

## WEC Energy Group Inc

# Downgrade to Underperform: Clouds to low-vol, dependable growth story

Rating Change: UNDERPERFORM | PO: 78.00 USD | Price: 86.61 USD

## Premium characteristics have been eroding of late

We downgrade shares of WEC Energy (WEC) to Underperform from Neutral. WEC is a utility holding company with regulated electric and gas operations in Wisconsin, Illinois, Minnesota, and Michigan as well as unregulated renewable electric generation facilities across the Midwestern US. Despite a steady stream of cautious data points (see below and inside) WEC shares still trade at a ~11% premium to the broader utility group, a level we see as at risk, still. Our downgrade is based in part on recent regulatory data points, in particular a negative surprise in the Illinois gas outcome, as well as ongoing balance sheet pressures which we expect to limit earnings upside in future years.

## Management transition, missed Q1 guide, more equity

The outgoing executive chairman is well-regarded by investors, and his expected transition suggests a less hands-on role. Quarterly guidance had been exceeded since Mar 2012 until last year when the company missed quarterly guidance in Q1. Also, WEC did not raise the full year for 2023 as it has historically done. Along with more equity in the plan to fund capital and lower IL capex likely coming, these data points altogether suggest a less “premium” setup than in the past.

## Parent refi impacts abating but still pose elevated risk

We refresh refinancing assumptions for \$2.2B of parent debt coming due by 2026 and now see ~12c of headwinds from higher interest expense vs. 14c before the most recent move in rates. While an incremental improvement, we see a similar EPS impact to the downside from what we expect will be lower IL capex which is not readily backfilled elsewhere. Updated EPS growth on our updated ests is at or below 6.5%, the bottom end of WEC’s long-run guidance range.

## Should prove difficult to sustain valuation, PO \$78

With a number of open questions and risks skewed to the downside, we move to a more cautious valuation methodology. We now apply just a single +1x premium to WEC’s WI utilities (+3x prev) and -3x to IL (-2x prev), in our view a better representation of risks inherent. *’24 is a key year to show steady execution; if nothing else, given the litany of factors coalescing we expect outsized volatility ahead.* Applying these to our new lower estimates yields a PO of \$78 (\$84 prior). We accordingly downgrade WEC to Underperform from Neutral given the negative total return implied by our valuation and updated forecast.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.11	4.47	4.62	4.90	5.19
EPS Change (YoY)	8.4%	8.8%	3.4%	6.1%	5.9%
Consensus EPS (Bloomberg)			4.61	4.91	5.24
DPS	2.71	2.91	3.12	3.31	3.51
Valuation (Dec)					
P/E	20.5x	18.8x	18.2x	17.2x	16.2x
Dividend Yield	3.2%	3.5%	3.7%	3.9%	4.2%
EV / EBITDA*	20.5x	18.8x	15.8x	15.0x	14.2x
Free Cash Flow Yield*	-0.8%	-1.0%	-5.0%	-3.3%	-2.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 10.

04 January 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Inv. Opinion	A-2-7	A-3-7
Inv. Rating	NEUTRAL	UNDERPERFORM
Price Obj.	84.00	78.00
2025E Rev (m)	12,409.8	12,405.2
2025E EPS	5.20	5.19

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### Stock Data

Price	86.61 USD
Price Objective	78.00 USD
Date Established	4-Jan-2024
Investment Opinion	A-3-7
52-Week Range	75.47 USD - 99.26 USD
Mrkt Val (mn) / Shares Out (mn)	27,320 USD / 315.4
Free Float	99.8%
Average Daily Value (mn)	178.38 USD
BofA Ticker / Exchange	WEC / NYS
Bloomberg / Reuters	WEC US / WEC.N
ROE (2023E)	12.6%
Net Dbt to Eqty (Dec-2022A)	150.0%
ESGMeter <sup>TM</sup>	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](#).

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Timestamp: 04 January 2024 06:00AM EST

# iQprofile<sup>SM</sup> WEC Energy Group Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.1%	4.1%	4.6%	4.5%	4.5%
Return on Equity	12.2%	12.6%	12.6%	12.8%	12.7%
Operating Margin	20.6%	20.0%	23.7%	22.6%	21.4%
Free Cash Flow	(220)	(254)	(1,319)	(876)	(738)

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.6x	1.5x	2.0x	2.0x	2.0x
Asset Replacement Ratio	2.1x	2.1x	3.5x	3.1x	3.0x
Tax Rate	13.4%	18.6%	20.2%	20.0%	19.7%
Net Debt-to-Equity Ratio	142.3%	150.0%	163.4%	169.6%	164.6%
Interest Cover	3.6x	3.7x	2.8x	2.8x	2.9x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	8,316	9,597	10,050	11,104	12,405
% Change	14.8%	15.4%	4.7%	10.5%	11.7%
Gross Profit	3,000	3,301	3,798	3,992	4,201
% Change	3.8%	10.0%	15.1%	5.1%	5.2%
EBITDA	2,789	3,047	3,622	3,816	4,022
% Change	4.0%	9.2%	18.9%	5.4%	5.4%
Net Interest & Other Income	(216)	(192)	(545)	(564)	(576)
<b>Net Income (Adjusted)</b>	<b>1,300</b>	<b>1,409</b>	<b>1,462</b>	<b>1,553</b>	<b>1,666</b>
<b>% Change</b>	<b>8.4%</b>	<b>8.4%</b>	<b>3.8%</b>	<b>6.2%</b>	<b>7.3%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,302	1,410	1,463	1,554	1,667
Depreciation & Amortization	1,074	1,123	1,244	1,310	1,369
Change in Working Capital	0	0	(67)	(52)	(55)
Deferred Taxation Charge	151	280	352	370	392
Other Adjustments, Net	(494)	(752)	0	0	0
Capital Expenditure	(2,253)	(2,315)	(4,311)	(4,058)	(4,112)
<b>Free Cash Flow</b>	<b>-220</b>	<b>-254</b>	<b>-1,319</b>	<b>-876</b>	<b>-738</b>
<b>% Change</b>	<b>-414.3%</b>	<b>-15.5%</b>	<b>-418.9%</b>	<b>33.6%</b>	<b>15.7%</b>
Share / Issue Repurchase	(17)	(36)	0	125	475
Cost of Dividends Paid	(855)	(918)	(988)	(1,050)	(1,128)
Change in Debt	1,124	1,910	2,344	1,601	1,391

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	16	182	220	20	20
Trade Receivables	1,506	1,818	1,904	1,999	2,109
Other Current Assets	1,135	1,187	1,225	1,314	1,423
Property, Plant & Equipment	26,982	29,114	32,181	34,929	37,672
Other Non-Current Assets	9,349	9,571	9,571	9,571	9,571
<b>Total Assets</b>	<b>38,989</b>	<b>41,872</b>	<b>45,100</b>	<b>47,832</b>	<b>50,794</b>
Short-Term Debt	2,066	2,528	2,830	3,061	3,261
Other Current Liabilities	1,687	2,083	2,139	2,271	2,435
Long-Term Debt	13,524	14,766	16,809	18,179	19,370
Other Non-Current Liabilities	10,599	10,878	11,231	11,601	11,993
<b>Total Liabilities</b>	<b>27,875</b>	<b>30,256</b>	<b>33,009</b>	<b>35,111</b>	<b>37,059</b>
<b>Total Equity</b>	<b>10,944</b>	<b>11,407</b>	<b>11,883</b>	<b>12,512</b>	<b>13,735</b>
<b>Total Equity &amp; Liabilities</b>	<b>38,819</b>	<b>41,663</b>	<b>44,891</b>	<b>47,623</b>	<b>50,794</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 10.

## Company Sector

Electric Utilities

## Company Description

WEC Energy Group (WEC) operates as a diversified utility holding company whose whole owned subsidiaries provide regulated natural gas and electricity, as well as nonregulated renewable energy. 60% of WEC's EPS comes from its Wisconsin service territory, with Michigan, Minnesota, and Illinois commanding the remainder. The company currently has 1.6Mn electric customer 2.6Mn gas customers with 69,000 miles of electric distribution and 46,000 miles of gas distribution.

## Investment Rationale

We are Underperform-rated on shares of WEC Energy Group (WEC) with the company trading at a relative P/E premium to the broader electric utility sector. While execution has historically been strong we see clear risks to the valuation in the form of the stretched balance sheet as well as recent punitive regulatory outcomes, most recently impacting the Illinois gas utilities.

## Stock Data

Average Daily Volume 2,059,574

## Quarterly Earnings Estimates

	2022	2023
Q1	1.79A	1.61A
Q2	0.91A	0.92A
Q3	0.96A	1.00A
Q4	0.81A	1.11E

## WEC still among pricier regulated utility stocks

We downgrade shares of WEC from Neutral to Underperform. We see the historically premium shares as being at modest risk given clear ongoing pressures to its 6.5% EPS CAGR. While not at risk outright given history of offsets, we perceive the backdrop as more about defense than offense. Awaiting '24 guidance and positioning on long-term remains key.

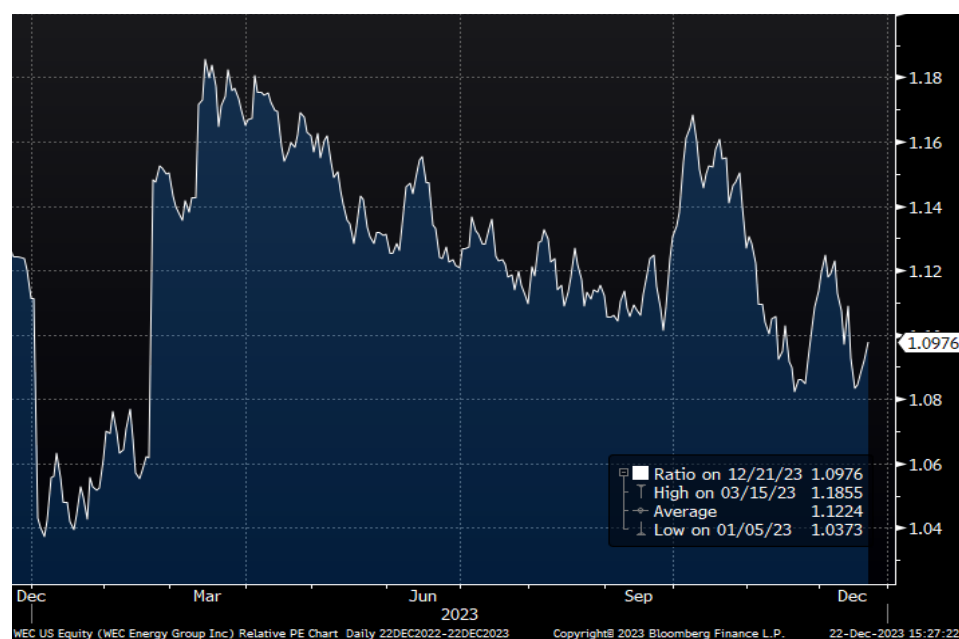
Though concerns over Wisconsin as a regulated utility jurisdiction have abated from late 2022, focus has only grown around Illinois and the ICC's disappointing order in the People's Gas and North Shore Gas cases. We stress the focus on gas in Illinois is not over despite perceptions of a resolved rate case. Expect legislation in Illinois to prove a more meaningful subject with the sitting administration keen to lead on decarbonization. Expect corresponding forceful response from labor to defend the company. If anything, external parties defending infrastructure investment in Illinois remains the key element of upside risk to our call here (beyond management simply delivering *consistently* on its outlook from here).

The disallowance of prospective as well as already-incurred capital spending screens as particularly cautious for us – while the authorized ROE of 9.38% is an improvement over WEC's previous authorized levels in IL, orders in peer utilities' electric cases demonstrate there may be downside still. Look for the review of historic capex to weigh on balance sheet considerations even with the substantial refi activity in '24.

Despite a series of generally cautious regulatory data points, WEC shares continue to trade at a meaningful premium to the rest of the utility peer group on a forward relative PE. Historically shares have carried a robust premium owing to superior financial execution and generally supportive regulatory treatment. While we do not see earnings below target levels presently, we note that the recent regulatory developments have raised the risk profile such that the historical premium is not justified in our view.

### Exhibit 1: WEC relative valuation

Despite negative data points WEC still expensive



Source: Bloomberg

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## IL capex likely coming down

WEC's order was arguably more disappointing than peer utilities, with an ROE of 9.38% vs the ALJ rec of 9.83%. The ICC ordered a \$265m capital disallowance related to the Qualified Infrastructure Plant (QIP) rider and an additional \$236m capital disallowance



related to replacement of shops and related facilities - citing lack of justification in the record for both. Test year rate base as ordered for PGS came in at \$4.2B, a disappointing print vs \$4.8B requested. NSG received a more modest haircut at \$422m/445m.

We reduce our capex forecast for People's Gas (PGS) and North Shore Gas (NSG) by ~\$100m in advance of the announcement. WEC just completed rate cases at its other utilities including in Wisconsin, so we see the ability to flex up capital in other jurisdictions as limited in the near term.

Among uncontested provisions of the final order is a review for prudence and reasonableness for QIP investments that are now included in base rates covering the period of 2016-2023. Expect WEC to maintain its stance that the investments are prudent as the company chose not to contest the provision, but a retroactive review of investments currently included in rates is nonetheless a cautious development.

While more punitive on the numbers, the WEC order did not come entirely as a surprise given negative press coverage and stakeholder positions criticizing affordability - this setup heading into the gas case outcome partially explains the relative strength of WEC shares following the order, particularly vs AEE.

Below we assume reduced capex at the IL gas utility People's Gas in response to the ICC's order. Our expectations are that WEC's updated capital plan will pull back on spending at the utility with potential re-deployment in other business segments, or an incrementally lower overall plan. Bottom line, a return to 'asset-driven' growth through contracted renewables appears a clear avenue to ensure consistent near & medium-term earnings.

#### Exhibit 2: Forecast WEC capex

Assume lower at People's Gas in response to ICC order

	2024E	2025E	2026E	2027E	2028E
Wisconsin Electric	1,662	1,877	2,100	2,100	2,100
Wisconsin Gas	228	228	470	470	470
Wisconsin Public Service	621	784	800	800	800
Upper Michigan	32	91	91	91	91
Wisconsin Segment	2,543	2,980	3,461	3,461	3,461
People's Gas	542	400	400	400	400
North Shore Gas	49	62	75	75	75
Illinois Segment	591	462	475	475	475
MERC	57	53	100	100	100
Michigan Gas Utilities	67	51	100	100	100
Other States Segment	124	104	200	200	200
We Power	30	30	30	30	30
Bluewater	1	2	2	2	2
Infrastructure	365	-			
Nonutility Energy Infrastructure	396	32	32	32	32
Corporate and Other	22	14	14	14	14
Subtotal	3,676	3,592	4,182	4,182	4,182
ATC Investment	382	520	689	712	691
Total WEC Capex	4,058	4,112	4,871	4,894	4,873

Source: BofA Global Research estimates, Bloomberg

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## Dividend signaling growth intentions?

WEC Energy (WEC) issued a news release announcing a plan to raise its next quarterly dividend by 7% to 83.5c/sh at the Board's next regularly scheduled meeting in January. WEC did not include FY24 EPS guidance in the press release, a cautious development. Historically WEC announces the forward year dividend and EPS guidance in the first half of December (12/13/22, 12/2/21, 12/3/20, 12/5/19, etc.). +7% per share is the upper end of the 6.5-7.0% EPS target CAGR range and mgmt. has recently stated it expects the dividend to increase in line with earnings per share, keeping the payout ratio roughly

in line. In the same press release, WEC guided to 65-70% payout ratio: a 67.5% midpoint payout ratio on the \$3.34 new annualized dividend would imply \$4.95 EPS.

FY24 Consensus is \$4.91 (\$4.90 BofA) which represents 6.5% YoY EPS growth from FY23 \$4.60 guidance midpoint. In the past WEC has also issued forward-year EPS guidance with its December release - this year the release states the company is refining its November 2023 five-year capital plan following the Illinois gas rate case order and will provide 2024 guidance in January. Historically the long-term CAGR has not been addressed in the December release, thus we do not read too much into the company not including a reaffirmation in the most recent one, though this would have served as a key boost to investor confidence.

## Updating estimates – rates help CAGR

Below we list WEC's significant refinancing needs at the holdco over the intermediate term through 2026. A \$600m maturity in 2024 will have the largest interest step up given its sub-1% coupon rate, and we see additional incremental interest expense from higher coupon but still below-market maturities in 2025 and 2026. Our assumed refinancing rate is 6% which is roughly in line with the current yield to maturity of these outstanding holdco bonds. Relative to our previous forecast for holdco drag, this updated assumption represents ~2c upside.

### Exhibit 3: Refinancing needs and interest drag

Moderate assumption from 6.25% to 6% given rate move

Refinancing needs, interest impact (\$m), post-tax	2024E	2025E	2026E	2027E	2028E
<b>Senior Unsecured \$600m @ 0.8%, 3/15/24</b>					
Face value	600	600	600	600	600
Interest expense step up @ 6% run-rate	18	25	25	25	25
<b>Senior Unsecured \$120m @ 3.55%, 6/15/25</b>					
Face value		120	120	120	120
Interest expense step up @ 6% run-rate		1	2	2	2
<b>Senior Unsecured \$500m @ 5.00%, 9/27/25</b>					
Face value		500	500	500	500
Interest expense step up @ 6% run-rate		1	4	4	4
<b>Senior Unsecured \$1B @ 4.75%, 1/9/26</b>					
Face value			1000	1000	1000
Interest expense step up @ 6% run-rate			10	10	10
<b>Interest expense cumulative step-up (\$m)</b>					
	18	27	41	41	41
Per share	0.06	0.08	0.12	0.12	0.12

Source: BofA Global Research estimates, Bloomberg

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We make incremental updates to our forecast as lower IL capex as well as moderating parent interest expense largely offset. WEC has a strong track record of delivering on and exceeding financial targets – we expect a continued focus on achieving the EPS target CAGR while in the interim pulling back on IL capex. Our estimates remain below Street consensus which reflects growth along the midpoint of the range.



**Exhibit 4: WEC estimates**

Expect WEC to maintain its EPS CAGR target

<b>WEC EPS Estimates</b>	<b>2020A</b>	<b>2021A</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Wisconsin Electric (WE)	\$1.16	\$1.21	\$1.26	\$1.34	\$1.52	\$1.71	\$1.91	\$2.13	\$2.33
Wisconsin Public Service (WPS)	\$0.70	\$0.73	\$0.75	\$0.83	\$0.84	\$0.91	\$0.99	\$1.06	\$1.13
Wisconsin Gas (WG)	\$0.26	\$0.24	\$0.35	\$0.30	\$0.33	\$0.35	\$0.39	\$0.45	\$0.50
Peoples Gas (PG)	\$0.59	\$0.65	\$0.66	\$0.67	\$0.63	\$0.63	\$0.65	\$0.66	\$0.68
North Shore Gas (NSG)	\$0.05	\$0.06	\$0.06	\$0.07	\$0.06	\$0.06	\$0.07	\$0.08	\$0.08
American Transmission Company (ATC)	\$0.42	\$0.44	\$0.44	\$0.46	\$0.49	\$0.55	\$0.62	\$0.70	\$0.77
Minnesota Energy / Michigan Gas (MERC/MGU)	\$0.12	\$0.11	\$0.21	\$0.22	\$0.23	\$0.25	\$0.28	\$0.31	\$0.33
Non-Utility (We Power, BlueWater, Infrastructure)	\$0.82	\$0.88	\$1.03	\$1.10	\$1.15	\$1.17	\$1.18	\$1.20	\$1.16
Energy Infrastructure	\$0.11	\$0.20	\$0.31	\$0.38	\$0.44	\$0.49	\$0.53	\$0.58	\$0.57
Parent & Int Expense	(0.34)	(0.21)	(0.29)	(0.35)	(0.36)	(0.44)	(0.53)	(0.66)	(0.73)
<b>BofA Estimate</b>	<b>\$3.79</b>	<b>\$4.11</b>	<b>\$4.46</b>	<b>\$4.62</b>	<b>\$4.90</b>	<b>\$5.19</b>	<b>\$5.56</b>	<b>\$5.92</b>	<b>\$6.25</b>
<i>Company Guidance</i>		4.05-4.07	4.38-4.40	4.58-4.62					
<i>Prior Estimates</i>				<del>\$4.62</del>	<del>\$4.90</del>	<del>\$5.20</del>	<del>\$5.56</del>	<del>\$5.93</del>	<del>\$6.26</del>
CAGR off 2023 original midpoint of \$4.60					6.5%	6.2%	6.5%	6.5%	6.3%
<b>Consensus</b>				<b>\$4.61</b>	<b>\$4.91</b>	<b>\$5.24</b>	<b>\$5.60</b>	<b>\$5.97</b>	
<i>BofA % over/under Street</i>				<i>0.3%</i>	<i>-0.2%</i>	<i>-1.1%</i>	<i>-0.7%</i>	<i>-1.0%</i>	

Source: BofA Global Research estimates, Bloomberg

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**Downgrade to Underperform: PO \$78**

In addition to pulling back our capex assumption detailed above, we reduce relative premia for both WI and IL utilities to 1x and -3x respectively in order to more accurately reflect the relative risk/reward inherent in these jurisdictions in our view.

While Wisconsin is generally considered to be a more constructive regulatory setup and more shareholder-friendly, the need to file new rate cases across WEC's footprint will keep the risk somewhat elevated. While the IL gas utility cases have concluded recently, the question of future spending pursuant to the main replacement program that was passed keeps us particularly cautious on People's Gas, WEC's larger gas utility in the state.

We also refresh estimates as outlined above and roll forward valuation to reflect 2026 earnings and peer multiples of 13.8x and 13.5x for electric and gas respectively. As a result the PO shifts to \$78 from \$84 and we accordingly downgrade to Underperform given the negative total return implied by our valuation.



**Exhibit 5: WEC valuation**

PO shifts to \$78, downgrade to Underperform

Regulated Utilities	2026 EPS	2026 Net Income	P/E Multiple		Equity Value	
			Peer	Prem/ Discount	Base	Base
Group Peer Multiple - Electric			13.8x			
Group EPS 'CAGR - Electric			5.00%			
Group Peer Multiple - Gas			13.5x			
Group EPS CAGR - Gas			5.10%			
Applied Multiple			Electric 14.5x			
			Gas 14.2x			
WI Electric	\$1.91	626		1.0x	15.5x	\$9,699 \$30
WPS	\$0.99	323		1.0x	15.5x	\$4,996 \$15
WI Gas	\$0.39	128		1.0x	15.2x	\$1,939 \$6
Peoples Gas	\$0.65	212		-3.0x	11.2x	\$2,370 \$7
North Shore Gas	\$0.07	24		-3.0x	11.2x	\$266 \$1
ATC	\$0.62	203		4.0x	18.5x	\$3,756 \$11
We Power (PTF)	\$0.63	207		-2.0x	12.5x	\$2,581 \$8
MERC/MGU	\$0.28	92		3.0x	17.2x	\$1,578 \$5
Blue Water	\$0.04	12		3.0x	17.5x	\$207 \$1
Parent & Int Expense	-\$0.53	(175)		0.0x	14.5x	(\$2,530) (\$8)
Total Implied Utilities	\$5.03	1,651			15.1x	\$24,862 \$76
					26 EPS	Implied P/E
Non Utility Energy Infrastructure					\$0.53	10.4x
Infra projects - announced	NPV value	WACC Applied:	8.9%			\$1,811 \$6
HoldCo Debt Adjustment						
Add Back: 50% of Interest Expense	\$0.35	115	14.1x		15.1x	16.1x
Subtract: HoldCo Debt (Net out 50%)	5,820	(2,910)				
						\$1,846 (\$2,910)
Total Equity Value						\$25,609
Valuation						\$78
Shares Outstanding						327
Rounded 12 Month Target Price						
Price Objective						\$78
Upside/Downside						-9.0%
NTM Div Yield						3.9%
Total Return						-5.1%

Source: BofA Global Research estimates, Bloomberg

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## Price objective basis & risk

### WEC Energy Group Inc (WEC)

Our \$78 PO is based on 2026E SoTP, with a large cap electric group multiple of 13.8x and gas regulated multiple of 13.5x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 1.0x premium to WEC's WI electric & gas subs for surety in earnings growth for the next two years following the Commission's recent settlement. We ascribe a 4x premium vs. the group at ATC to account for steady earnings growth as well as above avg Federal ROE's. IL Gas receives a -3x discount given the cautious tone set in the most recent rate case. We give Power the Future (PTF) a -2.0x P/E discount given nonutility risk profile. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. We value Energy Infrastructure on a net present value basis using a WACC of 8.9%, in line with other renewable assets. We net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp.

Upside risks to our PO: better than expected regulatory outcomes driving improved earnings and higher capital spend, lower interest rates, execution on unregulated projects at favorable returns. Downside risks: worse than expected regulatory outcomes driving lower earned returns and lower capital spend, higher interest rates, inability to execute on unregulated projects.

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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
<b>BUY</b>				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE 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
	Nextrackr 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



## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
<b>NEUTRAL</b>				
	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	Dariusz Lozny, CFA
	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	EVERG	EVERG 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
	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
	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
<b>UNDERPERFORM</b>				
	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	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	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



## **iQmethod<sup>SM</sup> 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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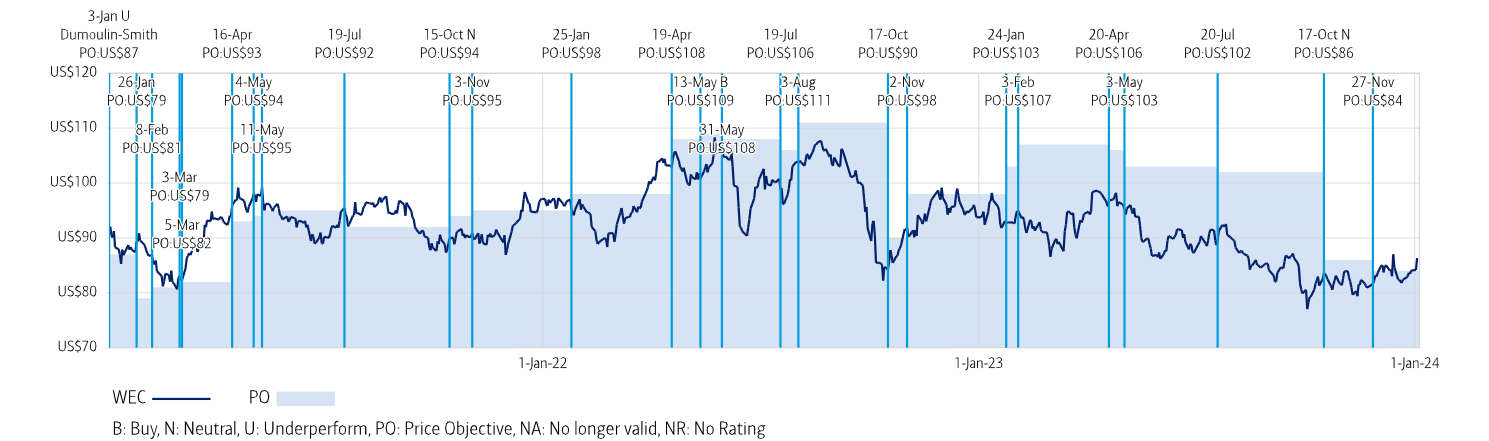
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WEC Energy Group Inc (WEC) Price Chart



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.

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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