

US Utilities & Clean Tech

PowerPoints: ENLT Earnings, TX Power Legislation, & Latest Macro Thoughts

Industry Overview

Enlight Inaugural US Earnings: In line with long term boost

Enlight (Ticker ENLT) announced earnings for the first time as a US company post its February IPO. Results and guidance are broadly within or slightly above our expectations. \$130Mn 2022 EBITDA not including reclassified revenues from the Halutzlot project (\$12mm) which will now be treated as financial income, net above \$133Mn BofAe. Not adjusting for this reclassification, the delta vs our estimate largely looks hinged to stronger realized prices at the Gecama wind project at EUR 115MWh net, vs our estimate at ~EUR 100/MWhr. Looking to 2023, including the reclassifications of the above-mentioned projects on revenue and Adj. EBITDA (\$15mm), the guide of \$188-198mm looks in line with our expectation at \$207mm. Key medium term updates include that the CoBar cluster is now indicated at 1,200MW solar plus 824MWh of storage with 580MW contracted and the balance still in negotiations. Expect continuous construction to start within 2H23 through mid-late 2025 as phases come on-line. With an expected 1.8GW operational by year end 2023, and a mature pipeline that ENLT suggests expands this level to 4.5GW by 2025, ENLT is now guiding to 1.5GW+ of project CODs 2026+ up from 1-1.2GW indications previously. As a precursor, ENLT suggests 8.5GW of late-stage interconnection positions in the US meaning projects that are beyond System Impact Study. This is a positive update, in-line or better than expected with increasing medium- and long-term support for rapid expansion in EBITDA. There is a guided ~50% jump in 2023 against still the bulk of the mature development portfolio coming post 2024. Reiterate Buy as a clear value call against still increasing line of sight on execution in the near years with longer term acceleration still a cheap option at the current levels.

Texas Grid: Legislature unveils bills aimed at grid reform

A group of Texas senators introduced nine bills last week targeted towards strengthening grid reliability in ERCOT (Electric Reliability Council of Texas). Among the proposals, the legislators introduced Senate Bill 6 (SB 6), which would create the "Texas Energy Insurance Program," effectively bringing online 10,000 megawatts (MW) of new thermal generation via a state-hired developer. SB 6 would also institute a state-backed loan program whereby developers could tap low-cost funding to build new generation. Another proposal, Senate Bill 2012 (SB 2012), would make alterations to the controversial Performance Credit Mechanism (PCM) which the state's Public Utility Commission (PUC) put forward earlier this year. Changes to the original PCM would include making credits available to dispatchable generation only (vs. all types of generation, including wind and solar, as originally contemplated). Further, SB 2012 would limit market share among retail electric providers to 20% while the net cost to ERCOT to implement any credit mechanism would not be able to exceed \$500Mn.

See full report for additional thoughts on Texas and our latest macro valuation refresh.

15 March 2023

Equity
United States
Utilities & Clean Tech

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IPO: Initial Public Offering
CoBar: Solar project in US Southwest
COD: Commercial Operations Date
MW: Megawatt | GW: Gigawatt
ERCOT: Electric Reliability Council of Texas
SB: Senate Bill | HB: House Bill
IPP: Independent power producer

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Refer to important disclosures on page 7 to 11. Analyst Certification on page 5. Price Objective Basis/Risk on page 4.

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Timestamp: 15 March 2023 05:42PM EDT

Texas legislative action starts to heat up

SB 6 appears to be a reincarnation of previous in-state efforts such as the Berkshire plan discussed post Winter Storm Uri. Additionally state supported resources without compensation for existing generation would be cautious for incumbent Vistra (VST). SB 2012's limitation of retail market share would be challenging for NRG Energy (NRG) and large peers such as Vistra.

On balance we still view the potential for new legislation as positive for incumbent generators Vistra, NRG Energy, and Constellation Energy (CEG) but legislation does bring risks. New bills that lead to subsidized generation without compensation for existing fossil resources would be negative and potentially lead to additional retirements, a setback for reliability. The Texas generation-retail business model works with a backdrop of stable prices and generally reliable service to keep attrition manageable. We intend to closely watch the situation moving forward. There are also various regulated utility draft bills regarding the allowed equity ratio, incentive compensation in rates, and the timing of distribution rate mechanisms.

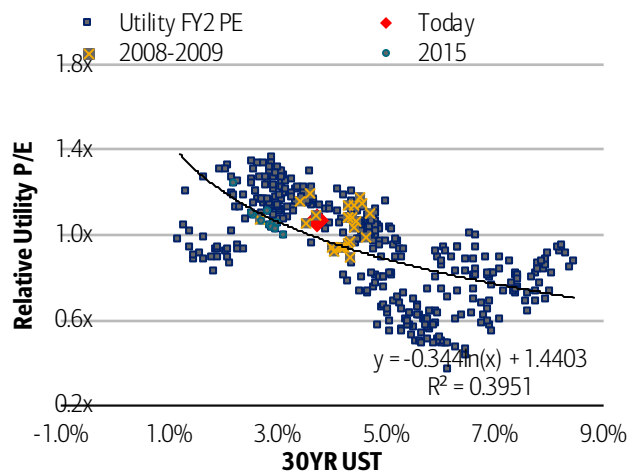
Maintain Buy on shares of Vistra which continue to offer a strong risk-adjusted return with the new Vistra Vision platform highlighting the previously underappreciated lower-carbon business. Maintain Neutral on shares of NRG and CEG which have a more balanced risk/reward profile, although the valuations look more reasonable after recent underperformance. NRG as an example is now at a 52-week low and recently broke the \$31/sh level that the stock fell to after the Vivint acquisition announcement. There is still significant uncertainty around the Vivint platform targets and future cash flows which keeps us at Neutral.

Macro latest: Utility premium has contracted

We refresh our analysis of the relative premium/discount off the broader Utilities sector vs the 10Y and 30Y. When regressed against Treasury benchmarks, utilities' relative forward P/E has remained positive since Q2'22 after being negative through much of 2020-2021. This is largely consistent with the recent trend and investor feedback that Utilities' risk-reward based on dividend yield is less attractive than that from risk-free instruments that have seen their yields surge during the latest tightening cycle.

Exhibit 1: Non-linear regression vs 30Y UST

Non-linear regression still suggests modest premium

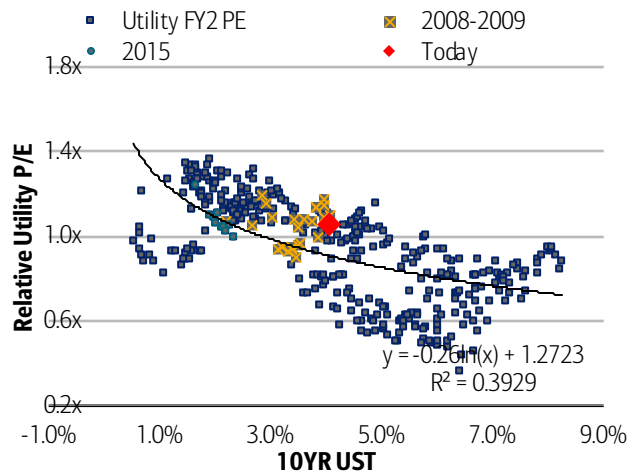


Source: BofA Global Research, Bloomberg

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Exhibit 2: Non-linear regression vs 10Y UST

Non-linear regression still suggests modest premium



Source: BofA Global Research, Bloomberg

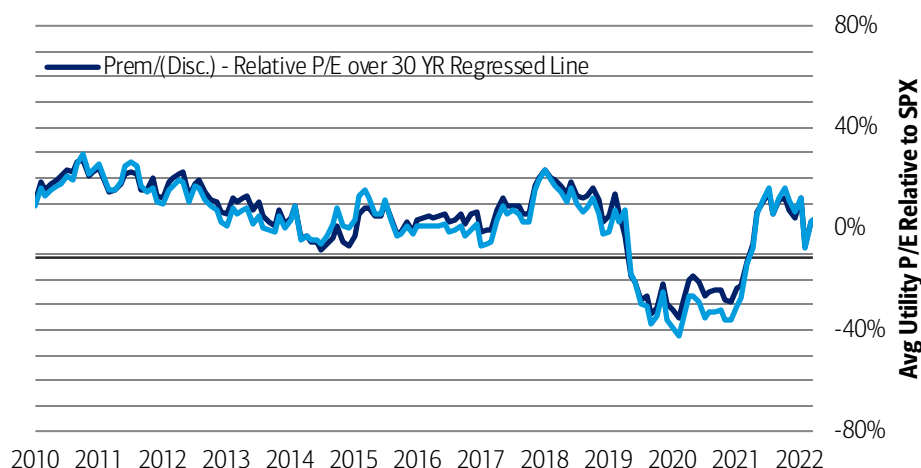
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Based on our time series analysis, utilities are now at a slight premium above fair value relative to both the 30-year Treasury note and Moody's BAA Utility index. It should be noted that similar levels have been observed in prior years, including stretches spanning

the mid-1990s, 2005-2007, the years following the Great Recession, and 2018-2019. Our analysis also suggests that both relative outperformance and its duration can vary. Note that Exhibit 3 below covers Dec 2010 through March 2023.

Exhibit 3: Relative premium over time (2010-2023)

Magnitude of the premium has come back to modestly



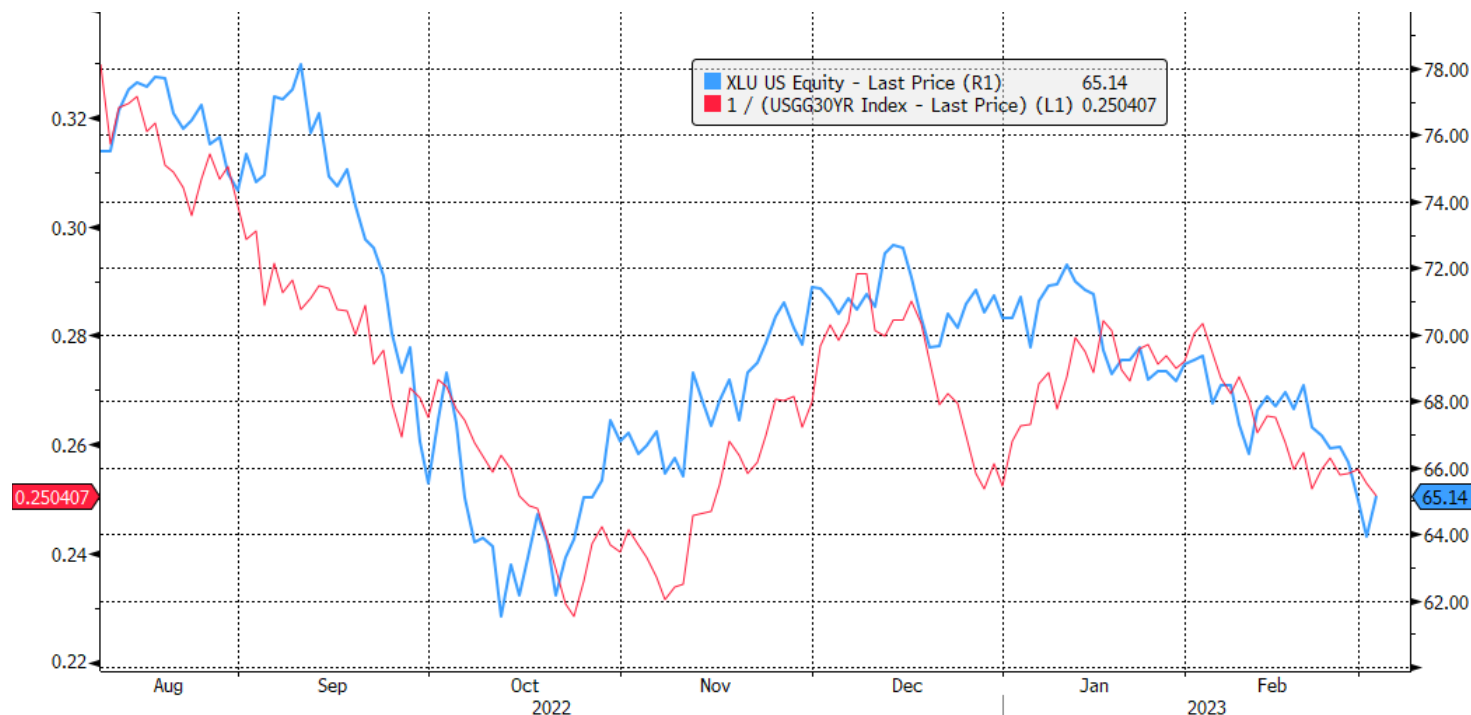
Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Lastly, we show that US utilities have been trading in lock-step with the 30Yr US Treasury yield since August 2022, a return to the normal and expected trading relationship.

Exhibit 4: US Utilities Equity Performance Relative to Inverse US 30Yr Treasury Yields

Utilities as a bond proxy have a very strong relationship with interest rates



XLU US Equity (Utilities Select Sector SPDR Fund) Utilities vs Rates Daily 10AUG2022-02MAR2023

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Source: Bloomberg

BofA GLOBAL RESEARCH



Exhibit 5: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ENLT	ENLT US	Enlight Renewable	US\$ 17.23	C-1-9
NRG	NRG US	NRG Energy	US\$ 30.82	B-2-7
VST	VST US	Vistra Energy	US\$ 24.41	B-1-7
CEG	CEG US	Constellation Energy	US\$ 77.33	C-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**Constellation Energy Corp (CEG)**

Our \$88 Price Objective is based on a 8.8% 2025E equity Free Cash Flow yield (FCF yield) on an unhedged/'open' basis. The 8.8% FCF yield represents a weighted average of 8.0% (first quartile) for the support FCF and 14.9% (third quartile) for merchant FCF, utilizing energy comparables.

Risks to achievement of the Price Objective and rating are: 1) changes in energy & capacity prices, 2) retail margins, renewals, win rate, & overall market share, 3) operating, capital, and fuel costs, 4) capital allocation decisions including M&A, 5) nuclear incidents or accidents, 6) legislative and regulatory changes, 7) nuclear fuel costs & availability, 8) change in environmental standards for generation assets, 9) management turnover, 10) pension & nuclear decommissioning trust returns, 11) credit rating agency requirements, and 12) interest rates.

Enlight Renewable Energy Ltd (ENLT)

We arrive at our \$23.00/share price objective in three pieces.

(1) Value for the operating business (OpCo) which is comprised of assets producing energy today and those that are in construction or pre-construction phases that are targeting an operational startup in the next 24 months. We benchmark these cash flows on a sliding scale from 6% to 6.5% based on the relative execution risk with the low end of the range applied to currently producing assets.

(2) Value for future growth generated in the development company (DevCo). We benchmark value created as the DCF of cash flows from of future projects immediately before their construction benchmarked at a 7% discount rate which is a cushion above the current cost of capital. We discount value created in a future year to current using a 10% discount rate and apply an 10x terminal value multiple on our 2030E NPV.

(3) We net off any payment streams that sit at the parent level at a 10% discount rate including overhead, tax, and corporate debt schedule. We add in a current value of cash as well.

Downside risks: (1) Risks of project delays (2) Rising rates and inability to pass through these costs into pricing (3) Competition and (4) Risks to regulatory delay including interconnection (5) Exposure to merchant power prices

Upside risks: (1) Accelerated growth to volumes (2) Improvements in the regulatory backdrop (3) Exposure to elevated power pricing

NRG Energy (NRG)

Our \$35 Price Objective is based on 2025E sum-of-the-parts analysis. We apply a premium/discount to our 7.0x base EV/FCF multiple, which is premised on long-term historical industry trends, to each segment based on our views of the specific asset type and region. All three segments are initially valued at 7x EV/FCF including Generation, Retail & Vivint.

Upside/Downside risks to the price objective are changes in: 1) commodities including gas, coal, nuclear fuel & power, 2) operating costs, 3) environmental costs and regulation, 4) retail margins and customer counts, 5) natural disasters, 6) generation volume, 7) regulatory, legislative, and political changes, 8) customer acquisition costs, 9) retail competition, 10) pension and nuclear decommissioning trust assets/liabilities, and 11) interest rates.

Vistra Energy (VST)

Our \$29 price objective is based on a 2025E SOTP valuation. We assign a discount/premium to the peer group EV/FCF multiple of 7.0x: We include the full \$300mn of margin-enhancing initiatives as well as \$200mn optimization benefits and the \$290mn of synergies related to the DYN acquisition. We capitalize our estimated income tax for the combined entity to reflect the higher tax burden than peers, and we include a \$50mn NPV of TRA payments. We reflect Vistra Zero accretion at 12x EV/EBITDA, with '26 FCF discounted at 12% back to '23. We also reflect \$500mn of ERCOT securitization proceeds (implied in net debt balance). We include impact from future bill credits from Uri storm & NPV of ERCOT uplifts. For Energy Harbor, we apply a peer multiple of 7.0x EV/FCF, consistent with our target multiple for legacy VST nuclear and retail. We also layer in Energy Harbor Synergies at a 2.0x discount to the peer multiple (consistent with our approach for DYN) and an in line multiple for margin offsets (consistent with our prior approach for offsets)

Positive and negative risks to achievement of the Price Objective are: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

Analyst Certification

We, Julien Dumoulin-Smith and Paul Zimbardo, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective 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				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC 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
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	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
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG 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 Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA

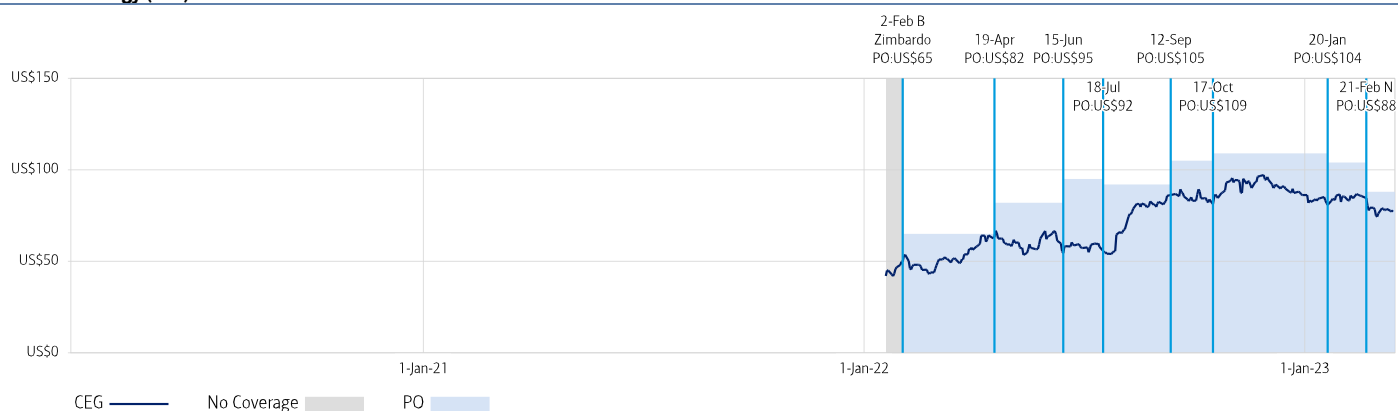
UNDERPERFORM

	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
	Energys, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

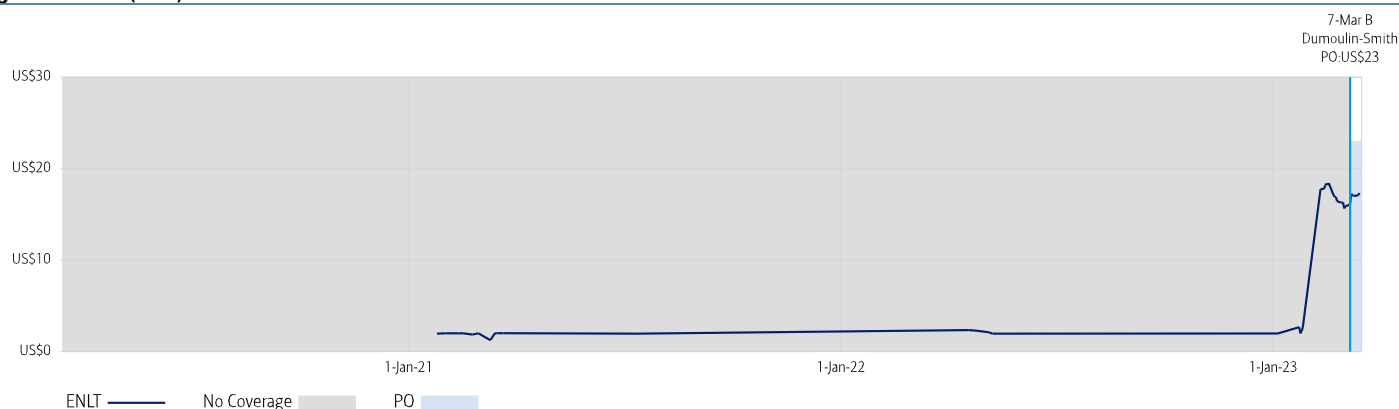
Important Disclosures

Constellation Energy (CEG) Price Chart



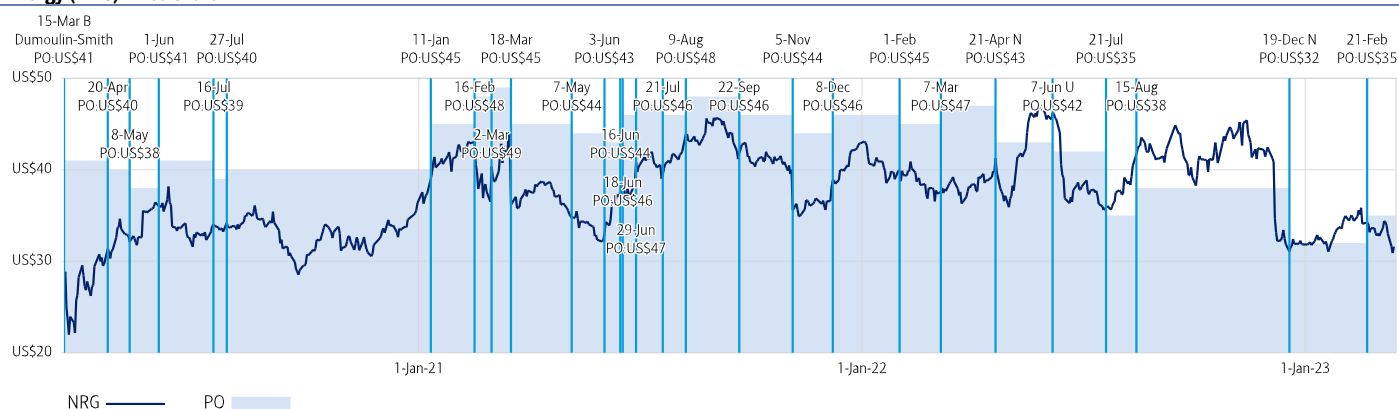
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

Enlight Renewable (ENLT) Price Chart

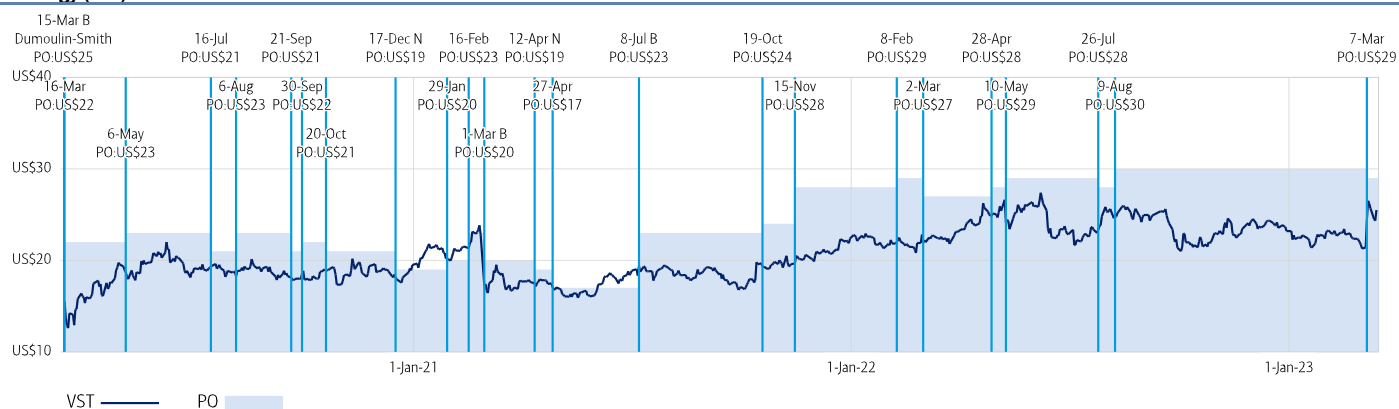
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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NRG Energy (NRG) Price Chart

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

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Vistra Energy (VST) Price Chart

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

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Equity Investment Rating Distribution: AlternativeEnergy Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	8	53.33%	Buy	6	75.00%
Hold	2	13.33%	Hold	1	50.00%
Sell	5	33.33%	Sell	4	80.00%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

^{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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