

Exelon

Recalibrating the Growth Rate Down to 5-7% - but not lower. Discount is fair.

Reiterate Rating: NEUTRAL | PO: 36.00 USD | Price: 35.30 USD

Trading at fair value with reasonable discount to peers

We reiterate Neutral on shares of diversified regulated transmission and distribution utility Exelon Corp (EXC) ahead of the expected long-term EPS growth rate reduction with 4Q23 earnings. Following the adverse Illinois regulatory decision, we forecast a ~6% EPS growth rate 2023-2027, supporting a 5-7% outlook. This is lower than the current 6-8% with management's target of at/above the midpoint. With approximately average EPS growth, a below-average balance sheet (~13% FFO / debt), and 35-40% concentration in Illinois, we believe the current 5-7% discount to peers is reasonable. We lower our PO to \$36 reflecting sector's recent mark-to-market decline: see Page 8.

2024 could improve on IL limited rehearing. EXC appeals.

The Illinois Commerce Commission (ICC) granted limited rehearing in the recent rate case, specifically around the base rate base for revenue requirements. Currently 2024 revenue requirement's uses the YE22 rate base as the last approved rather than a more updated amount. If a more recent rate base is used to set the 2024 revenue requirement this could represent ~\$0.04 (half year) or ~\$0.08 (retroactive to January 2024) upside in 2024. We currently see FY24 EPS declining YoY to \$2.33 -4% below Consensus which does not embed a successful outcome from the ICC. Exelon is appealing other elements.

Washington DC intervenors much better than feared

Last week intervenors filed testimony in the pending Washington D.C. rate case which supported 55-60% of the revenue increase on average. Excluding ROE and depreciation, the Office of People's Council (OPC) revenue increase was a constructive 90%+ of the filed position, setting up for a fine outcome – *assuming the Commission approves a MYP*.

Increasing equity to target 13% FFO/Debt

We extend and increase our equity issuance assumptions which are designed to support 13% long-term funds from operations (FFO) / debt. Previously we modeled \$625Mn 2023-2025 and \$500Mn 2026-2028 (\$167Mn per year). With no equity issued in 2023 through 9/30/23 we remove the 2023 equity and shift to \$300Mn per year 2024-2025. We increase the annual equity in 2026+ to \$333Mn with \$1Bn 2026-2028. We lower FY26 -\$0.02 and FY27 -\$0.03 to reflect more equity dilution.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.07	2.27	2.35	2.33	2.64
GAAP EPS	1.95	2.08	2.35	2.33	2.64
EPS Change (YoY)	-35.7%	9.7%	3.5%	-0.9%	13.3%
Consensus EPS (Bloomberg)			2.36	2.43	2.63
DPS	1.53	1.35	1.44	1.53	1.62
Valuation (Dec)					
P/E	17.1x	15.6x	15.0x	15.2x	13.4x
GAAP P/E	18.1x	17.0x	15.0x	15.2x	13.4x
Dividend Yield	4.3%	3.8%	4.1%	4.3%	4.6%
EV / EBITDA*	17.9x	16.1x	14.8x	14.3x	13.1x
Free Cash Flow Yield*	-7.6%	-6.5%	-7.9%	-8.5%	-7.9%

* For full definitions of *IQmethod*SM measures, see page 12.

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Timestamp: 19 January 2024 05:45AM EST

19 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	38.00	36.00
2024E EPS	2.34	2.33
2025E EPS	2.65	2.64

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Stock Data

Price	35.30 USD
Price Objective	36.00 USD
Date Established	19-Jan-2024
Investment Opinion	B-2-7
52-Week Range	34.05 USD - 43.71 USD
Mkt Val (mn) / Shares Out (mn)	35,194 USD / 997.0
Free Float	99.9%
Average Daily Value (mn)	327.55 USD
BofA Ticker / Exchange	EXC / NAS
Bloomberg / Reuters	EXC US / EXC.OQ
ROE (2023E)	9.3%
Net Dbt to Eqty (Dec-2022A)	159.7%
ESGMeter TM	High

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"](#).

ComEd: Commonwealth Edison
(subsidiary)

ICC: Illinois Commerce Commission

FFO: Funds from operations

MYP: Multi-year plan

OPC: Office of People's Counsel

iQprofileSM Exelon

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	2.1%	2.7%	3.6%	3.6%	3.9%
Return on Equity	6.1%	7.6%	9.3%	8.9%	9.6%
Operating Margin	18.8%	17.7%	20.1%	19.8%	21.1%
Free Cash Flow	(2,690)	(2,277)	(2,771)	(2,998)	(2,797)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.9x	2.2x	1.9x	1.9x	1.9x
Asset Replacement Ratio	2.3x	2.0x	2.2x	2.2x	2.2x
Tax Rate	4.5%	9.2%	11.0%	9.5%	9.6%
Net Debt-to-Equity Ratio	98.5%	159.7%	156.8%	160.6%	155.4%
Interest Cover	2.5x	2.3x	2.4x	2.3x	2.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	16,692	19,078	19,880	20,599	21,815
% Change	-49.3%	14.3%	4.2%	3.6%	5.9%
Gross Profit	10,308	12,705	13,394	13,983	15,067
% Change	-44.9%	23.3%	5.4%	4.4%	7.8%
EBITDA	6,028	6,703	7,276	7,534	8,239
% Change	-29.2%	11.2%	8.5%	3.5%	9.4%
Net Interest & Other Income	(1,007)	(912)	(1,365)	(1,494)	(1,635)
Net Income (Adjusted)	2,030	2,238	2,345	2,338	2,674
% Change	-35.5%	10.3%	4.8%	-0.3%	14.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	2,030	2,238	2,345	2,338	2,674
Depreciation & Amortization	2,897	3,533	3,277	3,457	3,647
Change in Working Capital	(1,377)	(1,667)	(1,319)	(1,319)	(1,319)
Deferred Taxation Charge	262	255	241	241	241
Other Adjustments, Net	71	511	(165)	(165)	(165)
Capital Expenditure	(6,573)	(7,147)	(7,150)	(7,550)	(7,875)
Free Cash Flow	-2,690	-2,277	-2,771	-2,998	-2,797
% Change	29.5%	15.4%	-21.7%	-8.2%	6.7%
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(1,495)	(1,334)	(1,434)	(1,532)	(1,636)
Change in Debt	1,668	5,022	4,323	3,900	4,063

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	282	524	1,208	879	2,809
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	321	566	558	558	558
Property, Plant & Equipment	64,558	69,076	72,925	77,018	81,246
Other Non-Current Assets	67,852	25,183	25,946	24,733	26,217
Total Assets	133,013	95,349	100,637	103,187	110,829
Short-Term Debt	3,401	4,388	2,825	4,382	2,825
Other Current Liabilities	NA	NA	NA	NA	NA
Long-Term Debt	31,139	35,662	38,619	39,962	44,582
Other Non-Current Liabilities	63,678	30,555	33,518	31,886	34,127
Total Liabilities	98,218	70,605	74,962	76,230	81,534
Total Equity	34,795	24,744	25,655	27,061	28,699
Total Equity & Liabilities	133,013	95,349	100,617	103,291	110,233

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Electric Utilities

Company Description

Exelon Corp (EXC) is a predominately transmission & distribution (T&D) electric utility (85%) operating in Illinois, Pennsylvania, Maryland, Washington DC, New Jersey, and Delaware. Primary utilities include Commonwealth Edison (ComEd) in IL, PECO Energy Company (PECO) in PA, PEPCO in MD/DC, Baltimore Gas & Electric (BGE) in MD, Atlantic City Electric (ACE) in NJ, and Delmarva Power (DPL) in DE/MD. Exelon is the largest public regulated utility by customers (10Mn+).

Investment Rationale

We rate Exelon Corp (EXC) Neutral due to the average long-term growth rate (approximately 6% vs 6-8% guidance) and challenging Illinois regulation offsetting other favorable characteristics. Exelon is one of the largest predominately electric distribution and transmission regulated utilities and has a visible outlook with multi-year plans, however, the Illinois investment program offers below average returns and growth - a key dampener to the investment thesis.

Stock Data

Average Daily Volume 9,215,820

Quarterly Earnings Estimates

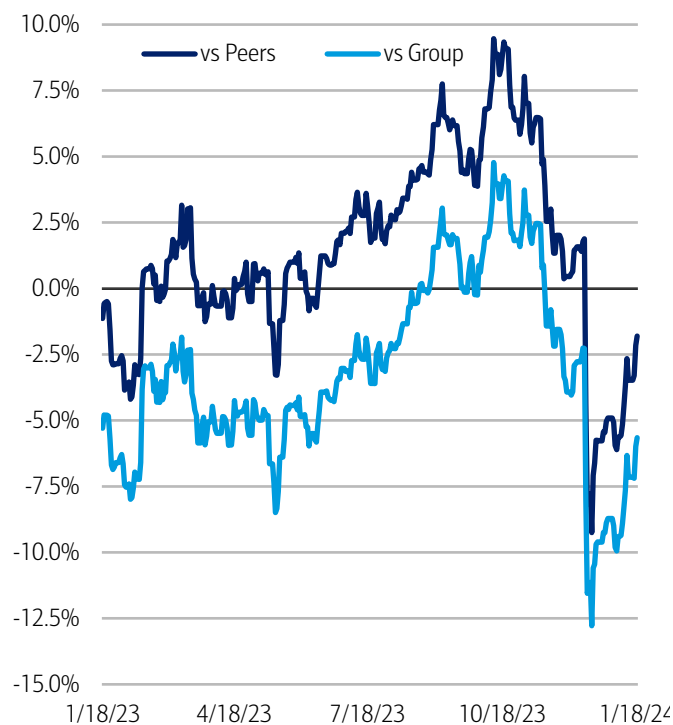
	2022	2023
Q1	0.64A	0.70A
Q2	0.44A	0.39A
Q3	0.75A	0.67A
Q4	0.44A	0.59E

Debate is how much of a discount is fair

Exelon has recovered +5% relative to peers from the December 18th lows and is still -8% from mid-November before the Illinois regulatory concerns were crystalized. When factoring in the -4% Consensus EPS revisions recently, the stock now trades at a 5-7% P/E discount 2025-2026 which we believe is reasonable for the overall profile. If there is a surprisingly worse long-term EPS update than to 5-7% from \$2.35 2023 guidance midpoint, we expect that shares will be pressured. We do not see it as probable the 6-8% EPS growth profile is maintained given the Illinois headwinds and weaker credit metrics that require strengthening. However, if the 6-8% EPS CAGR is maintained, the stock should outperform. We still see limited upside potential with the relative valuation now effectively capped at an in-line multiple at best. From our investor conversations, the overwhelming feedback is that a discounted valuation is appropriate, with the question being just *how much* of a discount is appropriate? Prior to the Illinois final decision, Exelon was able to achieve a modest 2-4% premium which we do not believe can be reattained in the near or intermediate term.

Exhibit 1: Relative 2025E P/E versus Similar P/E Peers (Dark Blue) and Overall Utilities Index (Light Blue)

EXC has gyrated from a discount to a premium and back to a deeper discount

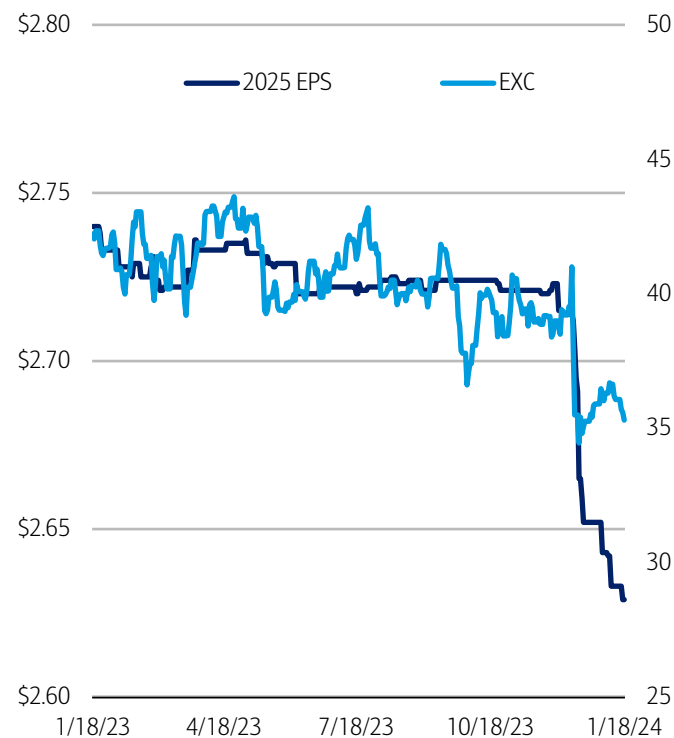


Source: Company Filings, Bloomberg, & BofA Global Research

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Exhibit 2: Exelon 2025 EPS (Dark Blue - Left) and EXC Stock (Light Blue - Right)

EXC has had a -4% negative Consensus EPS revision



Source: Bloomberg

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Equity issuances: \$300-\$350Mn annually

As mentioned, we increased our equity to \$600Mn 2024-2025 (\$300Mn per year) versus \$425Mn guidance. We increase this to \$1,000Mn 2026-2028 (\$333Mn per year) to reflect increased capital expenditures and improving the balance sheet back to the 13-14% FFO / Debt range. **When Exelon provides 2024-2027 guidance, we expect \$1.2-\$1.3Bn equity issuance across the period.**

Previously we viewed a potential favorable interpretation of the minimum tax in the Inflation Reduction Act (IRA) as a lever to reduce equity needs. Now we believe that any positive minimum tax update would **not** lead to less equity, but would just help to repair the balance sheet faster.



What are the remaining regulatory items to focus on?

Most of investor attention was correctly on Illinois Commonwealth (\$14Bn rate base) and Maryland Baltimore Gas & Electric (\$8Bn rate base), there are other rate cases pending that warrant attention. The New Jersey Atlantic City Electric (\$2Bn rate base) rate case was completed and was slightly below expectations. The remaining cases are Pepco Washington D.C. (\$3Bn rate base), Pepco Maryland (\$3Bn rate base), and Delaware Delmarva (\$1Bn rate base). Collectively we see ~\$0.05 EPS variability depending on how the rate case proceedings ultimately are resolved using a reasonable historical cone out outcomes.

Illinois (23-005): The ICC granted ComEd's verified motion for expedited clarification and partially granted the application for rehearing. The expedited clarification request related to (1) capital and operating cost filing requirements; (2) changing building electrification [BE] language to be "not approved" vs "disallowed"; and (3) weighted average cost of capital [WACC] technical rounding.

The only area of rehearing granted related to the appropriate rate base to use for the revenue requirement.

The Administrative Law Judge recommendation stated that "Rejection of the MYIGP was not considered by the parties nor was the impact of that rejection on the MYRP considered. Accordingly, the ALJs recommend rehearing to ensure a revenue requirement that is based on the record and consistent with the law". As discussed on Page 1, we believe this could improve 2024 EPS up to \$0.08 but we already assume an updated rate base for January 2025 so there is unlikely to be an impact to our 2025+ EPS.

The International Brotherhood of Electrical Workers (IBEW) application for rehearing regarding a return on the pension asset was denied. Both ComEd and the IBEW appealed the rate case outcome to the Appellate Court of Illinois Third Judicial District

ComEd, successfully getting approval the new grid filing is an important element in our ~\$0.08 FY25 EPS improvement to set rates off an average 2024 rate base versus the \$13.8Bn YE22 last authorized (Docket 23-0345). We fully expect FY25 earnings to improve with this but there is an adverse skew to outcomes. Look for the grid filing by mid-March and an update on the limited rehearing by mid-June.

Washington D.C. (1176) Pepco DC subsidiary filed its Washington D.C. multi-year rate case in April 2023 with \$3.0Bn 2024 test year rate base. Exelon is requesting +\$116Mn year one rate increase (\$191Mn cumulatively) and a decision is not expected until after June or later (after the 4Q23 call long-term guidance update). The rate increase has a 9.65% ROE and 52% equity ratio. The procedural schedule was been delayed with intervenors filings made on January 12th versus December 11th. The settlement and stipulation conference is now set for March 27th with a report on progress April 1.

Intervenors filings have reasonable revenue increases with little EPS impact

The Office of People's Counsel (OPC) recommends that the Commission reject the multi-year plan. Within the details, the OPC states that the \$108Mn traditional test year deficiencies are overstated by \$75Mn and supports a +\$34Mn revenue requirement increase. The \$75Mn is composed of -\$41Mn depreciation, -\$20Mn lower ROE, and -\$10Mn deferrals & other. The OPC recommends a 9.2-9.55% ROE range with a 9.35% point estimate for a multi-year plan. The OPC does not have a recommended adjustment to the 50.5% recommended equity ratio but stated that it is 11pp higher than peers (39-43%) which should factor into the overall recommendations.

The District of Columbia Government (DCG) filed similarly opposing a multi-year plan. The Apartment & Office Building Association (AOBA) goes further and recommends denial of both the multi-year and traditional test year plans. AOBA points to a 10.1% historical test year earned ROE as evidence that there is not a revenue deficiency. AOBA

does not dispute the recommended equity ratio but recommends an even lower 9.1% authorized ROE with a positive adjustment from the 8.88% calculation.

This compares favorably to a peer's rate increase. Separately, the Washington D.C. Public Service Commission voted in December 2023 2-1 to approve +\$25Mn rate increase (\$+20Mn net) for Washington Gas Light (WGL - AltaGas [ALA] subsidiary), representing 46% of WGL's request. The primary deltas appear to be ~\$16Mn rate base related to exclusion of construction work in progress (CWIP) and related items as well as ~\$11Mn expenses.

Assuming that the rate cases are not rejected, the intervenor positions are constructive without major earnings driver elements. We do not forecast the current 9.275% allowed ROE to change in our forecasts.

Exhibit 3: Potomac Electric (Pepco) Rate Case DC Intervenor Comparisons

Reasonable recommendation despite the low percentages as ROE and depreciation are big elements

Potomac Electric (Pepco) Rate Case DC	2024	2025	2026
Claimed Revenue Deficiency	116.4	153.4	190.7
OPC Adjustments			
Return on Equity	-\$25.0	-\$26.8	-\$28.3
Depreciation	-\$25.2	-\$24.6	-\$23.7
MYP Capital Projects	-\$1.9	-\$5.5	-\$9.8
Sales Forecasts	-\$0.7	-\$2.1	-\$4.3
Service Company Cost Escalation	-\$1.6	-\$2.8	-\$3.7
Deficient Deferred Income Taxes	-\$1.5	-\$1.4	-\$1.4
Regulatory Asset Amortization	-\$0.6	-\$0.6	-\$0.7
Total	-\$56.5	-\$63.8	-\$71.9
Adjusted Revenue Deficiency	\$59.9	\$89.6	\$118.8
% of Claimed Revenue Deficiency	51%	58%	62%
AOBA Recommendation: \$46.2Mn/Yr	46.2	92.4	138.6
% of Claimed Revenue Deficiency	40%	60%	73%

Source: Public Service Commission of the District of Columbia

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Maryland (9702) Potomac Electric (Pepco) MD has a rate case ongoing, **separate** from the Baltimore Gas & Electric rate case decided on December 14th. On August 7th the Maryland PSC approved the updated stipulation between key parties including Staff and OPC. The new multi-year plan will begin April 1st, 2024 with collection deferred through June 30, 2024 with a true-up August 17, 2024-March 31, 2025. The year one revenue requirement increase is +\$117Mn gross, offset by \$43Mn tax benefits, for \$74.4Mn net. This is followed by proposed \$59Mn/\$59Mn/\$20Mn annual net rate increase in the following years. Hearings are set for March 7th.

Exhibit 4: Potomac Electric (Pepco) Rate Case Net Revenue Increase and Rate Base Request vs Intervenor Positioning

Staff recommends a +\$132Mn three-year increase which is a solid 70% of the request on a comparable three year basis

Potomac Electric (Pepco) Rate Case MD	2024	2025	2026	2027	3Yr Total	4Yr Total
Net Revenue Increases						
EXC Request (10.5% ROE)	\$74.4	\$59.4	\$59.4	\$20.4	\$193.2	\$213.6
OPC Filing (9.25% ROE)	\$20.4	\$21.7	\$23.2	\$0.6	\$65.3	\$65.9
PSC Staff Filing (9.55% ROE)	\$35.0	\$49.4	\$48.0	\$0.0	\$132.4	\$132.4
PSC Staff % of EXC	47%	83%	81%	0%	69%	62%
Rate Base	2024	2025	2026	2027		
EXC Request (10.5% ROE)	\$2,584	\$2,767	\$2,919	\$3,048		
OPC Filing (9.25% ROE)	\$2,498	\$2,592	\$2,625	\$2,656		
PSC Staff Filing (9.55% ROE)	\$2,574	\$2,728	\$2,850	\$2,850		
PSC Staff vs EXC	-\$10	-\$39	-\$69	-\$198		

Source: Maryland Public Service Commission

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The Office of People's Counsel filed largely describing the level of investment as unnecessary, particularly the +54% increase in capital investment \$240Mn 2023 to \$370Mn 2027. The OPC made two points here: (1) Pepco MD has the highest rate base per customer of any US investor-owned utility; and (2) top 10% reliability for US

investor-owned utilities. **Ultimately, we believe there is only ~\$0.02 downside in an adverse case.**

Maryland (9692) The Office of People's Counsel (OPC) requested rehearing of the rate case decision on January 16th. The three main areas are (1) prudence standard for rate base-able investments – particularly natural gas alternatives and recovery mechanisms; (2) multi-year plan construct; and (3) conduit expenditure approval.

Delaware (22-0897) The Delmarva Power & Light (DPL) electric rate case is relatively small covering just \$1.1Bn rate base with Exelon requesting +\$39Mn net revenue increase (\$54Mn gross with DSIC trackers). Exelon reached a **non-unanimous** settlement, and the Public Service Commission Staff is not a party to the settlement. Settlement parties include the Division of Public Advocate (DPA), the Delaware Energy Users Group, Walmart (WMT), and IBEW 1238. The settlement includes +\$28Mn net revenue (+\$42Mn gross) increase premised on a 9.6% ROE and 50.5% equity ratio along with a major storm (\$5-15Mn) expense rider. The Delmarva rate case final order is expected in 2Q24. Delaware allows for full interim rates so refunds will be owed to customers upon final rates. *If approved, the settlement represents 70% of the initial requests and has a reasonable cost of capital. The Staff recommended +\$36Mn gross revenue increase with a 9.38% ROE and the recommended 50.5% equity ratio and there is an immaterial earnings risk for consolidated Exelon.*

DPL originally filed for +\$72Mn +8% (+28% distribution revenues) effective July 15th including a 10.5% ROE and 50.5% equity ratio. This was subsequently revised down to \$60.7Mn and then \$55.5Mn. On July 12th, the Delaware Public Service Commission (PSC) approved +\$55.5Mn interim rates including \$14Mn being recovered separately via the distribution system improvement charge (DSIC). The PSC Staff recommended a - \$19.4Mn revenue requirement reduction to +\$36Mn, representing 65% of the proposed increase. The PSC Staff supported the proposed 50.5% equity ratio but recommended a 9.38% authorized ROE as the midpoint between 9.04-9.72% discounted cash flow range. Staff's adjustment includes -\$48Mn lower pro forma rate base (~4%) which represents ~\$9.3Mn of the proposed reduction in the revenue requirement increase. The total operating expense delta is -\$5Mn including -\$5Mn operating and maintenance, -\$2Mn depreciation and amortization, and +\$2Mn lower income taxes. The Division of Public Advocates recommend +\$30Mn revenue increase with a 9.1% ROE and lower 46% hypothetical capital structure yet is a party to the settlement with a higher cost of capital.

Executive compensation formal shift to EPS long-term?

We will be closely watching the next executive compensation framework for any changes. The three-year targets are not disclosed until completed but we will look to see if there are shifts to include per share metrics into the long-term incentive plan (LTIP). Historically Exelon was not a large equity issuer due to its now spun-off unregulated business producing cash flows to self finance. As a result, there was less of a difference between net income and earnings per share. Prospectively, this could change as we see more material equity needs.

The annual incentive plan (AIP) is 60% weighted to adjusted EPS with the balance towards operational figures. *The LTIP does not include EPS or other per share metrics currently.* Within the LTIP 33% are restricted stock units (RSUs) and 67% are performance shares. Of the performance shares:

- 33.4% cash flow from operations / debt
- 33.3% Exelon adjusted net income
- 33.3% utility earned ROEs

Exelon is relatively unique in a favorable way by setting the financial goal adjusted EPS 100% target at least at the midpoint of the guidance range. For example, in 2022 the target was \$2.25 vs \$2.18-\$2.32 guidance range with \$2.27 adjusted actual results. Other target performance objectives are in-line with external targets.

Dilution a factor in total return – so there is an element to be clear

While there are not explicit per share metric linkages, it is important to note that the incentives are subject to total shareholder return (TSR) modifiers. To the extent that Exelon outperforms or underperforms the PHLX Utility Sector Index (UTY), there are the potential for positive and negative adjustments. This is an indirect way to capture long-term EPS which is correlated with stock returns over time.

Adjusted EPS: Anticipating a rebase lower

Our forecasts are minimally changed with FY24-FY25 -\$0.01 (down 30-40bp) and FY26-FY27 -\$0.02 (down 70-110bp) as we increase our equity financing assumptions. We still assume strong growth YoY in 2025 with roughly +\$0.10 improvement in ComEd (+\$0.08 for the revenue requirement item discussed) and PECO (rate case benefit with earnings flat/down 2022-2024). BGE should also show improvement from the rate case when factoring in the tax adjustment as well.

We also moderate our dividend growth assumption to keep a \$0.0225 quarterly increase (unchanged level of increase YoY) with ~6% annual increases vs ~6.5% previously.

Exhibit 5: EXC Financial Snapshot

Earnings decline in 2024 before returning to growth

EXC Diluted EPS By Segment	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
ComEd	\$0.66	\$0.77	\$0.94	\$1.11	\$0.92	\$1.01	\$1.10	\$1.15
PECO	\$0.47	\$0.52	\$0.63	\$0.58	\$0.61	\$0.71	\$0.77	\$0.76
BGE	\$0.37	\$0.43	\$0.43	\$0.44	\$0.51	\$0.57	\$0.53	\$0.62
PHI	\$0.52	\$0.61	\$0.62	\$0.61	\$0.67	\$0.75	\$0.81	\$0.84
Parent And Other	(\$0.24)	(\$0.26)	(\$0.35)	(\$0.39)	(\$0.39)	(\$0.40)	(\$0.41)	(\$0.41)
Total Utility EPS	\$1.78	\$2.07	\$2.27	\$2.35	\$2.33	\$2.64	\$2.80	\$2.95
Consensus	\$3.14	\$2.57	\$2.57	\$2.36	\$2.43	\$2.63	\$2.80	\$3.01
BofA vs Consensus			-11.8%	-0.3%	-3.9%	0.5%	-0.1%	-2.0%
Change in Estimates		0.0%	-0.1%	0.1%	-0.4%	-0.3%	-0.8%	-1.2%
YoY EPS Growth		16.2%	9.5%	3.7%	-0.9%	13.4%	5.9%	5.6%
YoY EPS Growth Guidance				4.1%	6.0%	8.1%	7.0%	
Utility EPS Guidance Range		\$2.06-\$2.14	\$2.18-\$2.32	\$2.30-\$2.40	\$2.50-\$2.65	\$2.65-\$2.86	\$2.85-\$3.05	\$3.05-\$3.25
Guidance Midpoint		\$2.10	\$2.25	\$2.36	\$2.50	\$2.76	\$2.95	\$3.16
Guidance Point Estimate				\$2.35	\$2.49	\$2.68	\$2.87	
BofA vs Guidance		-1.4%	0.8%	-0.3%	-6.8%	-4.1%	-5.1%	-6.4%
21-'25 & '22-'26 EPS CAGRs: 6-8% Guide	5.9%	5.9%	8.0%	5.8%	3.5%	5.9%	5.6%	5.8%
Blended Earned ROE: 9-10% Guidance	8.74%	9.24%	9.45%	9.5%	8.9%	9.4%	9.3%	9.2%
FFO / Debt: 13-14% '23-'26 Avg Guide	18.5%	13.1%	12.9%	13.3%	12.3%	12.7%	12.8%	13.0%
Annual Equity Issuance	45	-	563	-	300	300	333	333
Dividend per Share: 6-8% CAGR 2022 Base	1.53	1.53	1.35	\$1.44	\$1.53	\$1.62	\$1.72	\$1.82
Payout Ratio: ~60% Guidance	85.9%	73.9%	59.5%	61.2%	65.7%	61.3%	61.3%	61.5%

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH



We show the EPS CAGRs by time period. We do not expect Exelon to reaffirm its prior 6-8% respective 2021-2025 and 2022-2026 growth rates. As we show, this is consistent with Consensus forecasts.

Exhibit 6: EXC 2021-2025, 2022-2026, and 2023-2027 EPS CAGR Forecasts

Below 6% EPS CAGR across the spectrum

EXC Diluted EPS By Segment	2021-2025	2022-2026	2023-2027
ComEd	7.2%	4.0%	1.0%
PECO	7.8%	5.2%	7.0%
BGE	7.7%	5.7%	8.8%
PHI	5.1%	6.7%	8.1%
Parent And Other	11.4%	3.9%	1.5%
Total Utility EPS	5.9%	5.6%	5.9%
Consensus	5.8%	5.6%	6.3%

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Credit: Moody's acts on ComEd but not Exelon Corp

Midday on December 20th, Moody's Investor Service (Moody's) put Exelon Corp's (EXC) Commonwealth Edison (ComEd) on negative outlook but did not change its outlook on Exelon Corp or issue a new statement. Moody's described Exelon as very committed to credit and being well positioned with ~13% funds from operations (FFO) / debt pre-Illinois relative to its 12% downgrade threshold. We believe that Exelon will prioritize its balance sheet and defend its credit metrics from being meaningfully below the 13-14% FFO / debt target for an extended period. See background here: [PowerPoints: AEE & EXC Illinois Feedback. Capex cuts, rehearing, & legislation? 19 December 2023](#)

Valuation: Trim -\$2/sh on mark-to-market

We apply the latest 2026 sector average P/E of 13.2x, down from 13.8x.

Our \$36 PO is based on a sum of the parts valuation. Our base electric peer 2026 P/E multiple of 13.2x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply a -0.5x discounted multiple across EXC utilities PECO, BGE, PHI with average consolidated EPS growth and a below-average balance sheet warranting a lower valuation. The large Illinois ComEd jurisdiction has a -2.0x (-15%) discount applied to reflect the 8.9% authorized return on equity in the multi-year plan which is punitive relative to most other utility jurisdictions.

Exhibit 7: Exelon Corp Sum of the Parts Valuation

Discounted valuation is appropriate after the Illinois outcome

Exelon Corp: Sum of the Parts Valuation

Base Electric P/E Calculation

	Group Peer P/E	Group EPS CAGR		Group Valuation P/E	
	13.2x	5%		13.9x	
	13.2x	0.7x	=	13.9x	
Core Regulated Utilities	2026 EPS	(Discount)		Multiple Applied	\$/Sh per Share
ComEd	\$1.10	(2.0x)	-15%	11.9x	\$13.02
PECO	\$0.77	(0.5x)	-4%	13.4x	\$10.25
BGE	\$0.53	(0.5x)	-4%	13.4x	\$7.14
PHI	\$0.81	(0.5x)	-4%	13.4x	\$10.77
Parent and Other	(\$0.41)	(0.5x)	-4%	13.4x	-\$5.43
Total EXC Equity Value per Share	\$2.80	(1.0x)	-7.5%	12.9x	\$36.00
EXC Current Share Price (As of 01/18/24)					\$35.30
Potential Price Return					2.0%
FY1 Dividend Yield					4.3%
Potential Total Return					6.3%

Source: Company Filings, Bloomberg, & BofA Global Research

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[Exelon: Illinois Rate Case Electric vs Gas Balancing Act: Our Latest Thoughts on Credit & More](#)
[US Utilities & IPPs: PowerPoints: Hydrogen 45V, EVRG Credit, EXC Regulatory, and Maryland Natural Gas](#)
[US Utilities & IPPs: PowerPoints: AEE & EXC Illinois Feedback, Capex cuts, rehearing, & legislation?](#)
[US Utilities & Clean Tech: PowerPoints: DUK NC Rate Case, XEL CO Resource Plan, SPWR Going Concern, EXC](#)
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18 December 2023
15 December 2023
05 December 2023



Price objective basis & risk

Exelon (EXC)

Our \$36 PO is based on an sum of the parts valuation. Our base electric peer 2026 P/E multiple of 13.2x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply an -0.5x discounted multiple across EXC utilities PECO, BGE, PHI with average consolidated EPS growth and a below-average balance sheet warranting a lower valuation. The large Illinois ComEd jurisdiction has a -2.0x (-15%) discount applied to reflect the 8.9% authorized return on equity in the multi-year plan which is punitive relative to most other utility jurisdictions.

Risks to achievement of the rating and price objective include: 1) Adverse regulatory, political, and legislative outcomes, 2) inability to deploy the guided capital expenditures, 3) equity needs that differ from guidance, 4) storms, weather, and other natural disasters, 5) inability to control operating costs, 6) changes in effective tax and interest rates, and 7) changes in credit rating agency metric requirements.

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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	Dariusz Lozny, CFA
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	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
	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 Energy	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 Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL	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
	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	Dariusz Lozny, CFA
	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
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	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	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
UNDERPERFORM	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

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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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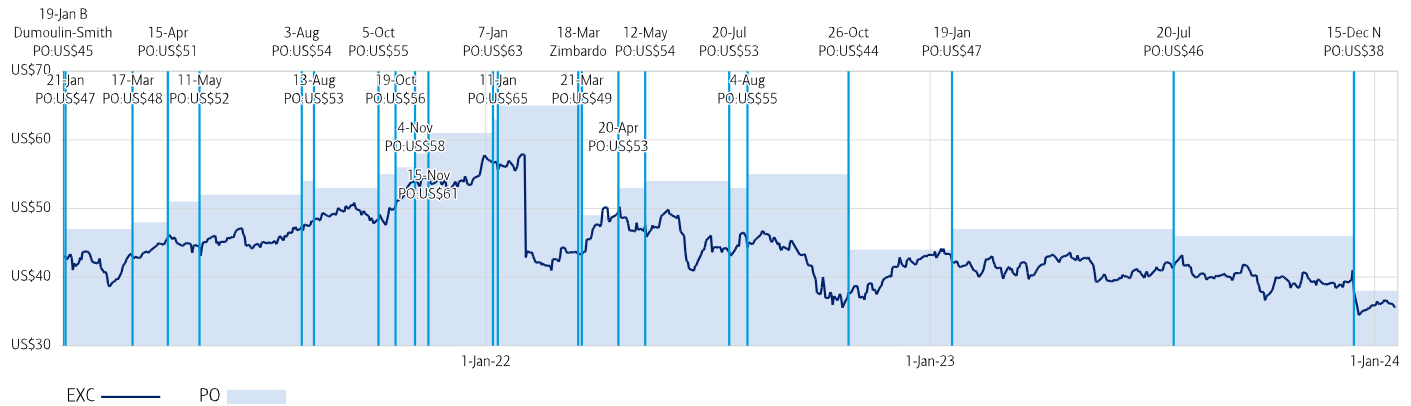
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Exelon Corp (EXC) Price Chart



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

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Equity Investment Rating Distribution: 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%

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Underperform	N/A	≥ 20%

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