

US Utilities & Clean Tech

PowerPoints: XEL 1Mn+ Acre Fire and ES Offshore Wind Win (At Last)

Industry Overview

XEL: Law firm requests downed pole for 1Mn+ acre fire

Xcel Energy (XEL) declined -9% yesterday following the company filing an 8K related to the Smokehouse Creek Fire, the worst daily performance for the company besides the depth of covid in March 2020. Little information is known at this point and official cause is still under investigation; however, the coordinates of the fire ignition from the Texas A&M Forest Service only have power lines and an Enterprise Products (EPD) facility within sight. The 8K states that Xcel received a letter from a law firm representing property insurance interests requesting that Xcel preserve a downed utility pole for its Southwest Public Service Company (SPS) subsidiary. Fortunately to date there has been only one reported death and less than one hundred structures destroyed in the largely rural territory but it is still early. As of 8pm February 29th, the Smokehouse Creek Fire was ~1.1Mn acres and only 3% contained with full containment not expected until mid-March.

XEL: Assessing the damage to the stock

The ~\$3Bn decline in market cap does appear outsized based solely on this fire and what is known right now; however, with the fire effectively uncontained ahead of the weekend, we understand that most investors first instinct is to sell. The deeper question and debate we are having with investors is whether Xcel is now a "wildfire stock" as this is the second large wildfire the company's equipment has been associated with in recent years. More troubling is that both of these fires came in the winter (December & February) and not in traditional wildfire season. We reiterate Buy on shares of XEL at this newly discounted valuation but look for more information about the ultimate fire damage and the cause. See more details on company wildfire mitigation effort here:

[Wildfire Worry? Parsing details of company response plans 25 September 2023](#)

ES: Sunrise wins NY4 offshore wind rebid, as expected

Midday February 29th, New York Governor Hochul announced that 924MW Sunrise Wind (Eversource [ES]/Orsted) and 810MW Empire Wind (Equinor) won the competitive solicitation for the rebid (New York 4). Sunrise was expected to win by us and many investors with Orsted embedding a 75% probability of success in its public impairment analysis. New York disclosed a \$150.15/MWh weighted average all-in development cost but did not disclose project details initially; these should be available later in the process based on precedent. Both projects are guided for 2026 commercial operations, indicating a tight timeframe. This award should facilitate the disclosed conditional sale of Sunrise Wind to Orsted from Eversource and as such would be a positive to shares of ES and incrementally reduces equity needs relative to base plan articulated on 4Q call. However, we reiterate *Underperform on shares of ES as we consider that they are relatively expensive and we see downside to Consensus forecasts*. See our colleague's view on Orsted here: Orsted A/S: The sun rises 29 February 2024

01 March 2024

Equity
United States
Utilities & Clean Tech

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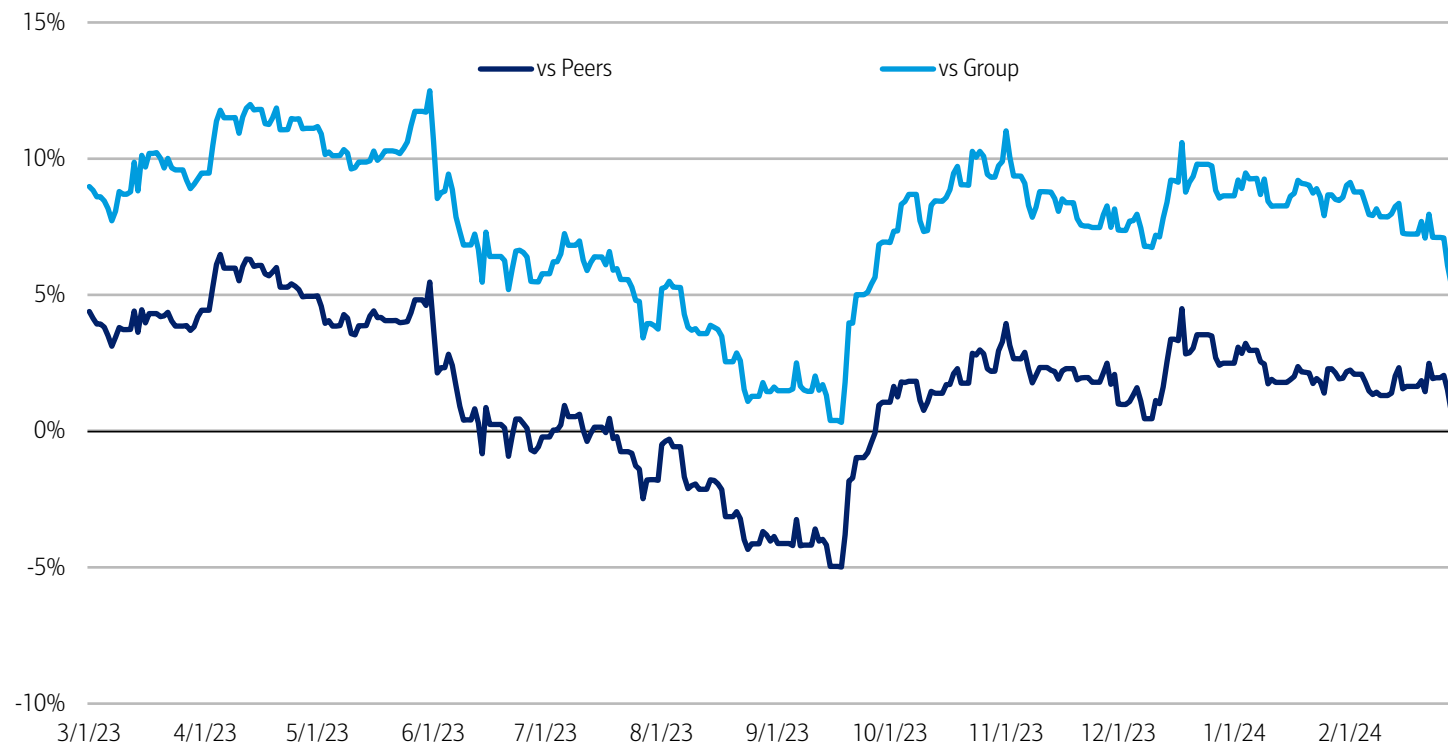
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XEL: Now trading at a discount after 2/29 sharp decline

The exhibit below shows XEL 2025E P/E relative to utility peers. Considering modest impact to life & property so far despite its substantiveness, we would expect shares to improve off today lows should the fire prove incrementally contained without further impacts. Risks of further conflagration appears real with forthcoming weather.

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

XEL is now trading at a ~4% discount to the broad utility sector versus a 5-10% premium for most of the past year



Source: Company Filings, Bloomberg, & BofA Global Research

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BofA Global Research Reports

Title: Subtitle

[US Utilities & Clean Tech: PowerPoints: EVRG EPS/Guidance, PNW Equity Issuance, & SRE Rate Base Outlook](#)
[US Clean Tech: Flash: AMRC & STEM 4Q Results, ENLT 4Q23 miss, resi challenges](#)
[First Solar, Inc.: The Domestic King: Premium Pricing Persists, Reiterate Buy.](#)
[US Utilities & IPPs: PowerPoints: VST NRG each reaffirm guide; SWX utility guide beats estimates](#)
[US Utilities & Clean Tech: NARUC 2024: Reliability, affordability & re-regulating PJM generation.](#)
[Array Technologies: Hitting the reset button to kick off '24 – Reiterate Buy](#)

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Exhibit 2: Primary stocks mentioned

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
XEL	XEL US	Xcel Energy	US\$ 52.69	A-1-7
ES	ES US	Eversource Energy	US\$ 58.7	B-3-7

Source: BofA Global Research

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Price objective basis & risk

Eversource Energy (ES)

Our sum of the parts based price objective of \$50 uses P/E multiples on 2026E earnings. The valuation is based on a 2025 sum of the parts analysis. We apply the 2026 average peer P/Es of 13.1x electric, 13.3x natural gas, and 17.5x water. For Connecticut electric & gas utilities, we value at -20% discount (-2.8x) to reflect historical challenges and prospective earnings risks. Connecticut water is valued in-line with natural gas. The other utilities are valued at a -15% discount (-2.1x) for below-average consolidated growth and weaker balance sheet metrics. Parent net loss per share is valued at an -1x discount to the electric utility average.

Upside and downside risks to our Price Objective are 1) regulatory/political/legislative changes, 2) capital expenditures forecasts, 3) ability to earn the regulatory allowed ROE, 4) offshore wind review, 5) natural disasters & storms, 6) operational performance and gas incidents, 7) integration of historical and prospective M&A, 8) pension plan performance, and 9) equity issuances.

Xcel Energy Inc (XEL)

Our PO is \$69. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary.

We use 2026E forward P/E multiple of 13.8x to derive a value for the different business segments, including the parent segment. Electric peer P/E multiple is grossed up for a year to reflect capital appreciation across the sector. We make an additional adjustment to reflect the difference in interest rate forecasts between BofA and Street as well as historical valuation sensitivity to rates.

We apply a 2x premium to XEL subsidiaries in MN and 3x for CO, 3x for NM/TX, and 3x for WI as both utilities present solid or improving regulatory treatment with tangible investment upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Risks to achievement of the price objective are interest rate changes, regulatory risk, such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, inability to deploy capital at guided levels, adverse legislation, execution delays, and weather/natural disasters

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				
	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

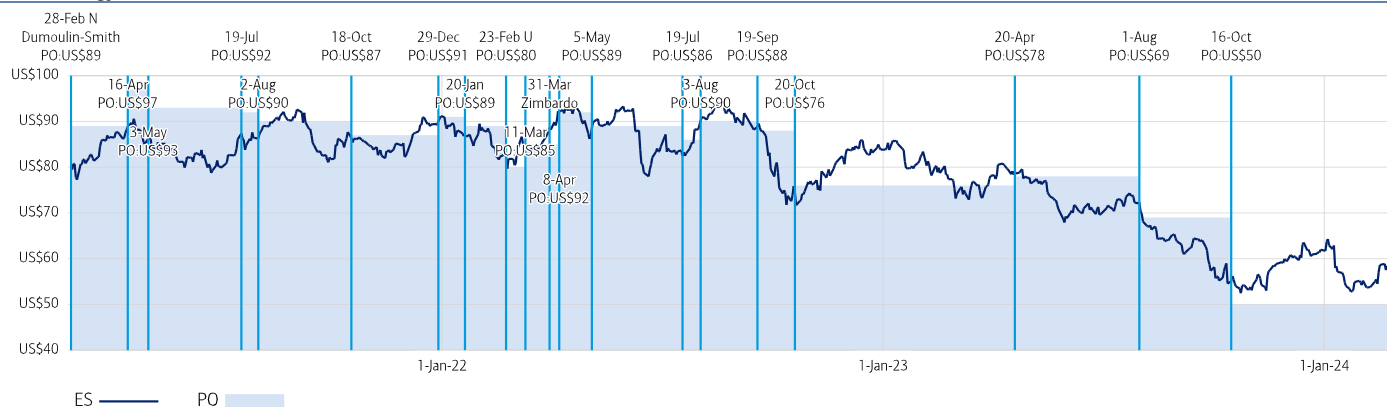
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	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
RVW				
	New Fortress Energy	NFE	NFE US	Cameron Lochridge

Disclosures

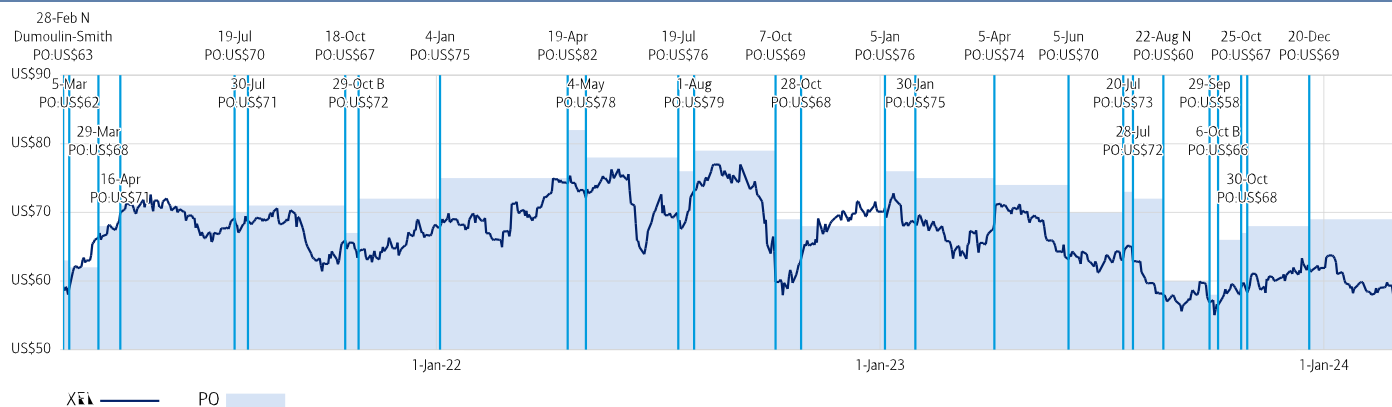
Important Disclosures

Eversource Energy (ES) 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.

Xcel Energy (XEL) 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%

^{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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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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