

US Utilities & IPPs

PowerPoints: VST NRG each reaffirm guide; SWX utility guide beats estimates

Industry Overview

VST: 4Q results beat expectations, FY24 guide reaffirmed

Vistra Corp (VST) reported 4Q results that exceeded both BofAe and Consensus expectations. Consolidated EBITDA from ongoing operations came in at \$965Mn, which compares to our forecast of \$895Mn and Consensus of \$869Mn. Retail EBITDA was \$463Mn for the quarter vs. our forecast of \$399Mn and Generation EBITDA was \$502Mn vs. our forecast of \$511Mn. Customer counts for Retail in 4Q23 rose modestly YoY to 2.46Mn from 2.45Mn while volumes increased to 22.7 terawatt-hours (TWh) from 21.2TWh. For Generation, volumes and commercial availability were essentially flat YoY at 41.6TWh and 94%, respectively. Mgmt. reiterated the standalone FY24 ranges for EBITDA of \$3.7-4.1Bn and free cash flow before growth (FCFbG) of \$1.9-2.3Bn. Guidance ranges are for ongoing operations and do not include impacts from acquisitions (M&A). Critically, VST announced the Board authorized an additional \$1.5Bn share repurchase plan, which mgmt. expects to be exhausted by YE25 and brings the cumulative 2024-2025 buyback expectation to \$2.25Bn. This compares favorably to our prior expectations for \$1.9Bn in cumulative repurchases over the same period. Additionally, VST provided details on its 2025 hedge position, indicating expected volumes are 87% hedged. This brings cumulative volumes through 2025 to ~93% hedged. Mgmt. also reaffirmed sub-3x net leverage target which it expects to achieve by YE24 following pending M&A.

Maintain Buy and \$52 PO on shares which trade at an attractive risk-adjusted free cash flow yield: better than expected on both overall buyback inputs and 4Q. To this end, we await a critical 1Q update with combined guidance comprehensively provided (along with a capital allocation update). Expect some capex upside tied to non-buy back strategies but reiterated \$1bn+/yr cadence of buybacks still. No specifics on behind-meter opportunities may be a tad disappointing to many following this theme of late. Still awaiting updates on both opportunities tied to nuclear and gas plants.

SWX: 4Q23 EPS beat; utility guide ahead of estimates

Southwest Gas Holdings (SWX) reported 4Q23 adj. EPS of \$1.13, a beat versus Street of \$1.00. Stronger natural gas utility earnings from new rates in Arizona drove the beat, as the infrastructure services business contributed negative adjusted net income due to a paucity of storm activity in the quarter that drove 14% lower revenues YoY. Important milestones in the quarter included reaching a constructive partial black box settlement in the company's NV rate case for a \$66Mn rate increase (versus \$74Mn request, 89%), and recent filing of an Arizona rate case requesting \$126Mn of higher rates predicated on 10.15% rate of return and \$3.3Bn rate case (we see recent constructive outcomes with Pinnacle West Capit (PNW) and Fortis (FTS) as boding well for SWX too with forward mechanisms designed to reduce lag the next step for the ACC). If passed similarly to identified terms of the partial settlement, we see the NV outcome as a net positive for the story given regulatory derisking, though the AZ rate case will be a primary focal point given recent improved outcome in peer electric and gas proceedings within the state and concentration of rate base in the state. See below for additional commentary on SWX.

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Equity
United States
Utilities

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Timestamp: 28 February 2024 11:45AM EST

NRG: FY23 ends strong; FY24 tracking well with Heather

NRG Energy (NRG) reported FY2023 EBITDA of \$3.28bn, coming in at the high end of their \$3.15-\$3.30bn guidance, beating both \$3.27bn BofA and \$3.24bn Consensus estimates. FY2023 free cash flow before growth (FCFbG) exceeded mgmt.'s \$1.725-\$1.875bn guidance, landing at \$1.925bn, beating \$1.84bn BofA estimates by 5%. Success in FY2023 can be attributed to the energy platform performing above plan, the diversified supply portfolio benefiting from targeted reliability investments in the generation fleet, and Smart Home exceeding ARR targets. Additionally, the company returned \$1.5bn in capital to shareholders through share repurchases and dividends, committing to their 80% capital allocation strategy, planning to return ~\$5.5bn to shareholders over the next four years. Mgmt. reaffirmed FY2024 EBITDA guidance of \$3.30-\$3.55bn and FCFbG of \$1.825-\$2.075bn, noting they are ahead of pace against their June '23 Investor Day plan for 2024. The FY24 \$3,425Mn EBITDA guidance midpoint is slightly below \$3,448mm BofA and above \$3,418mm Consensus estimates. In FY24, Mgmt. expects to return \$1.16bn to shareholders and pay down \$500mm in debt. Most critically, NRG reaffirmed the long-term growth rate and reported \$9.25 free cash flow before growth per share relative to the \$8.50 target. This was more impressive based on buying stock back at a 25% higher stock price to the Investor Day plan. In 2023 cost cuts exceeded the target slightly while there was ~\$100Mn growth opportunity, notably higher than the ~\$25Mn target. If these are accretive and durable positive free cash flow investments, this represents an area of further upside relative to guidance and our estimates. NRG attributed this to faster synergy realization rather than outright upside to the plan, at this time.

Management emphasized that repurchasing stock is the company's priority at this valuation and the accelerated repurchase plan is expected to wind-down at the end of March, at which point the normal more ratable cadence will return. Still quite confident on achieving their 15-20% FCF per share CAGR targets despite higher share price baseline – affirming our underlying assumptions.

New slides offer new KPIs and clues on progress for Vivint home retail integration.

We view NRG's FY23 results/FY24+ outlook as strong and maintain our Buy and \$56 PO with an attractive relative free cash flow yield.

SWX: 4Q EPS (cont.); transaction details limited

SWX provided more detailed forward guidance for its natural gas utility, which generally exceeded our forecast and is likely to be favorably received. SWX natural gas utility net income guidance of \$228 to \$238Mn exceeded our \$225Mn estimate, though excluding \$3-5Mn of company-owned life insurance (COLI) earnings in guide our estimate would have been within the guided range. Utility net income CAGR of 10% versus from 2024 to 2026 was stronger than our estimates though the degree to which this drops to the bottom line (ex. parent financing costs) remains uncertain without prospective financing guidance through 2026, which we think is unlikely to be provided until the infrastructure services transaction is effectuated. Further, guidance assumes large uplift in earned ROEs, which could be achievable but depend on regulatory outcomes and implementation of cost management initiatives with savings likely to occur only until the next general rate proceeding.

Southwest Gas rate base growth is now projected to be 6.5%-7.5% from 2024 to 2026, an acceleration from 5-7% prior: constructive.

For 2024, SWX expects limited equity needs of less than \$100Mn of ATM equity and no significant debt financing at the utility, though the Southwest Holdings level \$550Mn term loan will be amended or extended in 2Q or 3Q. Infrastructure services guidance was not provided in anticipation of the upcoming transaction, for which there was minimal incremental detail provided.

We maintain our Neutral rating and \$63 PO on SWX given uncertainty in transaction terms but balanced risk/reward at current levels.

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
NRG	NRG US	NRG Energy	US\$ 54.04	B-1-7
SWX	SWX US	Southwest Gas	US\$ 62.53	B-2-8
VST	VST US	Vistra	US\$ 50.98	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

NRG Energy (NRG)

Our \$56 price objective is based on our 2025E sum-of-the-parts analysis. We value NRG in six parts based on approximately EV/FCF: (1) 6.5x Legacy Retail, (2) 6.0x Direct Energy, (3) 7.0x Vivint, (4) 5.5x Gas, and (5) 2.0x Coal plus Hedges. The debt and preferred stock obligations are reductions from equity value.

We value Legacy Retail at a slight premium to peers given strong competitive positioning. We value Direct Energy in line with the Legacy Retail portfolio. For Vivint, our target multiple is a discount to NRG's other retail platforms given lower free cash flow conversion. Gas value reflects fair near-term profitability opportunity but limited long-term visibility. Last, our subdued Coal value is driven by limited terminal value for the assets.

Risks to the price objective are changes in 1) commodity prices, 2) operating cost, 3) environmental requirements, 4) cost of capital, 5) retail margins and customer counts, 6) natural disasters, 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.

Southwest Gas Holdings (SWX)

Our price objective (PO) on SWX is \$63, which is based on a 2025E consolidated P/E of approximately 21.4x, representing a nearly 55% premium to the natural gas peer average. This premium reflects the impending separation of infrastructure services.

Upside/downside risks to achieving the PO are 1) M&A, 2) activist shareholders, 3) infrastructure services performance, 4) construction margins, 5) regulatory outcomes, 6) ability to earn regulatory rates of return, 7) capital markets access, 8) rating agency actions, 9) regulatory, legislative, or judicial outcomes.

Vistra Corp (VST)

Our \$52 price objective is based on a 2026E SOTP valuation. For Vistra Vision, we arrive at a 7.8x blended EV/EBITDA. We apply a 9.0x EV/FCF multiple to nuclear (10.5x for Texas), which we believe fairly represents the risk/reward profile of the assets. For Renewables and Storage, we apply a 12.0x EV/FCF multiple given the accelerating nature of the end markets. For Retail, we apply a 7.0x EV/FCF multiple, consistent with peers. For Vistra Tradition, we arrive at a 4.8x blended EV/EBITDA multiple. We apply a 5.5x EV/FCF multiple to Gas Generation (7.5x for Texas) given favorable spark spreads and end market demand dynamics and a 1.5x EV/FCF multiple to Coal Generation (5.5x for Texas) which we believe appropriately captures the limited long-term value of the assets.



Downside risks to our PO 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 9) retail market attrition.

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



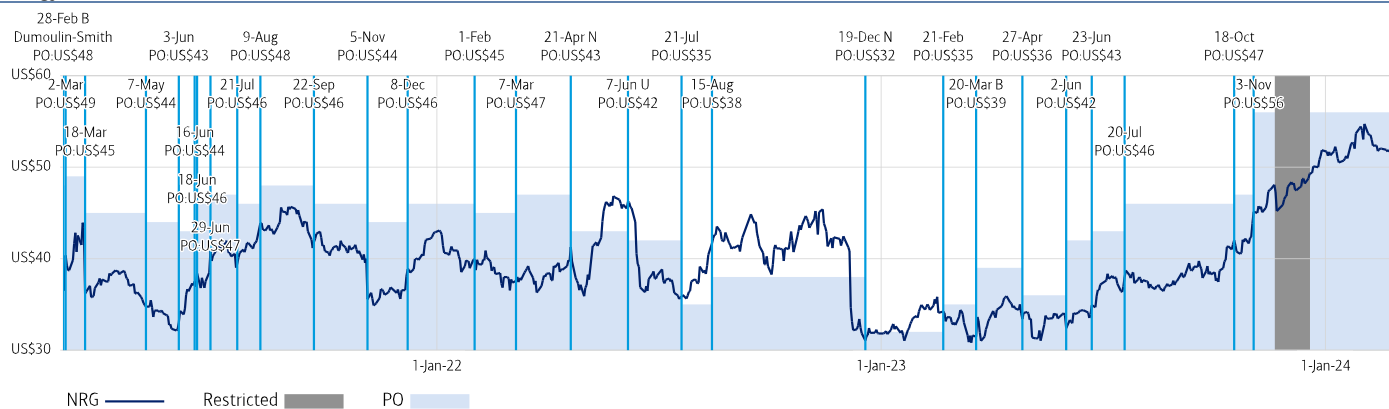
North America - Utilities and Alt Energy Coverage Cluster

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

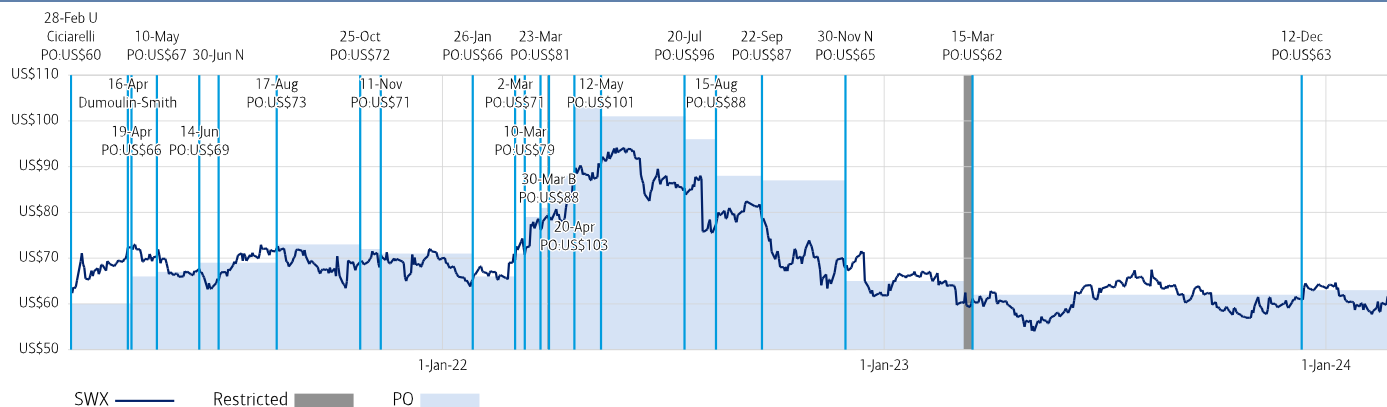
Important Disclosures

NRG Energy (NRG) Price Chart



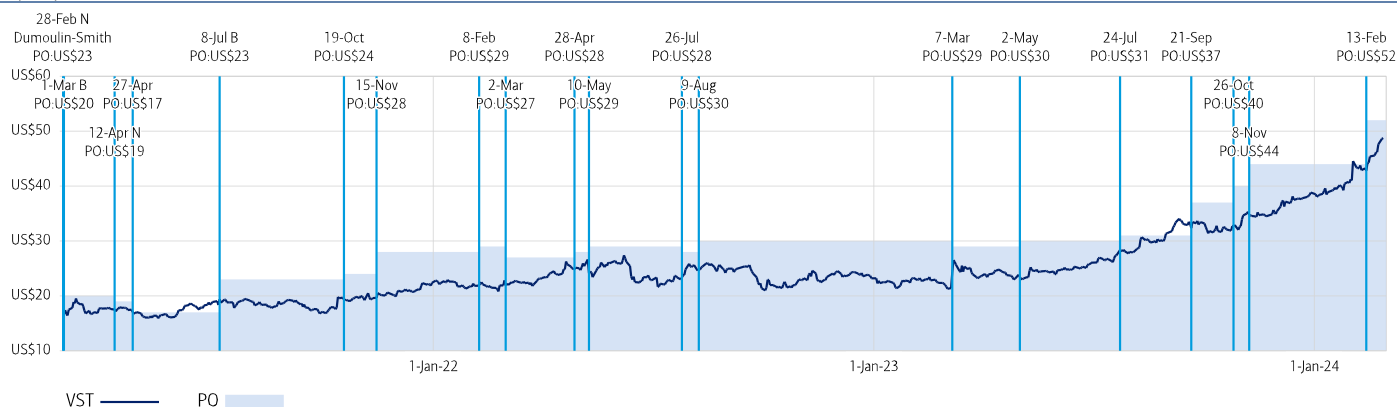
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey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

Southwest Gas (SWX) Price Chart



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Vistra (VST) Price Chart



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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%

^{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}
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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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