

US Utilities & Clean Tech

PowerPoints: EVRG EPS/Guidance, PNW Equity Issuance, & SRE Rate Base Outlook

Industry Overview

EVRG: FY24 guide in line after 4Q23 weather miss

Kansas and Missouri-focused regulated utility Evergy (EVRG) reported 4Q23 non-GAAP EPS of 27c versus 29c BofAe/ 28c Consensus. Primary deltas between EVRG results and BofA estimates were higher O&M expense (-4c) and lower weather-normalized demand (-6c), partially offset by +6 benefit from discrete tax items. FY23 adjusted EPS of \$3.54 versus 3.56 BofAe/Consensus and guidance of \$3.55-\$3.66, though excluding -5c 4Q23 weather impact met guide. Management attributed the guidance miss to this late 2023 mild weather, net of even further cost control. FY24 EPS guidance of \$3.73-3.93 met \$3.82 BofA / \$3.81 Consensus. EVRG also updated its five-year capital investment plan, raising 2024-2028 capex to \$12.5Bn versus \$11.6Bn from 2023-2027 in the prior plan; however, investment much more backloaded to 2026-2028. EVRG added 2028 to its investment forecast at \$3.2Bn, materially higher than the \$2.1-\$2.6Bn in 2023-2027E due to \$1.1Bn generation vs \$450Mn average in the prior years. YE23 actual rate base grew +\$900Mn (+5%) and YE28 guidance is +4% higher than the prior YE27 guidance, indicating a slowing profile; however, there could be lag (i.e. construction work in process) associated with the step-up in 2028 capex. While still a modest increase versus the prior plan, the update supports status quo 6% long-term rate base CAGR rolled forward to 2024-2028 and 4-6% EPS CAGR off original FY23 guidance midpoint of \$3.65. Financing plan from 2024 to 2026 assumes no new equity issuances through 2026. *The 4Q23 update was generally in-line with our focus more on the pending legislative session which could step-up earnings and reduce regulatory lag – [see background here](#). Despite lack of significant growth prospects, we conversely observe risk to have been greatly reduced through last year's extensive reset. See stated targets as highly achievable with more limited downside. Maintain Neutral on balanced risk/reward at current levels given muted growth.*

PNW: Forward equity issuance comes soon after earnings

Pinnacle West Capital Corp (PNW) priced 9.8Mn shares, \$631Mn equity via a forward sale at \$64.50/sh gross vs a \$66.50/sh public offer price. The transaction has a forward sale arrangement with a September 4, 2025 duration. On the recent 4Q23 earnings call, Pinnacle guided to \$600-\$700Mn equity 2024-2026 with \$500Mn deferred equity need post the rate case and \$100-\$200Mn incremental capital structure true-up to the target. PNW indicated that it would consider at-the-market common equity and other equity-linked securities like hybrids. There is another \$400Mn future corporate capital in the financing plan, separate from \$200-\$400Mn net corporate debt. FY24 guidance assumed 114.9Mn average diluted shares outstanding vs 113.8Mn in FY23, implying relatively little drawdown of the forward in 2024. Assuming the green shoe underwriters' option, PNW will raise \$700-\$725Mn net equity from the offering, addressing the base equity in the three-year financing plan. *After the -4% relative underperformance in February, we see a more attractive profile for shares but still see a generally balance risk/reward and maintain Neutral.*

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LNG: liquefied natural gas

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EVRG: Comparison of capital plan shows a shift (Cont.)

Evergy capital plan increased slightly in 2023, 2024, and 2026, fully offsetting the decline in 2025. 2027 notably increased while 2028 has significant generation spending. YE23 actual rate base grew +\$900Mn (+5%) and YE28 guidance is +4% higher than the prior YE27 guidance, indicating a slowing the profile; however, there could be lag (i.e. construction work in process) associated with the step-up in 2028 capex. EVRG added 2028 to its investment forecast at \$3.2Bn, materially higher than the \$2.1-\$2.6Bn in 2023-2027E due to \$1.1Bn generation vs \$450Mn average in the prior years. EVRG rolled the 6% rate base growth profile forward to 2023-2028 from 2022-2027 previously.

Exhibit 1: Evergy Consolidated Capital Program Update vs Prior

2023-2026 capital investment target is unchanged with 2027+ increasingly notably

EVRG Capital Plan (\$Mn)	2023	2024	2025	2026	2027	2028
Updated Capex Plan	2,552	2,125	2,089	2,457	2,624	3,200
Prior Capex Plan	2,406	2,006	2,461	2,359	2,375	2,518
Delta	146	119	(372)	98	249	683

Source: Company Filings and BofA Global Research

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SRE: Refreshed capital plan lags high expectations

Sempra (SRE) initiated \$4.90-\$5.25 FY25 adjusted EPS guidance, with 7% midpoint growth YoY. The new \$5.08 guidance midpoint is slightly weaker than \$5.15 Consensus. As expected, the 6-8% EPS CAGR was reaffirmed and management has described the growth rate as accelerating in later years as the contribution from pending liquefied natural gas (LNG) export projects contributes to results. FY24 adjusted EPS was narrowed to \$4.60-\$4.90 vs \$4.82 Consensus and the \$4.73 prior guidance midpoint.

The capex plan was increased +20% to \$48Bn, at the high-end of the 10-20% guidance from the 3Q23 call relative to the prior \$40Bn five year plan. "Only" a 20% increase is somewhat disappointing relative to elevated expectations after bullish commentary from management. The new 2024-2028 rate base growth is a blend of California at 6% and Texas at 11%, leading to an 8-9% consolidated CAGR (including Oncor at 100%).

The 2024-2028 financing plan includes \$1.8Bn equity with \$600Mn internal programs and \$1.2Bn via the November 2023 forward issuance (2023 equity issuance excluded from the 2024-2028 period). The equity forward was described as fully financing the incremental capital so the additional \$600Mn equity is a bit surprising; however, the capex has been flexed higher to the 20% top-end of the prior guidance.

Shares of SRE have underperformed utility peers ~2% following the weaker update that did not meet relatively high investor expectations. We still see an attractive valuation and visibility to 6-8% EPS growth from 8-9% rate base growth and LNG contribution – maintain Buy.

Exhibit 2: SRE Prior and Revised Rate Base Guidance from 1Q23 Update vs 4Q23 Update

Texas is growing almost double the rate of California

SRE Rate Base (\$Bn)	2022	2023	2024	2025	2026	2027	2028	'23-'27 CAGR	5Yr CAGR	'24-'28 CAGR
California - 1Q23	24.3	26.3	28.5	30.8	33.4	36.1		8.2%	10.4%	
California - 4Q23		27.0	30.0	32.0	34.0	37.0	38.0	8.2%	8.9%	6.1%
Delta		0.7	1.5	1.2	0.6	0.9				
Texas - 1Q23	21.0	23.0	25.2	27.6	30.3	33.2		9.6%	12.1%	
Texas - 4Q23		23.0	26.0	29.0	32.0	36.0	39.4	11.9%	14.4%	11.0%
Delta		(0.0)	0.8	1.4	1.7	2.8				
Consolidated - 1Q23	45.3	49.3	53.7	58.5	63.6	69.3		8.9%	11.2%	
Consolidated - 4Q23		50.0	56.0	61.0	66.0	73.0	77.4	9.9%	11.5%	8.4%
Delta		0.7	2.3	2.5	2.4	3.7				

Source: Company Filings

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Title: Subtitle

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[First Solar, Inc.: The Domestic King: Premium Pricing Persists, Reiterate Buy](#)
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[Array Technologies: Hitting the reset button to kick off '24 – Reiterate Buy](#)
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[SunRun: SunRun off to the races; 4Q23 print derisks volume, FY24 run rate cash guide](#)
[Fluence Energy: Contracting concerns: possible explanations for the volatility of late?](#)

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Exhibit 3: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
EVRG	EVRG US	Evergy	US\$ 49.79	B-2-7
PNW	PNW US	Pinnacle West Capital	US\$ 66.9	B-2-7
SRE	SRE US	Sempra	US\$ 70.67	B-1-7

Source: BofA Global Research

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Price objective basis & risk

Evergy, Inc (EVRG)

Our \$51 price objective for Evergy (EVRG) is based on sum of the parts valuation, applying an in-line utility peer 2026E P/E of 13.3x. The electric peer P/E multiple is grossed up for one year by 5% to reflect capital appreciation across the sector. We further apply a -2.0x turn discount across Missouri and -2x for the Kansas Central subsidiaries based on our perception of a challenging regulatory setup that will pressure future capital spend and Evergy's ability to sustain a consistent EPS growth rate in light of intense regulator scrutiny of customer bill pressures. Downside risks to our price objective are adverse regulatory outcomes, inability to deploy capital expenditures consistent with guidance, operational performance issues including at the nuclear facility, and earning below the authorized rate of return. Upside risks to our price objective are favorable regulatory outcomes in important proceedings, accretively deploying additional capital expenditures above guidance, higher than anticipated O&M benefits and merger synergies leading to a higher earned return on equity, and the ability to recover capital invested in retired coal assets

Pinnacle West (PNW)

Our price objective of \$71 is based on a peer utility P/E multiple of 13.8x, grossed up for a year by 5% to reflect capital appreciation across the sector.

For Arizona Corporation Commission (ACC) regulated assets we apply a -1x discount to reflect the relative quality of the jurisdiction and ongoing earned ROE lag.

For Federal Energy Regulatory Commission (FERC) regulated assets we apply a +3x premium to reflect a premium ROE and rider recovery of invested capital.

Upside and downside risks to the Price Objective are changes in 1) regulatory, political, and legislative relationships/outcomes, 2) load growth in territory versus expectations, 3) riders and capital trackers implementation 4) weather, nuclear, and natural disasters, 5) interest rates, 6) pension liabilities and asset returns, 7) equity needs relative to forecasts, 8) capital expenditures, and 9) ability to control costs to earn a return on equity.



Sempra (SRE)

Our \$82 PO is based on a sum of the parts valuation of 2025E earnings. The US utilities are valued using the electric (16.3x) and gas (16.2x) average P/E that we grossed-up +5% to account for sector growth. We apply a -2x discounted valuation to the California gas utility (SoCal Gas) for concerns about long-term use of natural gas. We apply a -1x discounted valuation to the California electric utility (SDG&E) to reflect the wildfire risk exposure. We apply a +2x premium to the TX utility (Oncor) for above average growth and high visibility into rider recovery. The Infrastructure segment (SIP) is valued at 10x EV/EBITDA, an implied premium to the Mexican market (5.5x) and select premium US midstream comparable (Williams and TC Energy at approximately 9-10x) on EV/EBITDA due to its long duration contracted cash flows. The parent drag is treated on a balanced blend of P/E and HoldCo debt and cash netting.

Risks to achievement to our price objective are: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) LNG development, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

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
	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
	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
	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
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	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
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon 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



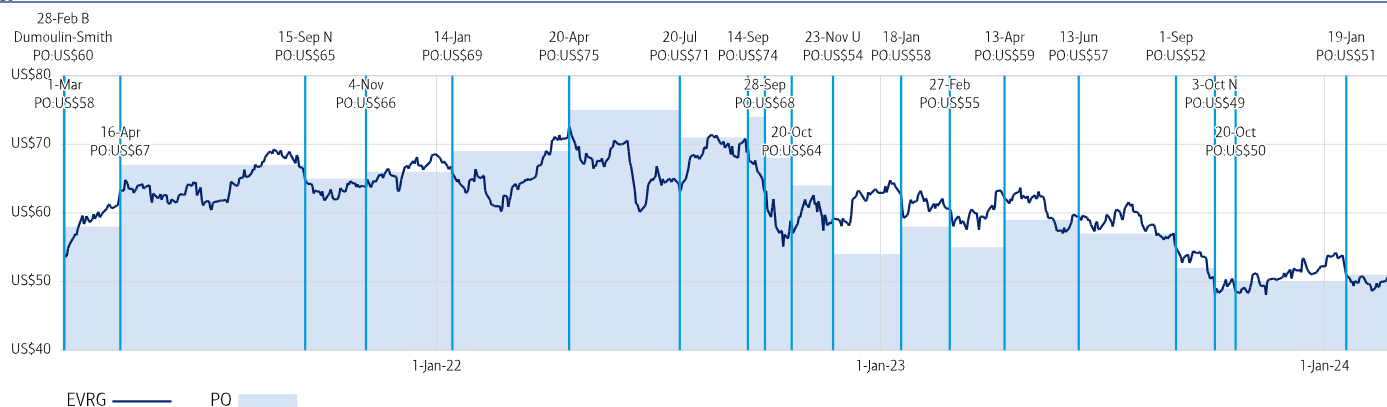
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	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
RSTR	New Fortress Energy	NFE	NFE US	Cameron Lochridge

Disclosures

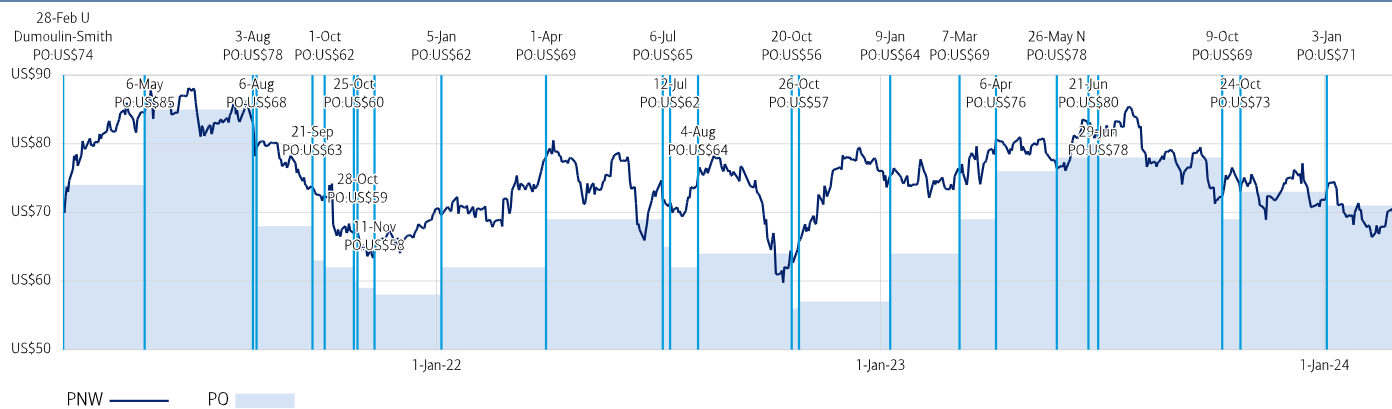
Important Disclosures

Energys (EVRG) Price Chart



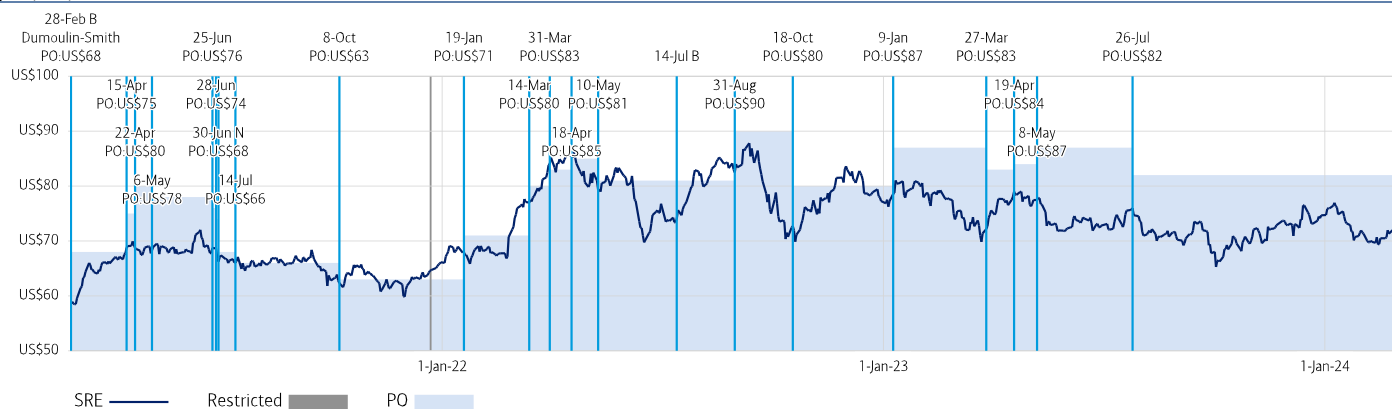
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Pinnacle West Capital (PNW) Price Chart

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

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Sempra (SRE) Price Chart

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

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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%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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