks 1) better than expected pricing environment, 2) improving margins/cost structure, 3) declining input costs., 4) better than downstream planned sys biz expansion, and 5) reduced customer acquisition costs.

Downside risks 1) worse/declining price environment, 2) declining margins or worse than expected cost structure, 3) worsening liquidity position, 4) worse Chinese/global demand environment, 5) worse execution on downstream systems biz, 6) tech fails to live up to expectations.

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
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	EVERG	EVERG 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
	Nexttracker 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	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
	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

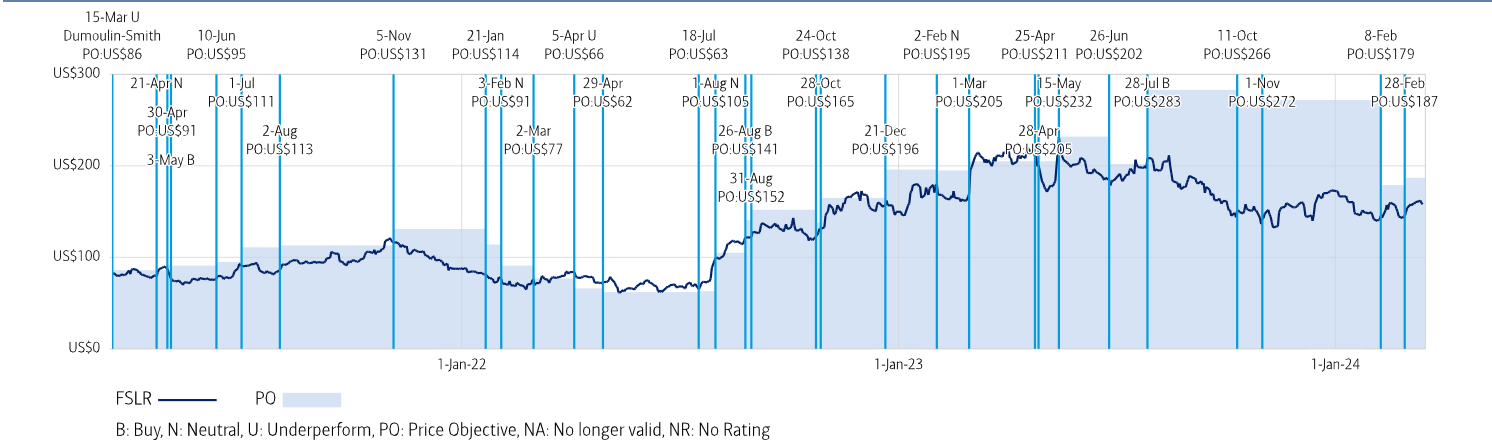
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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	Julien Dumoulin-Smith

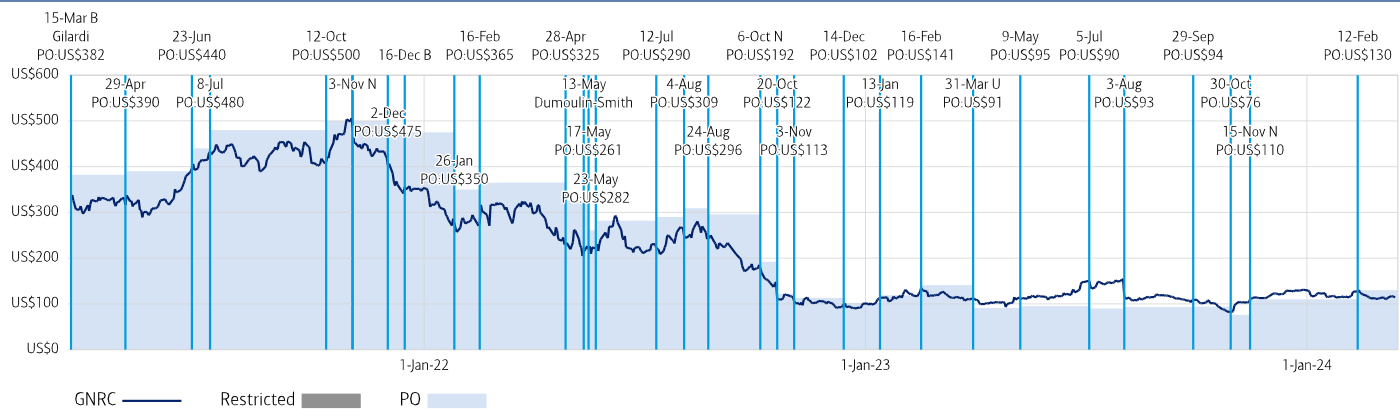
Disclosures

Important Disclosures

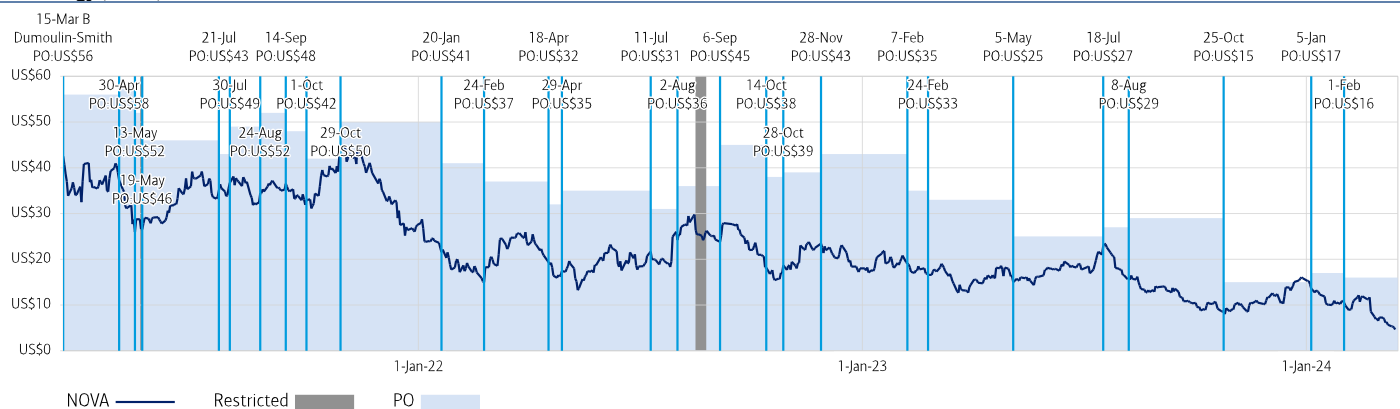
First Solar (FSLR) Price Chart



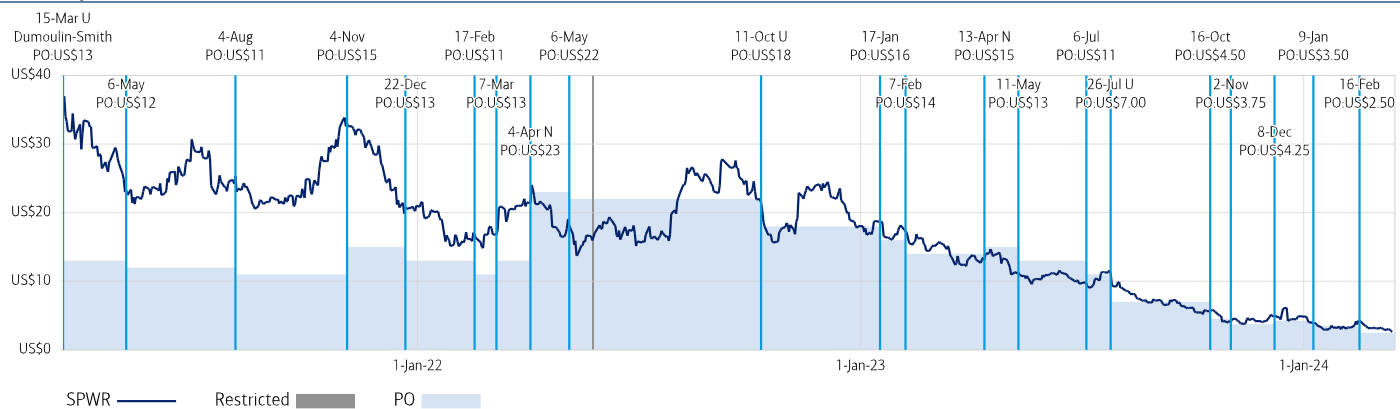
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey 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.

Generac (GNRC) Price Chart

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Sunnova Energy (NOVA) Price Chart

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SunPower Corp. (SPWR) Price Chart

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	8	47.06%	Buy	8	100.00%
Hold	5	29.41%	Hold	3	60.00%
Sell	4	23.53%	Sell	1	25.00%

Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	27	42.19%	Buy	8	29.63%
Hold	17	26.56%	Hold	8	47.06%
Sell	20	31.25%	Sell	8	40.00%

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.

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