

PNM Resources Inc.

EPS CAGR non-linear but still intact; is there any more earnings upside?

Reiterate Rating: BUY | PO: 44.00 USD | Price: 39.50 USD

EPS catches up to 5% CAGR in 2026; reiterate Buy

We still forecast EPS CAGR of 5.5% from 2020-2027 for PNM Resources (PNM) following its unfavorable GRC outcome Wednesday. Lower ROE and equity ratio from the GRC final order disrupt 2024-2025 EPS and reduce upside to the target 5% EPS CAGR, but we still assess limited downside given significant cushion afforded by PNM's 11% rate base CAGR, partially offset by 250-300bps of equity dilution. Maintain Buy.

Rate case final order largely tracks RD; estimates down

The final order yesterday reflected the 9.26% ROE and 49.61% equity ratio outlined in earlier Hearing Examiners' recommended decision (RD), below our expectations for outcomes in between RD & Staff's Rec. [See our initial read of the RD here](#). Expect PNM to file its next rate case promptly. We conservatively estimate a -6% YoY decline in FY24 EPS to \$2.62, assuming fewer immediate offsets ahead of another key GRC. EPS growth reaccelerates in 2025-2027 reflecting shape of the capex plan and future rate cases.

Rate case not indicative of go-forward NM paradigm

While some may view this outcome as no change to PNM's spotty regulatory treatment in NM, this GRC bore several idiosyncrasies, such as Commissioner O'Connell's recusal and resolution of legacy generation decisions, that greatly complicated the proceeding. NMPRC commissioners Aguilera and Ellison each opined of the difficulty in deliberating without input from a third commissioner. O'Connell is expected to be a full participant in upcoming proceedings relating to PNM, providing balance to support a potentially more constructive outcome in the upcoming rate case, which is likely to more straightforward.

PO to \$44; 15% upside potential with -1x discount at NM

Using our 2026E EPS of \$3.04, PNM trades at a -1.5x discount to our grossed-up electric peer group multiple of 14.5x. We replace our prior +1x premium in NM with a -1x discount reflecting the recent GRC outcome. Still apply +1x premium to TX and FERC assets; as an acquirable asset PNM is more attractive now than it was prior to the Avangrid merger agreement. Rate base growth has accelerated to 10%+, TX and FERC jurisdiction mix is higher, and NMPRC treatment could still improve. We reduce our PO to \$44 versus \$50 prior, reflecting the -1x NM discount and lower EPS from the GRC.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.45	2.69	2.78	2.62	2.72
GAAP EPS	2.27	1.97	2.78	2.62	2.72
EPS Change (YoY)	7.5%	9.8%	3.3%	-5.8%	3.8%
Consensus EPS (Bloomberg)			2.78	2.78	2.94
DPS	1.31	1.39	1.47	1.54	1.62
Valuation (Dec)					
P/E	16.1x	14.7x	14.2x	15.1x	14.5x
GAAP P/E	17.4x	20.1x	14.2x	15.1x	14.5x
Dividend Yield	3.3%	3.5%	3.7%	3.9%	4.1%
EV / EBITDA*	16.2x	13.9x	11.0x	10.5x	9.7x
Free Cash Flow Yield*	-11.4%	-10.2%	-15.0%	-15.0%	-15.8%

* For full definitions of *IQmethod*SM measures, see page 9.

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Timestamp: 04 January 2024 11:54AM EST

04 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	50.00	44.00
2023E Rev (m)	2011.7	2011.5
2024E Rev (m)	2092.5	2082.0
2025E Rev (m)	2186.7	2174.5
2024E EPS	2.72	2.62
2025E EPS	2.84	2.72

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Stock Data

Price	39.50 USD
Price Objective	44.00 USD
Date Established	4-Jan-2024
Investment Opinion	A-1-7
52-Week Range	38.53 USD - 49.60 USD
Mrkt Val (mn) / Shares Out (mn)	3,390 USD / 85.8
Free Float	98.7%
Average Daily Value (mn)	48.25 USD
BofA Ticker / Exchange	PNM / NYS
Bloomberg / Reuters	PNM US / PNM.N
ROE (2023E)	10.2%
Net Dbt to Eqty (Dec-2022A)	190.8%
ESGMeter TM	Medium

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"](#).

GRC - general rate case
NMPRC - New Mexico Public
Regulation Commission
RD - recommended decision

iQprofileSM PNM Resources Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	3.5%	4.2%	5.0%	4.6%	4.5%
Return on Equity	10.0%	10.6%	10.2%	8.9%	9.0%
Operating Margin	17.3%	17.5%	27.8%	27.5%	28.4%
Free Cash Flow	(387)	(345)	(509)	(508)	(535)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	2.6x	2.5x	2.5x	2.8x	2.8x
Asset Replacement Ratio	2.9x	2.7x	3.0x	2.9x	2.9x
Tax Rate	13.3%	12.4%	20.2%	20.3%	20.6%
Net Debt-to-Equity Ratio	168.3%	190.8%	184.5%	178.7%	177.2%
Interest Cover	3.2x	3.1x	3.0x	2.8x	2.7x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,780	2,250	2,012	2,082	2,174
% Change	16.9%	26.4%	-10.6%	3.5%	4.4%
Gross Profit	1,135	1,262	1,474	1,539	1,626
% Change	5.5%	11.2%	16.8%	4.4%	5.7%
EBITDA	628	735	925	973	1,054
% Change	4.7%	17.0%	25.9%	5.2%	8.3%
Net Interest & Other Income	(64)	(182)	(239)	(261)	(281)
Net Income (Adjusted)	211	231	240	233	251
% Change	15.4%	9.7%	3.6%	-3.0%	7.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	196	170	240	233	251
Depreciation & Amortization	320	341	366	400	437
Change in Working Capital	0	0	(45)	(7)	(9)
Deferred Taxation Charge	31	25	32	32	32
Other Adjustments, Net	1	32	0	0	0
Capital Expenditure	(935)	(913)	(1,102)	(1,166)	(1,245)
Free Cash Flow	-387	-345	-509	-508	-535
% Change	-100.3%	10.8%	-47.5%	0.2%	-5.3%
Share / Issue Repurchase	(10)	(8)	200	100	100
Cost of Dividends Paid	(113)	(120)	(127)	(137)	(149)
Change in Debt	436	548	440	550	589

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1	4	8	358	633
Trade Receivables	123	184	164	170	178
Other Current Assets	200	223	186	188	191
Property, Plant & Equipment	6,753	6,973	7,709	8,475	9,283
Other Non-Current Assets	1,589	1,874	1,874	1,874	1,874
Total Assets	8,667	9,257	9,941	11,064	12,159
Short-Term Debt	242	417	380	424	471
Other Current Liabilities	422	474	372	374	375
Long-Term Debt	3,520	3,893	4,370	4,876	5,418
Other Non-Current Liabilities	2,249	2,218	2,249	2,626	2,929
Total Liabilities	6,432	7,001	7,372	8,299	9,192
Total Equity	2,234	2,256	2,569	2,765	2,966
Total Equity & Liabilities	8,667	9,257	9,941	11,064	12,159

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Electric Utilities

Company Description

PNM Resources (PNMR) is an investor owned utility holding company headquartered in Albuquerque, NM, with holdings in two regulated utilities providing electricity and electric service in NM and TX. PNMR's electric utilities are PNM and TNMP. PNM, located in NM, has over 520,000 customers with 15,000 miles of transmission and distribution lines and 2.7GWs of generation capacity. TNMP, located in TX, has over 240,000 customers with 9,200 miles of transmission and distribution lines.

Investment Rationale

We rate PNM Resources (PNM) Buy due to its strong rate base growth that supports long-term EPS growth. PNM trades at a discount to similarly sized small cap peers despite visible 5% growth. There are incremental capital expenditure opportunities from transmission, base electric distribution spending, and new renewables in rate base. With intact prospects, we see PNM as well positioned to execute its growth plan. New Mexico-Texas are in high growth areas with favorable renewables resources.

Stock Data

Average Daily Volume 1,221,476

Quarterly Earnings Estimates

	2022	2023
Q1	0.50A	0.55A
Q2	0.57A	0.55A
Q3	1.46A	1.54A
Q4	0.15A	0.14E

Lower EPS estimates for reduction in allowed ROE

We have reduced our EPS estimates throughout our forecast to reflect the new ratemaking parameters as outlined in the RD and affirmed by the final order (Docket: C-22-00270-UT). The NMPRC's final order did not completely match the RD; for example, the commission ultimately approved PNM's time-of-day rate pilot against the recommendation of the hearing examiners. However, with respect to traditional ratemaking, the commission affirmed the RD's 9.26% ROE and 49.61% equity ratio (unchanged) stipulations. Expectations for 2024 EPS growth were previously muted due to equity dilution and investment timing; we see the GRC outcome as having exacerbated this earnings stagnation over 2024 and 2025 before accelerating in 2026 thanks to 14% year-over-year rate base growth versus 2025. We embed few operational offsets to the impact of lower ROE to our 2024 estimate; the degree to which PNM can manage discretionary O&M or toggle other levers to improve EPS could deliver modest upside to our estimates.

Exhibit 1: PNM Dashboard

2020-2027 EPS CAGR still comfortably above 5%; back on pace in 2026 after rate case 'reset'; Ratebase acceleration helps.

PNM (PNM) Financial Snapshot	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	'20-'27	'24-'27
PNM	1.76	1.85	1.90	2.20	1.97	2.00	2.20	2.35	4.2%	6.0%
Guidance			1.96-1.98	2.19-2.21						
TNMP	0.74	0.75	1.07	1.09	1.17	1.26	1.38	1.48	10.5%	7.9%
Guidance			0.96-0.97	1.08-1.1						
Parent & Other	(0.22)	(0.14)	(0.29)	(0.51)	(0.53)	(0.54)	(0.55)	(0.52)		
Guidance			(0.29)-(0.27)	(0.52)-(0.51)						
BofAe Consolidated EPS	2.28	2.45	2.69	2.78	2.62	2.72	3.04	3.31	5.5%	8.1%
Guidance	\$2.23 - \$2.31	\$2.27 - \$2.37	\$2.63-\$2.68	\$2.75 - \$2.80						
Guidance 5% off \$2.28 2020A	2.28	2.45	2.69	2.75	2.77	2.91	3.06	3.21	5.0%	5.0%
BofA vs Guidance	-0.1%	0.1%	-0.1%	0.9%	-5.5%	-6.4%	-0.5%	3.0%		
Consensus	2.27	2.41	2.64	2.78	2.78	2.94	3.13	3.38	5.9%	6.7%
BofA vs Consensus	0.5%	1.9%	1.6%	0.0%	-5.7%	-7.3%	-2.8%	-2.1%		
BofA Change vs Prior		0.1%	-0.1%	2.4%	-10.6%	-6.7%	-4.4%	-0.7%		
Dividend per Share	1.23	1.31	1.39	1.47	1.54	1.62	1.70	1.79	5.5%	5.0%
Payout Ratio: Mid 50-60% Guidance	54.0%	53.4%	51.7%	53.0%	58.9%	59.5%	56.0%	54.1%		
FFO/Debt: Target 14-16%; 13% min per Moody's)	14.5%	14.6%	14.2%	11.8%	12.5%	12.1%	12.3%	12.6%		

Source: BofA Global Research, Company filings, Bloomberg

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CAGR conservatism removed, but capex upside remains

Without a stronger rate case outcome later in the planning period, the unfavorable GRC decision does absorb much of the upside we had previously identified in the walk from PNM's 10.6% rate base CAGR, less 250-300bps for equity dilution, to 5% EPS growth. However, we still see potential for incremental investment opportunities in excess of the identified \$5.9Bn plan from 2023 to 2027, particularly as they relate to generation and owned battery storage. Of note, the NMPRC recently approved PNM's application to install 12MW of utility owned distribution-level battery storage to expand the capacity of overloaded feeders at two locations; this was contemplated in PNM's existing capex plan.

The current capex plan includes \$241Mn for owned battery storage and \$373Mn for utility generation. Given the potential difficulty in investing in new natural gas or other fossil fuel generation in New Mexico, we expect there could be a significantly higher need than identified for utility owned battery storage or other renewable generation. We expect these opportunities could be identified later in the planning period. Watch this aspect of the outlook in particular for clarity.

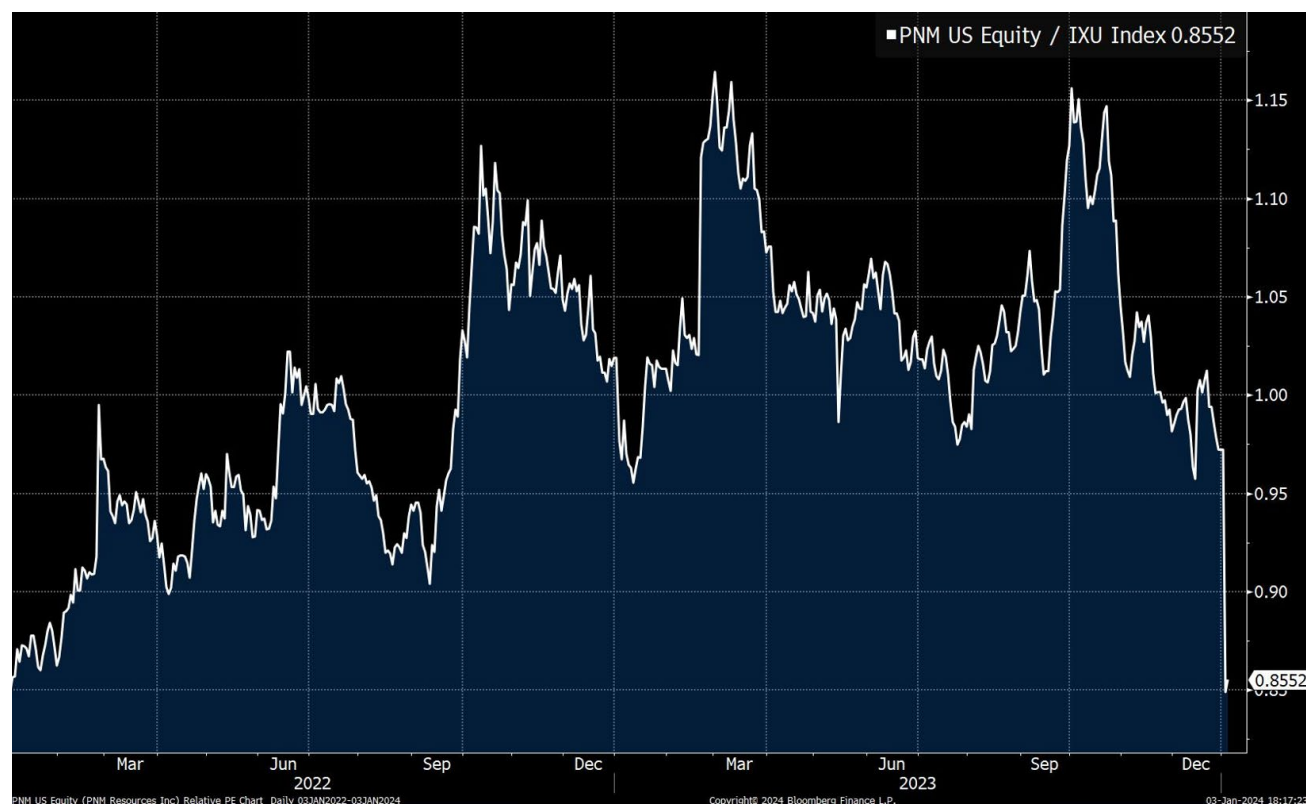


Downside catalysts should abate

PNM's share price performance in 2023 was relatively detached from utility peers, owing to investor read-throughs to whether the New Mexico Supreme Court might remand the NMPRC's merger denial back to the commission. PNM began to meaningfully trade off from its prior norms in the high \$40s beginning in May once the supreme court determined that the scope of the proceeding would be expansive over the course of several months. Once the merger was terminated, PNM fell to a strong relative discount to the group on a P/E basis. With both the merger and the NM GRC behind them, PNM should return to trading mostly on underlying fundamentals.

Exhibit 2: Relative Valuation

PNM shares fall to significant discount following termination of merger



Source: Bloomberg

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Balance sheet concerns manageable

Following termination of the merger and an unfavorable general rate case outcome issued Wednesday by the NMPRC, we see most aspects of the short thesis on PNM as having already played out with few incremental downside catalysts to go. Some may identify potential equity issuance to support PNM's relatively weak balance sheet as another potential pin to drop, exemplified by prospective FFO/debt that threatens the lower reaches of their 14% downgrade threshold and tenuous Baa3 issuer rating from Moody's, but we see nuances supporting the current ratings. The latest issuer estimates at S&P for PNM's FFO/debt of 13-15% bracket the downgrade threshold, and the agencies will continue to probe for lasting indications that the regulatory environment in New Mexico has become more credit supportive. Further, PNM management's long-term incentive compensation awards are partially contingent upon achievement of FFO/debt targets (2020-2022 three-year threshold was greater or equal to 13% with a target of greater or equal to 14%), which is fairly unique among our utility coverage. While likely that Moody's Positive outlook on PNM's Baa3 issuer credit rating will be rescinded as a result of the merger termination, we view that to be the extent of the outlook revision for now.

Valuation: it's discounted under most scenarios

Using our 2026E EPS estimate of \$3.04, PNM is currently trading at 13.0x, a -0.8x discount to the peer electric utility multiple of 13.8x and a -1.5x discount to the peer multiple after grossing up by 5% to account for growth and appreciation across the sector. We are removing our prior +1x premium to the NM utility and now apply a -1x discount, reflecting the challenging return parameters established in the GRC. However, we still think PNM's acquisition premium should persist, as we believe there could be several public or private suitors interested in supplementing their portfolios with southwestern utility exposure. We continue to place a +1x premium at PNM's FERC and TX operations, reflecting the acquisition premium and attractive jurisdiction dynamics. This results in a blended -0.1x discount to the grossed-up peer electric utility multiple of 14.5x, which using our 2026 EPS estimate of \$3.04 amounts to a PO of \$44/sh, implying 15% total return at current levels. The \$6/sh reduction from our prior PO of \$50 reflects lower EPS due to the change in ratemaking parameters, application of a -1x discount at the NM utility versus our prior +1x premium, and a modest impact from MtM of the peer electric utility multiple to 13.8x versus 14.1x prior.

We continue to ascribe a -1x discount vs a lower relative premium considering the shareholder friendly backdrop and board. We note AGR pro-actively chose to walk from its earlier bid rather than waiting for firm resolution from the courts and the commission. In turn, we remain very focused on management's next steps.

Overall we view the latest backdrop as likely the 'low water mark' in the stock this year, and expect gradual improvement as a host of more traditional utility developments help affirm an improved backdrop despite the latest setback with the rate case. Look for 4Q results to help articulate some degree of offsets as well as timeframe to another case. Finally, look for yet further capital investment discussions on both generation, modernization including smartmeters to make their way thru dialogue this year. On balance, remain constructive event after the latest slew of setbacks to start the year.

Exhibit 3: PNM Valuation

Discount in NM, premiums in FERC and TX

	2026E EPS	Peer	Prem/ Discount	Base	\$/Sh
Group Peer Multiple - Electric & EPS CAGR	13.8x x 5.0% = 14.5x				
PNM - New Mexico	\$1.67	14.5x	-1.0x	13.5x	\$22.59
PNM - FERC	\$0.53	14.5x	1.0x	15.5x	\$8.19
TNMP - Texas	\$1.38	14.5x	1.0x	15.5x	\$21.42
Corporate & Other	-\$0.55	14.5x	1.0x	15.5x	-\$8.47
Total EPS	\$3.04	14.5x	-0.1x	14.4x	\$43.73
Consensus	\$3.13				
Guidance: 2020-2027E and 2023+ 5%	\$3.06				
Grand Total Equity Value					\$43.73
Shares Outstanding (2026E)					95
Total Potential Equity Value					\$44.00
Current Market Price					\$39.46
Potential Stock Return					11.5%
FY1 Dividend Yield					3.9%
Total Potential Return					15.4%

Source: BofA Global Research, Company filings, Bloomberg

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Price objective basis & risk

PNM Resources Inc. (PNM)

We value PNM Resources at \$44 based on a 2026E sum of the parts valuation methodology utilizing P/E multiples for each business segment. We mark-to-market the electric utility average 13.8x 2026E (versus 14.1x in our last update) which we gross up for +5% reflect capital appreciation across the sector. This is a consistent approach for the coverage universe. We now apply a -1x discount to the NM utility versus a +1x premium prior, reflecting more adverse ratemaking parameters following the most recent general rate case. We still apply a +1.0x premium to the TX and FERC jurisdictions due to their strong growth and attractive investment opportunities.

Risks to the achievement of our price objective and estimates are changes in: 1) regulatory, political, judicial, and legislative outcomes, 2) operating and financing costs, 3) interest rates and asset returns, 4) potential M&A activity, 6) natural disasters and weather, 8) commodity prices, 9) capital expenditures, 10) credit rating agency actions.

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
	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	Dariusz Lozny, CFA
	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
	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
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	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

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

IQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of *IQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

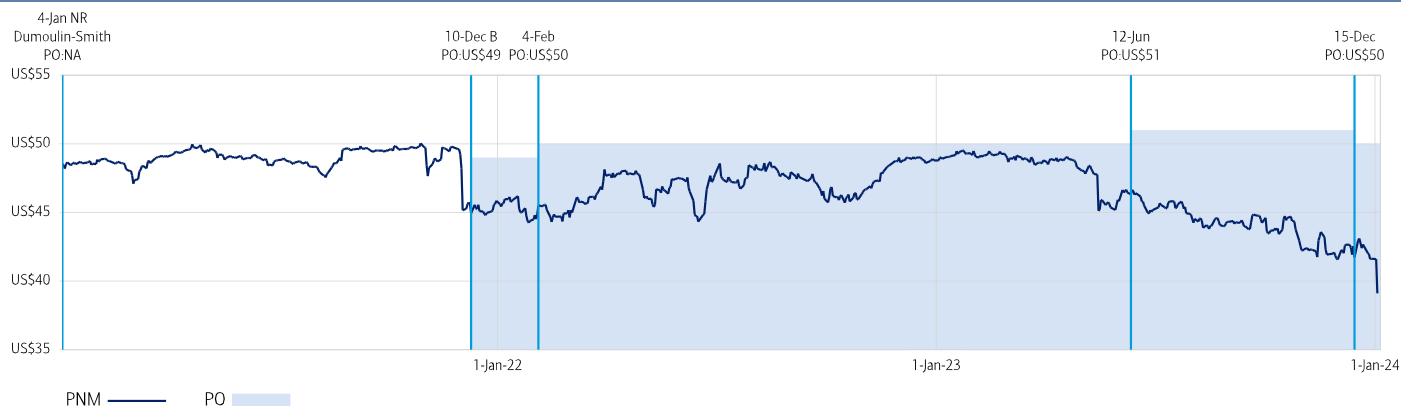
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
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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