

US Utilities & Clean Tech

PowerPoints: PCG Asset Sale. HE Wildfires and Latest Outlook

Price Objective Change

PCG: CPUC ALJ recommends denial of PacGen transaction

On Friday March 15th the California Public Utilities Commission (CPUC) chief Administrative Law Judge (ALJ) recommended denying Pacific Gas & Electric (PG&E, PCG primary subsidiary) Pacific Generation (PacGen) minority asset sale be denied (A.22-09-018). The PD was strongly worded and described PCG's application is failing to "meet even the minimal public interest standard." The PD primary arguments for recommending denial are that administrative costs would increase, jurisdictional authority could decrease, and a lack of evidence that an asset sale would benefit customers more than simple common equity issuances.

PCG: Granted extension of time to contribute to Trust

Separately, the CPUC Executive Director granted a modified extension to PG&E to contribute \$650Mn plus net investments gains to the Consumer Credit Trust to the earlier of March 31, 2025 or a CPUC order in the Petition for Modification (PFM). The adverse PacGen PD is a real setback and based upon the firm language used, we see a challenging path forward for the request as filed. As the PD emphasized a desire for more documentation around cost/benefits, PCG may need to wait until a transaction is announced and pursue another request. This scenario would at a minimum delay the process and timing for credit metric improvement. We maintain our Buy on PCG despite the negative PD as we still see a path forward and view shares as having an attractive risk/reward. Our PCG EPS estimates still have a high level of conservatism and operating cost flexibility, although a path with more equity issuances would erode that notably. See details in our recent report: [Opportunity to Buy after YTD -10% Relative Correction. 14 March 2024](#)

HE: Legal setback. Reduce PO to \$6 from \$7

Last week a US District Court remanded Maui Wildfire litigation involving Hawaiian Electric Industries (HE) to Maui state court, opposing Federal jurisdiction (Amir Hossein Sheikhan, et al., vs Hawaiian Electric Industries, Inc., et al. [23-00460 JAO-BMK]). The Court ruled that the wildfire deaths on Lahaina were not a "discrete location". The Court's Conclusion: "Answering the original question—Where does this case belong? —is straightforward. It belongs in the state court on Maui where it originated." We lower our PO to \$6 from \$7 based on a higher parent company drag. Please see details below.

We reiterate our Underperform rating on HE which we do not see as pricing in a large enough probability-adjusted wildfire liabilities. There has been a significant amount of Hawaii state legislative progress in recent weeks, but our review of the draft bills does not change our view of value. We continue see a challenging path forward for the company.

18 March 2024

Equity
United States
Utilities & Clean Tech

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ALJ: Administrative Law Judge
CPUC: California Public Utilities Commission
PacGen: Pacific Generation
PG&E: Pacific Gas & Electric
PD: Proposed Decision
HECO: Hawaiian Electric Company Inc.

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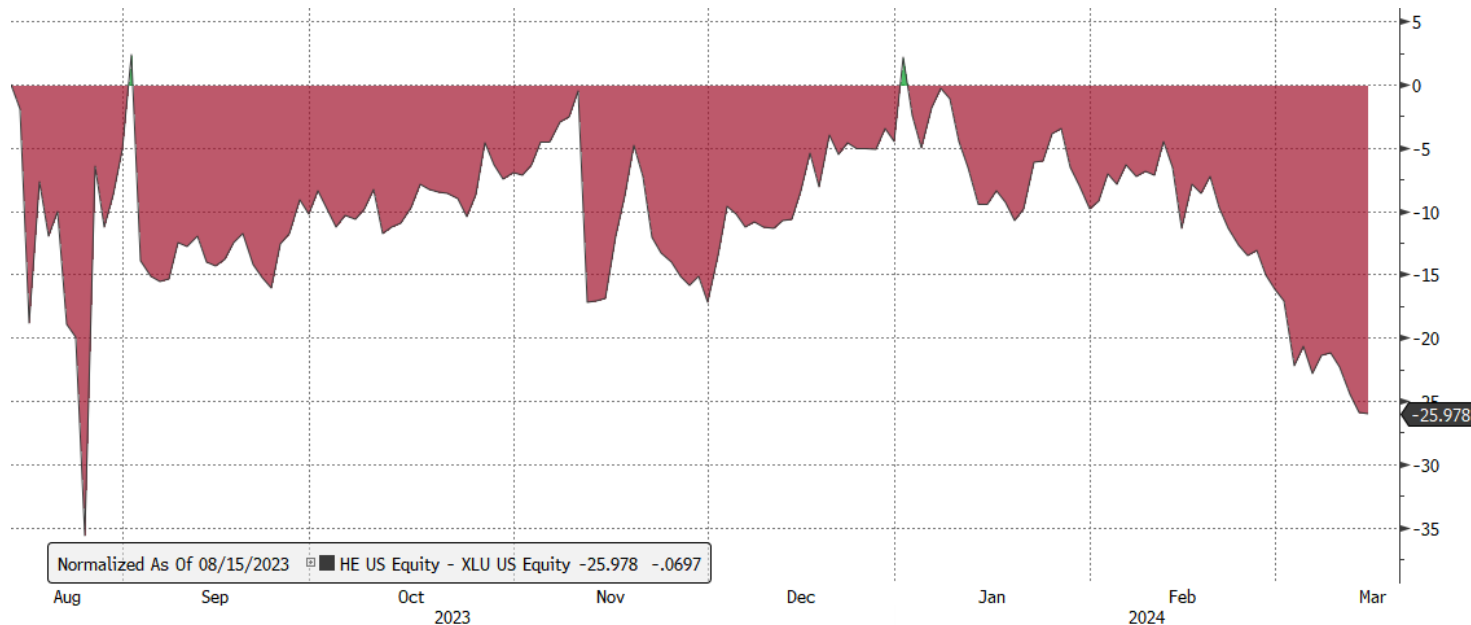
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HE: Shares have sharply declined vs peers in 2024

HE shares have been very volatile since the August 2023 wildfires but have steadily underperformed in 2024. HE has underperformed utility peers -22% YTD, -25% since August 15, 2023, and -67% from pre-wildfire (August 1, 2023).

Exhibit 1: HE Equity Relative Performance vs US Utilities

HE was largely flat from mid-August 2023 to December 2023 after the worst of the wildfire. That relatively stability has reversed in 2024 with sharp relative declines.



HE US Equity (Hawaiian Electric Industries Inc) Daily 15AUG2023-14MAR2024

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Source: Bloomberg

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In a March 14th heavily redacted filing, HE disclosed that it has \$14.7Mn total deferred costs as of December 31, 2023 (Docket 2023-0349). The largest costs include those not directly related to restoration costs: \$5.4Mn for legal/consulting to assist damage restoration assessments and \$3.9Mn for external legal/consulting.

Exhibit 2: Hawaiian Electric Financial Snapshot

We lower FY24+ EPS 2-3% after 2023 results. We incorporate a decline in capex/rate base growth as well as more parent drag

HE EPS by Business	2021	2022	2023	2024	2025	2026	2027	'23-'27 CAGR	'22-'25 CAGR
Utilities	1.62	1.72	1.77	1.74	1.91	2.09	2.30	6.7%	3.6%
Guidance: 5% including \$4-5Mn PIMs	\$1.53-\$1.61	1.68-1.78	1.75-1.85	1.90	1.99	2.09	2.20	5.1%	5.0%
American Savings Bank	0.92	0.73	0.66	0.63	0.64	0.67	0.70	1.6%	-4.5%
Guidance	0.79-0.94	0.59-0.68	0.62-0.66						
Parent & Other	(0.30)	(0.31)	(0.39)	(0.39)	(0.45)	(0.48)	(0.53)	7.7%	13.5%
Guidance	(-0.29)	(-0.29)	(-0.38)						
Adjusted Consolidated	2.25	2.14	2.04	1.98	2.10	2.27	2.48	5.0%	-0.7%
Guidance	2.10-2.20	2.08-2.20	2.00-2.10						
Consensus	2.16	2.18	2.02	2.06	2.14	2.21	2.30	3.4%	-0.5%
BofA Utility vs Guidance	3.3%	-0.5%	-1.6%	-8.1%	-3.9%	-0.2%	4.7%		
BofA vs Consensus	3.9%	-1.6%	1.1%	-4.0%	-2.1%	2.9%	7.6%		
Change in EPS vs Prior			0.9%	-2.7%	-2.9%	-2.8%	-2.5%		
Consolidated Payout Ratio	60.5%	64.0%	53.0%	0.0%	0.0%	0.0%	0.0%		
Utility-Only Payout Ratio	83.9%	79.6%	61.0%	0.0%	0.0%	0.0%	0.0%		

Source: Company Filings, Bloomberg, and BofA Global Research estimates

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Valuation:

We lower our PO to \$6/sh from \$7/sh based on a sum-of-the-parts analysis:

- **Utility \$8/sh vs ~\$8.50 previously:** 13.5x 2026 electric base multiple (versus 14.3x 2025 previously). We apply a -1.5x unchanged discount to reflect the below-average growth outlook. We continue to net out \$18.40/sh for 50% probability of \$4.0Bn average tax potential wildfire liabilities.
- **Bank ~\$5.00/sh vs ~\$3.75/sh previously:** Tangible book value (TBV) increased driving +~\$0.50/sh value increase with the positive re-rating to 1.45x median peer book value multiple causing the other ~\$0.50/sh improvement.
- **HoldCo Negative -\$7.25/sh vs negative -\$5.50/sh previously:** Increase in holding company debt after the net revolver draw. We include -\$1.30/sh for the capitalized holding company estimated annual costs on a normalized basis.

Exhibit 3: Hawaiian Electric Industries Sum of the Parts

We continue to see the parent drag as greater than the value of the banking subsidiary

Hawaiian Electric Industries Sum of the Parts

All figures in \$Mn except per share		Metric	P/E Multiple				Equity Value	Prior	Change
Electric Utility Peer Multiple & CAGR		13.5x	x	5.00%	=	14.2x		-	
Electric Utilities		2026 EPS	P/E Multiple	Prem/Discount					
Total Electric Utility Value		\$2.09	14.2x	-1.5x	12.7x	-11%	\$26.47	\$27.06	(\$0.59)
Less: Wildfire Liability (\$Mn)		(\$5,400)	at 50% Probability	Less Tax Offset	(\$2,700)		(\$24.44)	(\$24.60)	\$0.16
Plus: Gross Taxes (not NPV)		\$1,350	at 50% Probability	Less Tax Offset	\$675		\$6.11	\$6.15	(\$0.04)
Total Utility Value							\$8.14	\$8.61	(\$0.47)
Bank		2023 TBV	TBV Multiple	Prem/Discount					
American Savings Bank		\$448	1.45x	0.0x	1.45x	0%	\$5.88	\$4.52	\$1.36
Less: Held to Maturity Unrealized		(\$71)	1.45x	0.0x	1.45x		(\$0.94)	(\$0.80)	(\$0.14)
Total Bank Value		\$376		0.0x	1.45x		\$4.94	\$3.72	\$1.22
HEI HoldCo & Pacific Current		\$Mn/EPs							
HEI HoldCo Non-Interest Drag		-\$0.11	12.6x	-1.2x	11.5x		(\$1.30)	\$0.00	(\$1.30)
HEI 12/31/23 Estimated Net Debt		(\$733)					(\$6.63)	(\$6.05)	(\$0.58)
Pacific 12/31/23 Estimated Debt		(\$126)					(\$1.14)	(\$1.25)	\$0.11
Pacific Current Asset Value		\$201					\$1.82	\$1.83	(\$0.01)
Total HEI HoldCo & Pacific Current							(\$7.25)	(\$5.47)	(\$1.78)
Shares Outstanding							110	110	0
Total Equity Value							\$6.00	\$7.00	(\$1.00)
Stock Price as of 03/18/24							\$11.09	\$12.79	(\$1.71)
Potential Stock Upside/(Downside)							-45.9%	-45.3%	-0.6%
Dividend Per Share Forward							\$0.00	\$0.00	
Dividend Yield Next 12 Months							0.0%	0.0%	
Total Potential Return							-45.9%	-45.3%	-0.6%

Source: Company Filings, Bloomberg, & BofA Global Research

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Exhibit 4: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
PCG	PCG US	PG&E Corp.	US\$ 16.25	B-1-7
HE	HE US	Hawaiian Electric	US\$ 11.16	C-3-9

Source: BofA Global Research

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Price objective basis & risk

Hawaiian Electric Industries (HE)

Our \$6.00 PO for Hawaiian Electric Industries is based on a sum of the parts:

Regulated Utility: A 13.5x base 2026E sector peer forward mean P/E multiple is grossed up +5% to reflect capital appreciation across the sector. We apply an approximate -10% discount (-1.5x) to incorporate below-average growth profile and performance-based rates uncertainty related to achievement of performance incentive mechanisms (PIMs). We assume an approximate -\$18/sh post-tax liability on an uncertain 50/50 probability of \$5.4Bn property damage liable at the utility. There is no inverse condemnation of strict liability statute in HI, but see ongoing litigation risks from Maui fires.

Bank: A 2023E tangible book value median multiple of 1.45x in-line with small/mid-cap regional banking companies. Tangible book value calculation includes held-to-maturity unrealized gains/(losses).

HoldCo & Other: Pacific Current estimated asset value less associated net debt for Pacific Current & HEI parent HoldCo. We include capitalized holding company est. annual costs.

Upside and downside risks are: 1) wildfire liabilities and litigation, 2) political, regulatory, and legislative changes, 3) capital expenditures, 4) inflation and operating costs, 5) bank loss reserves and margins, 6) non-interest income and interest income at the bank, 7) change in banking deposits, 8) commodity prices, 9) achievement of performance incentive mechanisms [PIMs], 10) pandemics, storms, and natural disasters, and 11) liquidity

PG&E Corporation (PCG)

Our PO of \$19 reflects an in-line P/E versus the 13.9x electric 2026 peer P/E groups, grossed-up by 5% to reflect capital appreciation across the sector). The acute wildfire risk is incorporated separately via a scenario probability weighted at 50% assuming PCG hits the cap in three-year increments.

Risks to achievement to estimates and Price Objective are: 1) Wildfire and other natural disasters/catastrophic events, 2) changes in regulatory/legislative/political outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) nuclear performance, 7) ability to deploy capital, 8) asset sales, 9) management changes, and 10) environmental, social, & governance [ESG] profile.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Evergy, Inc	EVERG	EVERG 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
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nexttracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith



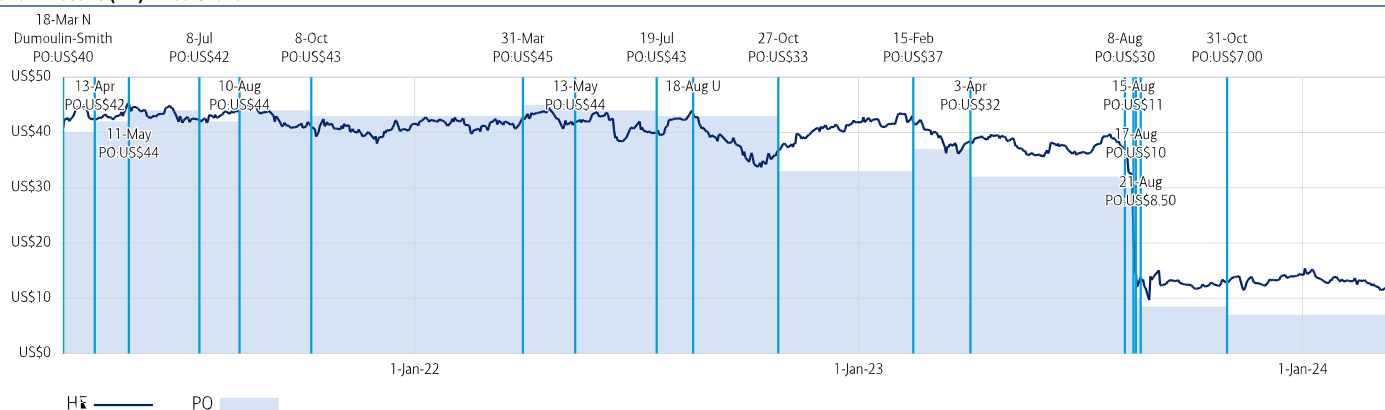
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE 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
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RVW				
	New Fortress Energy	NFE	NFE US	Julien Dumoulin-Smith

Disclosures

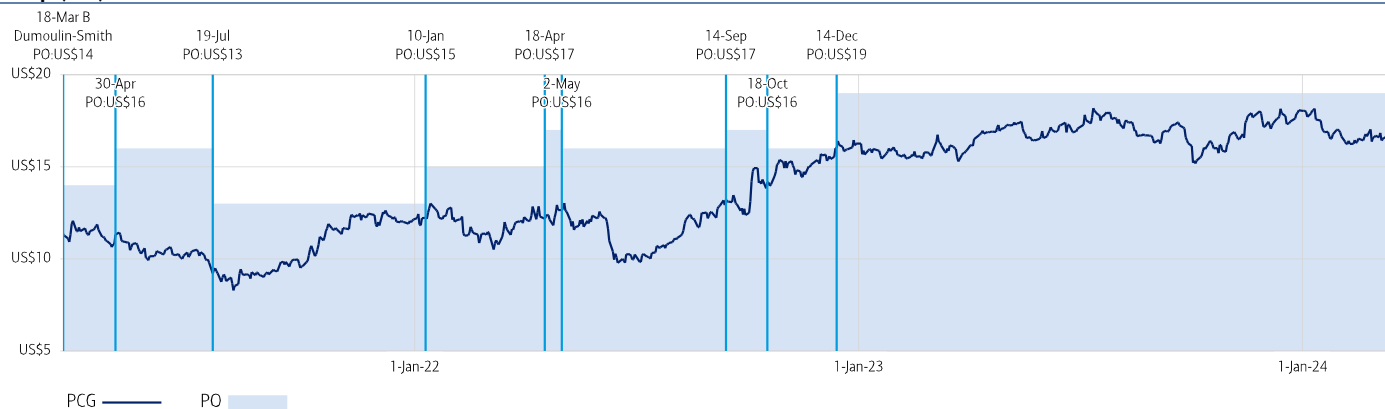
Important Disclosures

Hawaiian Electric (HE) 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.

PG&E Corp. (PCG) 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 ^{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%

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Underperform	N/A	≥ 20%

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