

Clearway Energy

Improving California Gas Outlook Offset by Higher Leverage & Rates. Reiterate Neutral

Reiterate Rating: NEUTRAL | PO: 29.00 USD | Price: 28.63 USD

Reiterate Neutral, though note subtle CA potential upside

We decrease our PO to \$29 from \$39 for Clearway Energy (CWEN) as we align our valuation methodology with peers and comprehensively refresh for a more expensive cost of financing environment. Clearway is an owner of contracted renewable and natural gas generation assets, i.e. a Yield Company (YieldCo).

Conforming our valuation methodology to align with NEP

We adjust our valuation methodology for CWEN to match with YieldCo peer [NextEra Energy Partners \(NEP\)](#) – see last report. We now use a 67%-weighted dividend discount model (DDM) at \$35 and 33%- weighted discounted cash flow (DCF) at \$16, which together yields a \$29 PO. The DDM replaces a legacy 'growth' approach, which previously yielded \$45/sh. Higher leverage at higher rates is the primary offset to value.

A unique way to invest in California's power scarcity

Clearway's natural gas assets are well positioned to benefit from an increasingly tight California electric grid. As the state has retired baseload conventional generation and added intermittent renewables, the value of dispatchable assets has increased. CWEN's assets have uncommitted capacity for 2027+ which could reprice higher than we expected years earlier. This supports dividend growth in 2027-2028 in a capital efficient manner, better than we had previously perceived and supports 8% DPS growth for longer. On balance limited, potentially no equity through '28. Still upside bias to our \$8/kW-mo assumption for cleared RA in '27+ as current year substantially higher still.

Despite the positives, sticking with Neutral

The favorable attributes are largely priced into shares today and we see a balanced profile. As a yield vehicle, CWEN trades with interest rates and is at an 83% premium on our updated view DCF. This compares to peers trading at ~55% (NEP at ~200%).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	0.44	4.97	1.83	2.35	3.68
GAAP EPS	0.44	4.97	1.83	2.35	3.68
EPS Change (YoY)	100.0%	NM	-63.2%	28.4%	56.6%
Consensus EPS (Bloomberg)			1.81	1.44	1.44
DPS	1.33	1.43	1.54	1.67	1.80
EPS (CWEN - US\$)	0.44	4.97	1.83	2.35	3.68
DPS (CWEN - US\$)	1.33	1.43	1.54	1.67	1.80
Valuation (Dec)					
P/E	65.1x	5.8x	15.6x	12.2x	7.8x
GAAP P/E	65.1x	5.8x	15.6x	12.2x	7.8x
Dividend Yield	4.6%	5.0%	5.4%	5.8%	6.3%
EV / EBITDA*	9.8x	9.8x	9.2x	7.8x	7.5x
Free Cash Flow Yield*	55.5%	68.1%	67.9%	80.6%	87.5%

* For full definitions of *IQmethod*SM measures, see page 16.

05 June 2023

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	39.00	29.00
2023E Rev (m)	1,470.7	1,488.0
2024E Rev (m)	1,749.3	1,757.8
2025E Rev (m)	1,882.0	1,917.2
2023E EPS	2.60	1.83
2024E EPS	2.27	2.35
2025E EPS	2.47	3.68

Julien Dumoulin-Smith

Research Analyst
BofAS
+1 646 855 5855
julien.dumoulin-smith@bofa.com

Cameron Lochridge

Research Analyst
BofAS
+1 337 962 0696
cameron.lochridge@bofa.com

Paul Zimbardo

Research Analyst
BofAS
+1 646 855 1470
paul.zimbardo@bofa.com

Stock Data

Price (NYS / NYS)	28.63 USD / 29.87 USD
Price Objective	29.00 USD / 29.00 USD
Date Established	2-Jun-2023 / 2-Jun-2023
Investment Opinion	B-2-7 / B-2-7
52-Week Range	27.37 USD - 38.65 USD
Market Value (mn)	991 USD
Average Daily Value	7.34 USD
Shares Outstanding (mn)	34.6 / 34.6
BofA Ticker / Exchange	CWENA / NYS
BofA Ticker / Exchange	CWEN / NYS
Bloomberg / Reuters	CWEN/A US / CWENa.N
ROE (2023E)	17.0%
Net Dbt to Eqty (Dec-2022A)	152.6%
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"](#).

CAFD: Cash available for distribution

DPS: Dividends per share

GW: Gigawatt

RA: Resource adequacy

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Refer to important disclosures on page 17 to 20. Analyst Certification on page 14. Price Objective Basis/Risk on page 14.

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Timestamp: 05 June 2023 10:01AM EDT

iQprofileSM Clearway Energy

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	2.2%	10.1%	2.0%	2.7%	3.7%
Return on Equity	4.9%	49.5%	17.0%	22.6%	35.4%
Operating Margin	20.8%	16.3%	20.7%	25.4%	31.1%
Free Cash Flow	550	675	672	798	867

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	7.9x	0.8x	2.0x	1.8x	1.3x
Asset Replacement Ratio	0.3x	0.2x	0.1x	0.1x	0.1x
Tax Rate	NM	17.3%	18.1%	14.4%	9.0%
Net Debt-to-Equity Ratio	228.2%	152.6%	188.9%	223.9%	205.7%
Interest Cover	0.9x	6.3x	1.0x	1.1x	1.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	1,286	1,190	1,488	1,758	1,917
% Change	7.3%	-7.5%	25.0%	18.1%	9.1%
Gross Profit	835	755	1,082	1,302	1,394
% Change	0.2%	-9.6%	43.3%	20.4%	7.1%
EBITDA	1,150	1,160	1,224	1,450	1,514
% Change	6.3%	0.9%	5.5%	18.5%	4.4%
Net Interest & Other Income	(330)	(188)	(142)	(239)	(263)
Net Income (Adjusted)	89	1,006	371	476	745
% Change	101.0%	NM	-63.2%	28.4%	56.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(75)	1,060	136	178	303
Depreciation & Amortization	509	512	724	814	756
Change in Working Capital	(9)	18	0	0	0
Deferred Taxation Charge	12	194	0	0	0
Other Adjustments, Net	264	(997)	(121)	(120)	(119)
Capital Expenditure	(151)	(112)	(66)	(72)	(72)
Free Cash Flow	550	675	672	798	867
% Change	30.6%	22.7%	-0.4%	18.7%	8.6%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	179	657	919	1,115	1,429
Trade Receivables	144	153	153	153	153
Other Current Assets	1,208	466	466	466	466
Property, Plant & Equipment	7,650	7,421	8,561	9,617	8,934
Other Non-Current Assets	3,632	3,615	3,578	3,541	3,504
Total Assets	12,813	12,312	13,677	14,892	14,486
Short-Term Debt	772	322	396	369	336
Other Current Liabilities	859	295	295	295	295
Long-Term Debt	6,939	6,491	7,906	9,256	8,893
Other Non-Current Liabilities	943	1,171	1,171	1,171	1,171
Total Liabilities	9,513	8,279	9,769	11,091	10,694
Total Equity	3,300	4,033	3,909	3,801	3,792
Total Equity & Liabilities	12,813	12,312	13,677	14,892	14,486

* For full definitions of iQmethodSM measures, see page 16.

Company Sector

Electric Utilities

Company Description

Clearway Energy (CWEN) owns a 5 GW portfolio of long-term contracted renewable and conventional generation in the US. Global Infrastructure Partners (GIP) owns a 41% stake in CWEN.

Investment Rationale

We see future growth prospects (both in terms of portfolio expansion and dividend targets) as intimately tied to its owner Global Infrastructure Partners (GIP). We highlight a strong ROFO pipeline with improving growth opportunities for dropdowns given latest development activities at Clearway Group. Our strengthening confidence in mgmt and more attractive valuation are factors that drive our view.

Stock Data

Average Daily Volume	256,390
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2022	2023
Q1	-0.27A	0E
Q2	4.87A	0.67E
Q3	0.27A	0.69E
Q4	0.10A	0.48E

Key Changes

(US\$)	Previous	Current
Price Obj.	39.00	29.00
2023E EPS	2.60	1.83
2024E EPS	2.27	2.35
2025E EPS	2.47	3.68

Refreshing the outlook

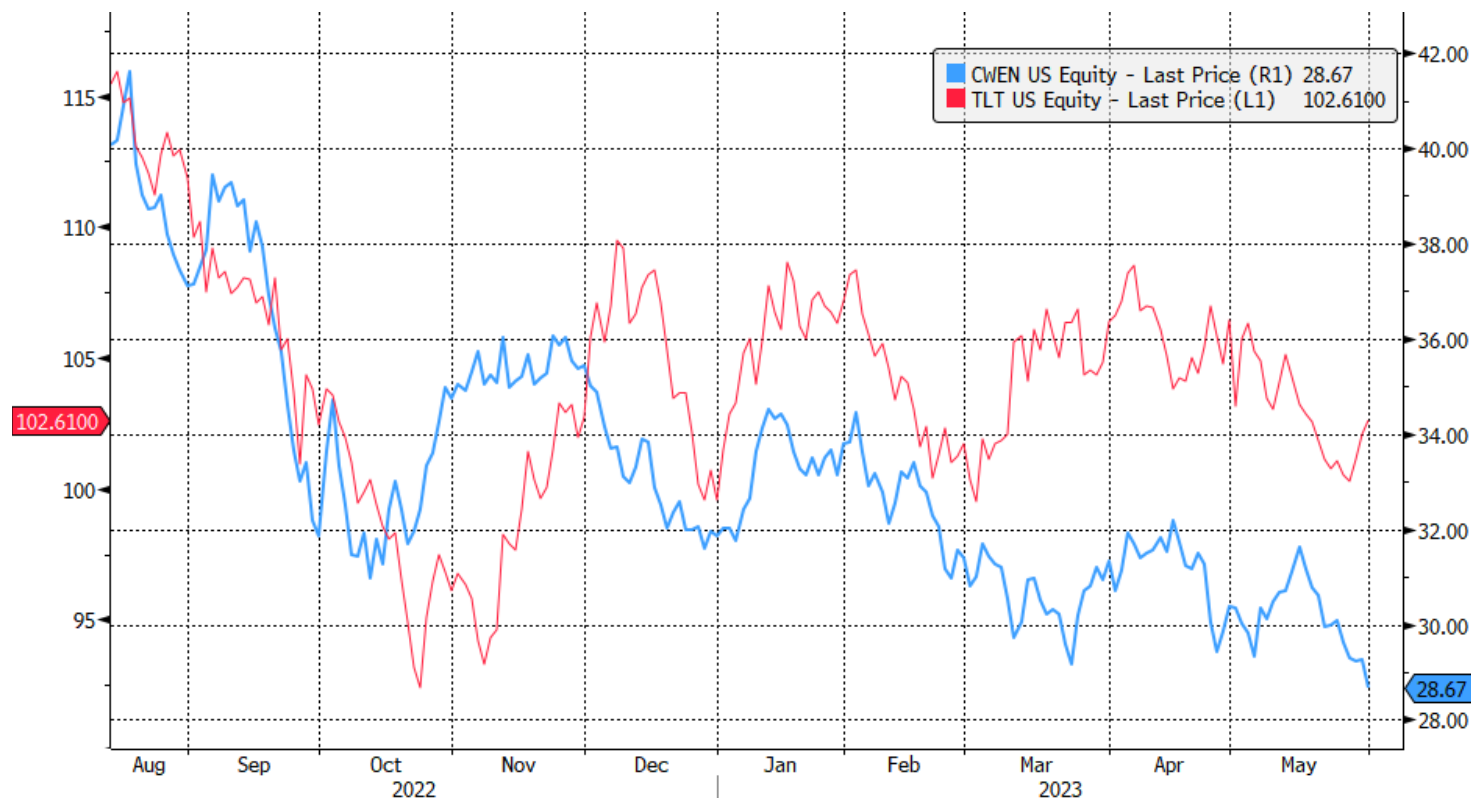
We reiterate our Neutral rating on the shares of CWEN following our comprehensive model refresh and valuation update. While CWEN is uniquely exposed to positive California resource adequacy pricing trends, we view shares as trading approximately at fair value. We note shares have underperformed Treasuries in a real way of late (see Exhibit 1 below), signaling to us investor appetite for lower-risk sources of steady yield.

What would we need to see to be more constructive?

1. Higher California resource adequacy compensation and/or tolling contract from utilities. See Page 5. We now include robust \$8/kW-month compensation which is a step-down from legacy levels but much higher than in the past five years.
2. Faster dividend growth above the upper-end of the 5-8% through 2026 that management targets. With the amortizing debt profile, CWEN has the ability to grow cash flows without the same reliance on drop-downs.
3. Support from its sponsor Global Infrastructure Partners III (GIP) and TotalEnergies. Clearway Group has a 6.9GW pipeline of late-stage projects through 2026 that provides visibility and optionality.
4. Additional accretive capital recycling opportunities. The thermal transaction was very favorable and unlocked upside with additional visibility. We do not see clear candidates but monetizing California at a premium to reinvest in renewables would be well received.

Exhibit 1: Clearway Energy (CWEN Equity vs. Long-Term US Treasury Yields

Shares have underperformed Treasuries of late, notably since the beginning of 2023



CWEN US Equity (Clearway Energy Inc) CWEN vs Rates Daily 15AUG2022-31MAY2023

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Source: Bloomberg, BofA Global Research

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Using Cash on Balance Sheet: Limited Equity Needs

We see incremental CAFD from future dropdowns could potentially provide a substantial cushion to dividend payout as % of CAFD/sh. We believe this would limit future equity needs giving balance sheet cash ample room to finance future projects.

In 1Q23 earnings presentation management noted future Battery Energy Storage Systems (BESS) hybridization and repowering opportunities from 2025 through 2028, besides highlighting expected 2H23 commitment for 600MW CA exposed line of sights dropdown opportunities.

We assume one year lag from Commercial Operations Date (CODs) for CAFD contribution from the projects, besides assuming 9.75% CAFD yield, \$1.5k/kW project cost, and 70/30% debt/cash financing. We link our formal ending cash balance projection for 2024 and analyze the impact of cash financing on year end cash balances from 2025 onwards. We also link our formal CAFD projection for 2024 to project cumulative CAFDs from 2025 onwards. While we keep our dividend growth assumption at 8%, but conservatively assume a 0.5% CAFD degradation factor.

We see year ending cash remaining positive through 2030 after financing the projects. Notably, incremental CAFD generating from projects coupled with CAFD uplift from 2026+ reflecting our change in RA pricing assumptions (from \$5-6/kW-mo to \$8/kW-mo) for CA exposed conventional assets providing significant cushion to dividend payout. We see dividend payout as a % of CAFD/share increasing from 83% in 2025 to 100% as we assume no further drops post-2028. Importantly, we believe there could indeed be moderate equity needs post-2028 to fund additional drops, which in turn should reduce the payout ratio to modest levels (mgmt.'s target in the ~80% range).

Exhibit 2: Incremental CAFD from future project drops with cash on balance sheet and CA conventional assets

Seeing ample CAFD cushion for dividend payout limiting future equity needs – this is distinctly different from near all YieldCo peers. Most derisked we've seen CWEN in some time.

Project	Expected Commitment	COD	MW	Expected CAFD Contribution							
				Year							
Luna Valley	2H23	1H25	200	2025							
Pine Forest	2H23	1H25	300	2025							
Rosamond South I	2H23	1H25	282	2025							
Daggett Storage	2H23	1H25	114	2025							
Repowering 2025-2026		2026	766	2027							
Repowering 2026-2027		2027	262	2028							
Repowering 2027-2028		2028	200	2029							
BESS Hybridization 2027-2028		2028	480	2029							
Future Drops		2029	190	2029							
Assumptions											
CAFD Yield %	9.75%										
Capex \$/kW	1,500										
Debt%	70%										
Cash %	30%										
CAFD degradation factor	1%										
				2023	2024	2025	2026	2027	2028	2029	2030
Capacity MW					\$896	\$766	\$262	\$680	\$190		
Capex \$M					\$1,344	\$1,149	\$393	\$1,020	\$285		
Debt \$M					\$941	\$804	\$275	\$714	\$200		
Cash \$M					\$403	\$345	\$118	\$306	\$86		
Ending Cash \$M				\$1,258	\$855	\$510	\$392	\$86	\$1	\$1	\$1
Incremental CAFD						\$39	\$34	\$11	\$30	\$8	
Cumulative CAFD							\$34	\$45	\$75	\$83	\$83
Dividend/Sh				\$1.54	\$1.67	\$1.80	\$1.94	\$2.09	\$2.23	\$2.38	\$2.52
Dividend \$M				\$312	\$337	\$364	\$393	\$423	\$452	\$482	\$511
CAFD/Sh				\$2.05	\$2.00	\$2.18	\$2.33	\$2.38	\$2.51	\$2.54	\$2.53
CAFD \$M				\$415	\$404	\$441	\$473	\$482	\$509	\$515	\$512
Dividend Payout (% of CAFD per Share)						83%	83%	88%	89%	94%	100%

Exhibit 2: Incremental CAFD from future project drops with cash on balance sheet and CA conventional assets

Seeing ample CAFD cushion for dividend payout limiting future equity needs – this is distinctly different from near all YieldCo peers. Most derisked we've seen CWEN in some time.

Project	Expected Commitment	COD	MW	Expected CAFD Contribution							
				Year							
Shares Outstanding (Mn, Diluted)				202.5	202.5	202.5	202.5	202.5	202.5	202.5	202.5

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

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How much upside from CA? See scenarios below: \$8 to \$17/kW-mo could add another 24% to total NPV

We increase our RA pricing assumptions to \$8/kW-mo from \$5-6/kW-mo for gas assets. The conventional assets are now contributing 37% of total NPV from 30% in our previous estimates. CA exposed assets are now contributing 31% of total NPV vs 27% prior. Below we include our analysis on NPV sensitivity vs RA pricing. We see an increase of RA pricing from \$8 to \$17/kW-mo would likely generate an additional ~\$5/sh NPV or 24% to total, implying ~\$2 to the PO on weight adjusted basis with everything else remains constant. While this appears to be a potential positive catalyst, we acknowledge the long-dated nature. Further, while applying RA prices at the high end of the range below (\$17/kW-mo) adds +\$6/sh to our valuation, we do not view this as a reasonable assumption given the position of the current forward curves (shown in detail further below). We could yet see medium-term clears for '27 thru a 5-year window continue to clear at elevated prices given likely protracted scarcity backdrop compounded with accelerating electrification effort.

Exhibit 3: NPV sensitivity to RA price

~24% upside to total NPV from current level with increase of RA pricing to \$17/kW-mo

Discount rate		\$/kW-mo				
		\$3	\$5	\$8	\$12	\$17
6.5%		\$4.84	\$6.11	\$8.01	\$10.55	\$13.72
7.0%		\$4.74	\$5.96	\$7.78	\$10.21	\$13.25
7.5%		\$4.64	\$5.81	\$7.56	\$9.89	\$12.81
8.0%		\$4.55	\$5.67	\$7.35	\$9.59	\$12.40
8.5%		\$4.46	\$5.54	\$7.15	\$9.31	\$12.00

Source: Company filings, BofA Global Research

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Where is pricing today? Quite high, but backwarddated

We show forward pricing below which is very backwarddated off the recent all-time highs. Recent bilateral deals would suggest pricing for Summer '24 hitting as high as \$40/kW-month.

Pricing in recent years has improved dramatically from near negligible levels just a short five years ago. The gas portfolio of Clearway was principally developed by its predecessor company NRG and built under long-term contracts which recently came off their arrangements. Now, while the company struck a medium term deal that was meaningfully better than anticipated – the forward market has continued to improve.

We were formerly assuming pricing for our DCF purposes of \$5/kW-mo. We stress that management has never disclosed its hedge pricing after the initial contracts rolled off making this something of an estimate relative to when prior hedges were struck on a medium-term basis. Overall, we see existing hedges for the '23-'27 in the \$5-6/kW-mo based on pricing at the time they were struck. We estimate forward pricing as at least \$8/kW-mo for Summer '27-'30. However, given the substantially more liquid market in the nearer years and clear price indications for '24 nearing ~\$20/kW-mo and prices in the '25-'26 period clearly in the teens, we see an overall upward bias.

Exhibit 4: CAISO RA forward prices

Favorable pricing trends through 2030 offer support to DPS growth beyond 2026 mgmt. targets

	23-May	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec	Cal 24	Cal 25	Cal 26	Cal 27	Cal 28	Cal 29	Cal 30
Bid	\$6.00	\$23.00	\$30.00	\$36.00	\$48.00	\$28.00	\$5.00	\$4.00	\$14.00	\$13.50	\$9.00	\$8.00	\$8.00	\$8.00	\$7.75



Exhibit 4: CAISO RA forward prices
Favorable pricing trends through 2030 offer support to DPS growth beyond 2026 mgmt. targets

	23-May	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec	Cal 24	Cal 25	Cal 26	Cal 27	Cal 28	Cal 29	Cal 30
Ask	\$10.00	\$27.00	\$36.00	\$42.00	\$52.00	\$33.00	\$6.00	\$5.00	\$15.00	\$14.00	\$10.00	\$8.50	\$8.25	\$8.25	\$8.00

Source: Karbone

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Incremental CAFD from additional drop and repowering

Management identified 2H23 expected commitments with 2025 CODs comprised of 600MW of utility scale solar and storage assets. Management expects 9.5% CAFD yield from these projects with potential committed funding of \$220m implying a five-year average CAFD of ~\$21M.

We believe this would also include 300MW Pine Forest Solar project, which is expected to be online in 2025 and status of the project is shifted from 1H23 expected commitment to 2H23 expected commitment.

Below we include our estimate of potential CAFD contribution from 2025 dropdowns. Based on historical assumptions of similar projects, we see the run-rate contribution would be ~\$21m including contribution from Pine Forest solar project.

Exhibit 5: 2025 dropdowns

We estimate ~\$21m CAFD contribution including Pine Forest solar project

Project Name	Technology	State	Owned Capacity (MW)	Capacity Factor	Net Gen. (GWh)	Run-Rate CAFD	COD	PPA Expiration	Tolling (\$/kW-mo)	Market RA (\$/kW-mo)	PV of Cash Flows
Pine Forest	PV	TX	150	25%	329		7/2025	2037	\$35.00	\$35.00	59
Luna Valley	PV	CA	100	25%	219		5/2025	2040	\$35.00	\$35.00	39
Rosamond South I	PV + Storage	CA	141	25%	309		4/2025	2040	\$35.00	\$35.00	34
Daggett Storage	BESS	CA	57	17%	85		3/2025	2040	\$100.00	\$100.00	30

Source: BofA Global Research Estimates, Company filings, Bloomberg

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The company also committed to repower its Cedro Hill wind project in 2H24. The repower would enhance the capacity of the project by 10MW to 160MW, besides extending the power purchase agreement (PPA) through 2045. Management expects the project requiring ~\$63mm capital funding would likely have ~9% incremental CAFD yield, implying an additional CAFD contribution of ~\$6mm post 2026.

Exhibit 6: Cedro Hill repowering

Company expects additional ~\$6m cafd post 2026

Cedro Hill	Repowering Details
Capacity (MW)	160
PPA (yrs)	22
Net Corp Capital funding (\$m)	63
Incremental CAFD Yield	9%
Incremental CAFD Contribution (\$M)	5.7

Source: Company Filings, Bloomberg, & BofA Global Research

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Introducing our DDM here – providing apples to apples...

As management continues to emphasize high single digit growth through the medium term, we illustrate the backdrop of value.

We assume dividend growth of 8% through 2028 based on the 2022 dividend amount. Further, we assume a cost of equity of 7.50% akin to our DCF methodology. We see a DDM based valuation methodology yielding a per share value of \$35, based on terminal growth assumption of 3% and terminal discount rate of 9.50%, implying a return potential of 13%.

Below we enclosed our DDM valuation sensitivity table with 8% dividend growth as our base case depicting changes in valuation with changes in terminal growth assumption.

Our DDM assumptions differ modestly from NEP in two areas: terminal growth rate and terminal yield. For NEP, we assume a lower terminal growth rate (2%) as the portfolio consists of long-dated assets with fixed PPA (Power Purchase Agreement) pricing and as the Company battles the ‘law of large numbers’ (relative to CWEN). On the other hand, we assume a lower terminal discount rate for NEP (9.39%) given what we perceive to be lower risk renewables assets in the portfolio (vs. CWEN where a large portion of value is tied to fossil generation).

Exhibit 7: DDM valuation sensitivity

Our DDM valuation with 8% div growth as our base case vs terminal growth

DDM Valuation Sensitivity - Implied Unit Price						
<div><div></div><div>-</div><div>.</div><div><u>Terminal Growth</u></div></div>		<u>DPU Growth</u>				
		6.0%	7.0%	8.0%	9.0%	10.0%
	1.0%	\$27.00	\$28.00	\$28.00	\$28.00	\$28.00
	1.5%	\$29.00	\$29.00	\$29.00	\$29.00	\$30.00
	2.0%	\$30.00	\$30.00	\$30.00	\$31.00	\$31.00
	2.5%	\$31.00	\$32.00	\$32.00	\$32.00	\$33.00
	3.0%	\$33.00	\$34.00	\$35.00	\$34.00	\$35.00
	3.5%	\$35.00	\$36.00	\$36.00	\$36.00	\$37.00
	4.0%	\$38.00	\$38.00	\$39.00	\$39.00	\$39.00
	4.5%	\$41.00	\$41.00	\$41.00	\$42.00	\$42.00
5.0%	\$44.00	\$45.00	\$45.00	\$45.00	\$46.00	

Source: BofA Global Research, Company filings

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Premium to DCF: how meaningful today?

On our updated DCF valuation of \$16, the premium to DCF value of shares appears slightly above average vs. historical trends. See our comp table today for premium to peers across several other YieldCo and YieldCo-like companies including RNW, as well as ORA (given this is largely an existing portfolio company).

Exhibit 8: Premium to DCF

CWEN trading at 31% premium to DCF; slightly elevated vs peers

Ticker	Price	DCF/Share	Premium/(Discount)	DCF Disc Rate
AY	\$24.37	\$26	-6%	8.78%
NEP	\$59.49	\$20	197%	7.44%
ORA	\$85.93	\$47	83%	7.05%
HASI	\$23.59	\$31	-24%	8.30%
YRNB	CAD 12.90	CAD 10	26%	8.76%
Average Premium / (Discount) to DCF			55%	8.07%
CWEN	\$29.27	\$16	83%	7.39%

Source: BofA Global Research, Company filings, Bloomberg

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What is the portfolio today? California is quite weighted.

Below we include CA assets eligible for RA pricing. We see the CA portfolio contributes 31% of the total CWEN CAFD on present value basis at current RA pricing assumption of ~\$8/kW-mo vs. 26% prior. We note we exclude CAFD from projects having 2025 CODs from our DCF calculation.

Exhibit 9: CA conventional asset Portfolio

Conventional CA asset contributing 31% of total CAFD

Project Name	Technology	State	Owned Capacity (MW)	Capacity Factor	Net Gen. (GWh)	Run-Rate CAFD	COD	PPA Expiration	Tolling (\$/kW-mo)	Market RA (\$/kW-mo)	PV of Cash Flows	% of Total
El Segundo	CCGT	CA	550	5%	219	57	2013	2023	\$13.00	\$8.00	461	25%
Marsh Landing	GT	CA	720	4%	233	79	2013	2026	\$13.50	\$8.00	512	28%
Walnut Creek	GT	CA	485	6%	250	59	2013	2026	\$16.50	\$8.00	384	21%
Carlsbad	GT	CA	527	9%	395	28	2019	2038	\$13.00	\$8.00	183	10%
Total											1,541	31%

Source: BofA Global Research, Company Filings, Bloomberg

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Following our increase in RA pricing assumption to \$8/kW-mo, our 2027/28 estimates now indicate conventional CA assets generating \$155m CAFD as opposed to our earlier estimates of \$125m CAFD. We see ~\$25-30m higher CAFD post 2026 adding more cushion to CWEN's dividend payout.

Exhibit 10: Change in CAFD from CA Conventional assets with change in pricing assumptions

Change in RA pricing to \$8/kW-mo generating \$30m additional CAFD

	2026E			2027E			2028E		
	Current	Previous	% change	Current	Previous	% change	Current	Previous	% change
El Segundo	47	15	219%	47	40	17%	47	40	16%
Marsh Landing	90	98	-8%	49	33	47%	48	33	44%
Walnut Creek	75	80	-6%	37	24	53%	37	24	51%
Carlsbad	23	27	-13%	22	27	-17%	19	27	-31%
Sub-Total CA Conventional	235	219	7%	155	125	25%	150	125	20%

Source: BofA Global Research, Company Filings

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But is the gas actually ‘core’? That’s a good question.

It’s not entirely clear to us that the California assets are core to the story. Management has acknowledged this dynamic in various ways over the years. We stress the forthcoming repricing higher could create a unique window to monetize assets at a sizably higher value than previously contemplated and help reposition the portfolio further towards renewables while also removing equity overhang. Peer AES Corp (AES) has seen its legacy California assets extract meaningful value which highlights the state’s critical need for reliable resources. This could come in hand with recontracting the 2027+ period for some duration. We note the company sold down one of its other key non-renewable assets: its district heating assets last year to KKR. This is the reason behind the removed equity overhang through 2026 to being with. This remains a clear potential (also an upside vs baseline expectations). Our DCF values these assets at \$1.5 Bn today (25% of the market cap) at an 7.5% discount rate (if one were to use a 10% discount rate say to adjust for its fossil-fired nature in California for instance it would be worth 22% of the market cap): we see arguments for applying a higher discount rate to these thermal assets considering their location in California.

Estimate Changes

Management signaled a high degree of confidence in its ability to deliver the top of guidance for its distribution per share (DPS) growth CAGR (5-8% through 2026), given its visibility into upcoming dropdowns.

Exhibit 11: CWEN DPS outlook

We are at the top of 5-8% guidance range

	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E
DPS (Class A and C Shares)	\$1.050	\$1.328	\$1.428	\$1.543	\$1.666	\$1.799	\$1.943	\$2.098	\$2.266
Annualized DPS Growth	31%	26.4%	7.6%	8.1%	7.9%	8.0%	8.0%	8.0%	8.0%
Guidance									
Dividend Payout (% of CAFD per Share)	72%	80%	86%	75%	83%	80%	89%	92%	79%
Guidance									
Consensus DPS	\$1.08	\$1.33	\$1.43	\$1.54	\$1.66	\$1.79	\$1.79	\$1.79	\$1.79
Dividend Yield	3.6%	4.5%	4.9%	5.3%	5.7%	6.1%	6.6%	7.2%	7.7%

Source: Company Filings, Bloomberg, & BofA Global Research Estimates

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Our DPS growth expectations aligned with management’s guidance. Note, management expects share count to remain largely stable in the coming years. Ultimately, we model \$1.94/sh of DPS in 2026, and we highlight that upside to our model remains. We highlight that our DPS expectations are slightly above consensus, specifically in 2026, and we suspect the couple of cent disparity is driven by differing DPS growth assumptions.

Our model implies an 80-90% DPS payout ratio, relative to CAFD per share through 2026. We note DPS would likely enjoy more latitude relative to CAFD per share as we assume higher RA pricing for gas assets post 2026. We note PPA contract for both Marsh Landing and Walnut Creek will be ended in 2026.

We note CWEN's guided \$2.15/sh of CAFD for 2026. Notably, management is comfortable that it can deliver this \$2.15/sh CAFD without raising additional capital. We believe \$2.15 CAFD/sh expectation is largely based on strong RA pricing outlook and ~600MW dropdowns in 2025.

Below we include our EBITDA estimates table. We align our 2023 estimates with mgmt. guidance and modeled an 9% CAGR from 2022 through 2025.

Exhibit 12: CWEN EBITDA estimates

'23 EBITDA in-line; now modeled 9% EBITDA CAGR from 2022-2025

	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E
EBITDA Reconciliation									
Net Income (Loss)	(62.0)	(75.0)	1,060.0	136.0	177.7	302.8	300.0	249.6	279.9
Interest Expense	413.0	312.0	218.0	299.9	396.5	419.2	433.4	466.8	479.8
Income Tax Benefit (Expense)	8.0	12.0	222.0	30.0	30.0	30.0	30.0	30.0	30.0
EBITDA Attributable to unconsolidated Affiliates	187.0	87.0	52.0	158.4	157.4	156.4	150.8	144.2	143.2
Other	108.0	305.0	(904.0)	(125.0)	(125.0)	(150.0)	(100.0)	50.0	50.0
Depreciation and Amortization	428.0	509.0	512.0	724.2	813.6	755.8	808.0	821.4	791.7
Adjusted EBITDA	1,082.0	1,150.0	1,160.0	1,223.6	1,450.2	1,514.2	1,622.2	1,762.0	1,774.5
<i>EBITDA Guidance</i>	1,120	1,185	1,210	1,170					
<i>BofAe EBITDA vs. Guidance</i>		(3.0%)							
<i>EBITDA Consensus</i>	1,112	1,173	1,217	1,149					
<i>BofAe EBITDA vs. Consensus</i>		(1.9%)	(4.7%)	6.5%					
Cash Available for Distribution (CAFD)	295.0	336.0	336.0	414.7	403.9	458.1	440.8	463.5	578.3
<i>CAFD Guidance</i>	310.0	325.0	350.0	410.0					
<i>CAFD Guidance - pro forma annualized</i>	320.0	395.0	385.0	390.0					

Source: BofA Global Research Estimates, company filings, Bloomberg

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Valuation

Our PO moves to \$29/sh from \$39/sh following mark to market assumptions and changing our valuation methodology to 67%/33% DDM/DCF valuation from 75%/25% Growth/DCF valuation. This matches the NEP approach: [NextEra Energy Partners: Near-term fundamentals de-risked; Upgrade to Neutral – PO to \\$60.01 June 2023](#)

Our valuation now implies ~2% total return potential from current levels. While we increase our RA pricing assumption to \$8/kW-mo from \$5-6/kW-mo, we believe it's still conservative in the current scenario. We see higher CAFD from conventional assets post change in pricing assumptions, and more visibility into incremental CAFDs from projects having 2025 and 2025+ CODs and from repowering adding more cushion to dividends post 2026 period from our earlier estimates.

Our DCF now reflects a ~3.69% risk free rate (vs. 3.6% prior), and we maintain a 100bps premium in our discount rate. We note other slight tweaks to our DCF, including cash position update and estimate changes. We highlight a healthy pipeline of near-term potential drop downs with inline CAFD yields.

We assume dividend growth of 8% through 2026 based on 2022 dividend amount. We also assume a 3% terminal growth rate and 9.50% terminal yield. Our DDM reflects a per share valuation of \$35.



Exhibit 13: CWEN Valuation Summary

PO to \$29 from \$39

	<u>Value/Sh</u>	<u>Weight</u>	<u>Weighted Value</u>
DDM Methodology	\$35.00	67%	\$23.33
DCF Methodology	\$16.00	33%	\$5.33
Value/sh			\$29.00
Current Share Price (as of 06/02/23)			\$29.67
Premium (Discount) to Current Price			(2.3%)
2023E Dividend per Share			\$1.54
Total Potential Return			2.9%

Source: BofA Global Research Estimates, Company filings, Bloomberg

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Exhibit 14: CWEN DCF Valuation

CWEN DCF valuation at \$16

DCF Valuation	\$Mn	Per Share
Total PV of Cash Flows	4,922	\$24.31
Less: PV of Corporate Opex	(232)	(\$1.15)
Less: PV of Corporate Debt Interest	(786)	(\$3.88)
Plus: PV of Corporate Taxes	73	\$0.36
Less: PV of Corp Debt Amort	(670)	(\$3.31)
Less: Maintenance CapEx	(538)	(\$2.66)
Less: Growth capital	(520)	(\$2.57)
Plus: Cash and Cash Equivalents	1,013	\$5.00
Total PV of Cash Flows (\$Mn)	3,262	\$16.11
Shares Outstanding (Mn)	202.5	
DCF per Share	\$16.00	
Current Share Price (as of 05/26/23)	\$29.27	
Premium / (Discount) to DCF	83%	

Source: BofA Global Research Estimates, Company filings

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Exhibit 15: CWEN discount rate build

Maintaining premium of 1%

Discount Rate	
10-yr Treasury	3.80%
ERP	5.00%
Adj. Beta	0.94
Discount Rate	8.50%
Add. Prem/(Disc)	-1.00%
Cost of Equity	7.50%

Source: BofA Global Research Estimates, Company filings

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Exhibit 16: CWEN DDM Valuation

CWEN DDM valuation at \$35

	2022A	2023E	2024E	2025E	2026E	2027E	2028E
DPS Growth		8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Guidance on LT Trend					~8% thru '26		
DPS Growth	\$1.43	\$1.54	\$1.67	\$1.80	\$1.94	\$2.10	\$2.27
Terminal Value @ 2% Terminal Growth Rate							\$33.88
Discounted Cash Flows @ 2% terminal Growth							
Discount Factor			1.00	0.93	0.87	0.81	0.75
Discounted Cash Flows			\$1.67	\$1.68	\$1.68	\$1.69	\$27.18
Value/Unit		\$35.00					
Premium (Discount) to Unit Price		16.2%					
<u>Memo:</u>							
Terminal Value (2030E Required Yield)		9.50%					
Terminal Value Growth Rate		3.00%					
Discount Rate		7.50%					
Unit Price		\$29.27					

Source: BofA Global Research Estimates, Company filings, Bloomberg

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Exhibit 17: Valuation comparison

Below we show a comparison on valuation and other metrics between peers CWEN and NEP

	Current Price	PO	DDM Valuation	DDM Weighting	DCF Valuation	DCF Weighting
CWEN	\$29.06	\$29.00	\$34.00	67%	\$16.00	33%
NEP	\$61.40	\$60.00	\$79.00	67%	\$21.00	33%
	Peer Discount Rate	(Prem)/Discount	DDM Terminal Growth Rate	DDM Terminal Yield	% NPV Renewables	
CWEN	8.50%	-1.00%	3.00%	9.50%	63.36%	
NEP	8.50%	-1.00%	2.00%	9.50%	100.00%	
	Remaining Contract Life (Yrs)	Debt Rating				
CWEN	13	BB/Ba2				
NEP	13	BB/Ba1				

Source: Company filings, Bloomberg, BofA Global Research Estimates

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BofA Global Research Reports**Title: Subtitle**

[Clearway Energy: CEO Fireside: Achieving competitive growth without additional capital needs](#)
[Clearway Energy: Solid 2Q, new potential drops, and IRA upside: Maintain Buy](#)
[Clearway Energy: GIP/TotalEnergies Swap: A new era of dropdowns for CWEN?](#)
[Clearway Energy: Cash Rich & Ready to Deploy at Higher Returns. Best Positioned: Buy](#)
[Clearway Energy: Strong line of sight ahead for growth; Maintain Buy, raise PO to \\$42](#)
[US Electric Utilities & IPPs: Power Update: NRG & CWEN Quite Constructive 1Q Updates](#)

Primary Author

Julien Dumoulin-Smith
 Julien Dumoulin-Smith
 Julien Dumoulin-Smith
 Julien Dumoulin-Smith
 Julien Dumoulin-Smith
 Julien Dumoulin-Smith

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 04 May 2023



Price objective basis & risk

Clearway Energy (CWENA / CWEN)

Our \$29/sh PO is based on 67/33 weighted DDM/DCF methodologies. Our DDM value is \$35 and our DCF value is \$16. We use a 67% weighting to reflect disproportionate focus on existing and future yield over core asset cash flows. Perceived growth remains the prevailing methodology employed across the market.

In our DCF, we discount the current portfolio's expected cash flows. Main assumptions include:

- Our 7.50% cost of equity applies a CAPM methodology and includes 1.0% company-specific premium.
- Outstanding corporate debt is refinanced at maturity with amortizing debt with an eight-year term

Assumptions under our DDM approach are:

- 8.0% growth through 2026
- A 2.0% required yield based on the 2023E dividend yield for the YieldCo peer set.

Risks are 1) misalignment between the new sponsor and the company's growth strategy, 2) the inability to purchase high-quality assets at accretive multiples, 3) the failure to successfully develop projects, 4) the inability to access capital markets at attractive terms, and 5) PCG related counterparty exposure is among the nearest exposures to watch.

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				
	AES	AES	AES US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC 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
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS 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
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG 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
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith

NEUTRAL

	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	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
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA

UNDERPERFORM

	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
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC 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
	Southern Company	SO	SO US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL 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.

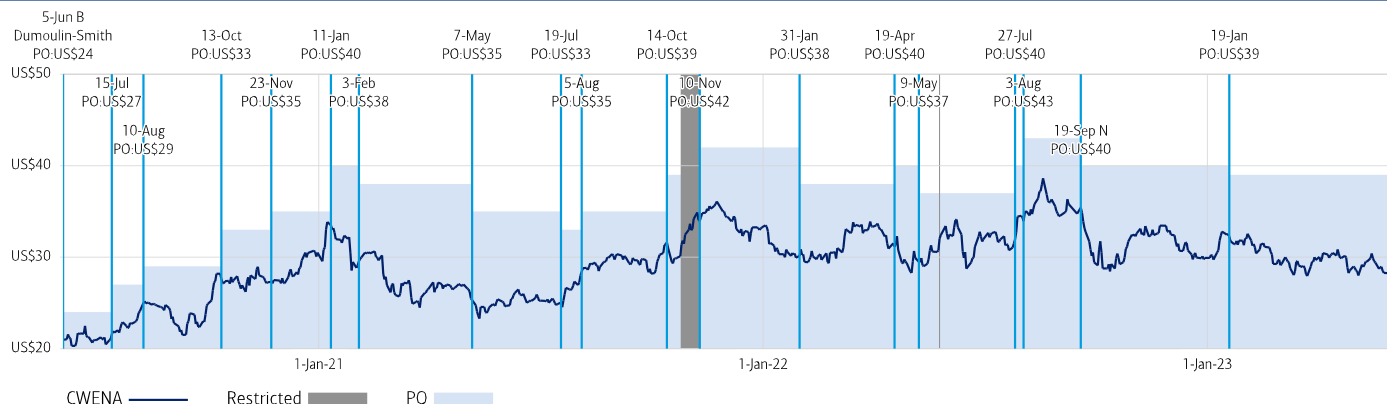
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Disclosures

Important Disclosures

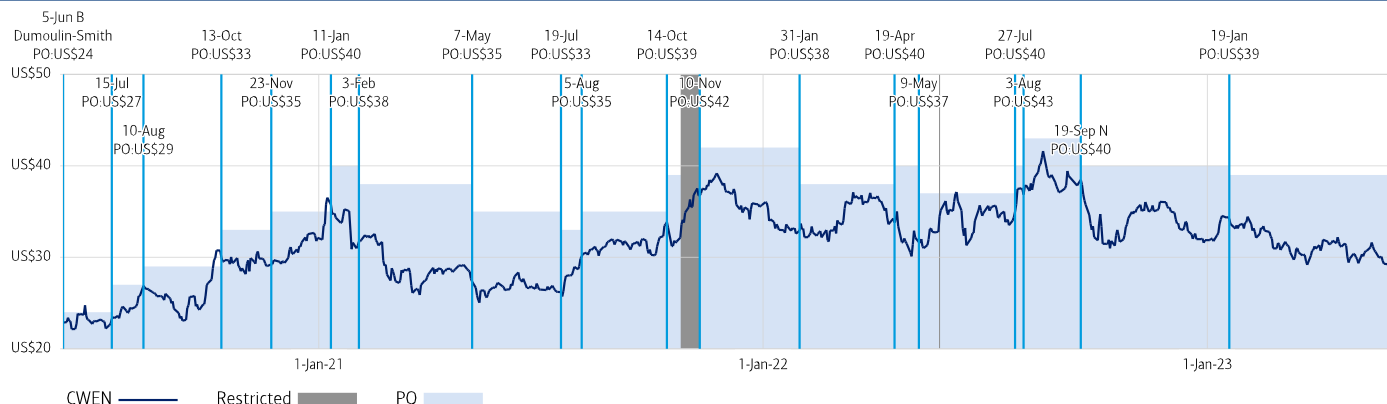
Clearway Energy (CWENA) Price Chart



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.

Clearway Energy (CWEN) 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 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{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.



FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's: absolute total return potential as well as its attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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