

US Utilities & IPPs

**Power Points: FTS beat/MISO complexity;
MDU FY24 guide conservative**

Industry Overview

MDU: FY24 guide conservative, March 13 Analyst Day

MDU Resources (MDU) reported adjusted EPS from cont. ops of 48c, modestly lower than consensus of 49c. FY23 EPS of \$1.50 exceeded BofA and consensus of \$1.35. MDU provided FY24 segment guidance of \$170-180Mn in operating earnings from its regulated businesses and \$220-\$240Mn EBITDA from its construction services business. Both guides come in modestly below our expectations, as we had projected regulated earnings of \$184Mn and construction services EBITDA of \$243Mn. We note last year's initial FY23 regulated earnings guidance provided on 4Q22 of \$140-150Mn was lower than expected and ultimately proved conservative, given MDU reported regulated net income of \$167Mn in FY23. The capex forecast from 2023- 2026 remains unchanged at \$2.76Bn, as FY23 capex of \$536 was in line with expectations. MDU modestly raised target rate base CAGR to 7% versus 6-7% prior, reflecting higher visibility to regulated investment opportunities: this was among the more positive tacit updates. We expect more details at the March 13 Analyst Day regarding expectations and anticipated milestones for the announced tax-free spinoff of the construction services business, projected to be complete in late 2024. *We maintain our Buy rating on MDU on its attractive standalone value. See latest guidance tweak higher on core biz as helping affirm underlying biz.*

4Q23 electric net income declined \$1.9Mn (-10%) YoY due to unfavorably warmer weather, earnings sharing accrual in North Dakota, and higher O&M primarily associated with higher payroll, partially offset by the electric service agreement to provide power to Applied Digital, transmission interconnect upgrades, and rate relief in Montana. Natural gas net income declined \$3.9Mn YoY (-11%) primarily due to a -16% drop in gas retail sales volumes due to warmer weather, partially offset by weather normalization and decoupling mechanisms. Pipeline earnings rose \$7Mn (+63%) on higher transportation volumes due to organic growth projects and increased contracted volume commitments related to the North Bakken Expansion Project. Construction Services EBITDA of \$58Mn declined \$5Mn YoY (-6%) on lower E&M gross profit from industrial and commercial customers, and lower commercial workloads due to large projects in the prior-year quarter, partially offset by higher institutional and renewable gross margins. Construction services backlog declined to \$2.01Bn from record backlog of \$2.13Bn in the prior year, but rose sequentially from 3Q23 backlog of \$1.85Bn.

FTS: Slight 4Q23 beat, ITC transmission complexity

Fortis (FTS CN, FTS US) delivered Q4 adjusted EPS of C\$0.72, even with the prior year-quarter and slightly beating Street at C\$0.71. The regulated utilities drove EPS +9c higher driven in part by 6.3% year-end rate base growth, while new cost of capital parameters at Western Canadian Electric & Gas drove a +5c YoY improvement and new customer rates at TEP and customer growth contributed to a +3c YoY increase at UNS Energy. EPS attributable to ITC rose +2c YoY on strong rate base growth, partially offset by an increase in unrecovered finance costs. Adjusted results reflected a -8c impact due to the Aitken Creek sale, of which -5c were a direct result of the removal of 2Q23 and 3Q23 earnings. Share dilution a -1c impact to reported results. FY23 EPS of \$3.09 rose +11% YoY, or +9% YoY excluding FX. See page 2 for details on transmission/MISO updates. *We maintain Underperform on valuation and growth prospects.*

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ITC: ITC Holdings Corp.
MISO: Midcontinent Independent
System Operator
ROFR: Right of First Refusal
RTO: Regional Transmission
Organization
LRTP: Long Range Transmission Plan

Exhibit 1: Fortis FY23 EPS Walk

Former Energy Infrastructure items moved to Corp & Elimination after Aitken Creek sale

	EPS	1Q	2Q	3Q	4Q
FY22A Adjusted EPS	2.78	0.78	0.57	0.71	0.72
US Transmission (ITC)	0.06	0.04	0.03	0.00	0.02
UNS	0.12	0.10	-0.01	0.01	0.03
Central Hudson	0.01	0.00	0.01	-0.01	0.00
FortisBC Energy	0.15	0.01	0.01	0.08	0.05
Fortis Alberta	0.02	0.01	0.01	0.00	0.00
Fortis BC Electric	0.01	0.00	0.00	0.01	0.00
Other Electric	0.02	0.01	0.02	0.01	-0.01
Foreign Exchange	0.07	0.03	0.02	0.02	0.00
Share Count Dilution	-0.05	-0.01	-0.01	-0.01	-0.01
Corp & Elimination	-0.09	-0.05	-0.03	0.02	-0.08
FY23E Adjusted EPS	3.09	0.91	0.62	0.84	0.72

FY23 Consensus 3.06 0.82 0.61 0.81 0.71

Source: BofA Global Research, Company reports,

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FTS: Iowa ROFR proceeding clouds already complex MISO

On the regulatory front, the ongoing proceedings relating to the MISO base ROE and FERC proposal to eliminate the 50-bps RTO adder remain unresolved. In December, the Iowa District court ruled that the state's ROFR statute was passed unconstitutionally, and issued a permanent injunction preventing ITC and others from taking further action to construct MISO LRTP tranche 1 Iowa projects in reliance on the ROFR. ITC filed for reconsideration of the District Court's decision with respect to the scope of the injunction. While we expect these issues to eventually be resolved with modest, if any, long-term impact to ITC, the multiple proceedings add complexity and some risk to project planning and construction in the region.

Exhibit 2: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
FTS	FTS US	Fortis	US\$ 38.93	A-3-7
YFTS	FTS CN	Fortis	C\$ 52.33	A-3-7
MDU	MDU US	MDU Resources	US\$ 20.29	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**Fortis (YFTS / FTS)**

Our C\$50 (US\$37) PO is based on our sum of the parts methodology. We assign a 2026E forward base peer P/E multiple of 13.5x to the US utility business with an in line multiple for UNS Energy (AZ) to reflect regulatory risk balanced by solid earnings growth, a 3.0x premium for ITC for long-term expansion investment opportunities, and in-line Central Hudson (NY).

For Canadian utilities, we assign a base peer 2026E P/E multiple of 15.1x. Lower ratebase growth profiles and generally lower authorized equity layers/ROEs, paired with a more challenging regulatory environment, will continue to warrant a discount to US

peers, in our view.

At Caribbean utilities, we apply 60% ownership share to the publicly listed subsidiaries' current market cap.

We assign an 6.0x 25E EV/EBITDA multiple to FTS's non-regulated segment seeing the contracted nature of its non-regulated segment positively offset lower growth opportunities. We account for FX upside based on current spot prices

Upside risks are: 1) favorable regulatory outcomes, 2) improvement in USD/CAD exchange rate, 3) performance at the unregulated Fortis Energy segment which largely depends on Belize Hydro and moves directionally with seasonal rainfall.

Downside risks are: 1) unfavorable regulatory outcomes, 2) regulatory lag and overall inability to achieve the allowed ROEs, 3) deterioration in USD/CAD exchange rate, and 4) dilution from additional equity to strength credit ratings

MDU Resources Group, Inc. (MDU)

Our \$23 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2026 estimates and use peer multiples of 13.3x for electric and 13.9x for gas, we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO.

We value MDU's stake in publicly-traded Knife River (KNF) based on the latest reported price at the time of publishing, \$47.83.

We value the Construction Services business using a '25 EV/EBITDA estimate, applying a multiple of 9.2x based on an average of several publicly-traded specialty construction services peers.

We value the Pipeline business using a '25 EV/EBITDA est., applying a multiple of 9.5x based on an average of several publicly-traded midstream peers.

We net out total parent drag and back out remaining non-regulated debt.

Upside risks are higher utility capex, improving margins at the construction business, and infrastructure stimulus. Downside risks are a macro downturn pressuring construction margins, and adverse rate case outcomes.

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.

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	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	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextacker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon 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
	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

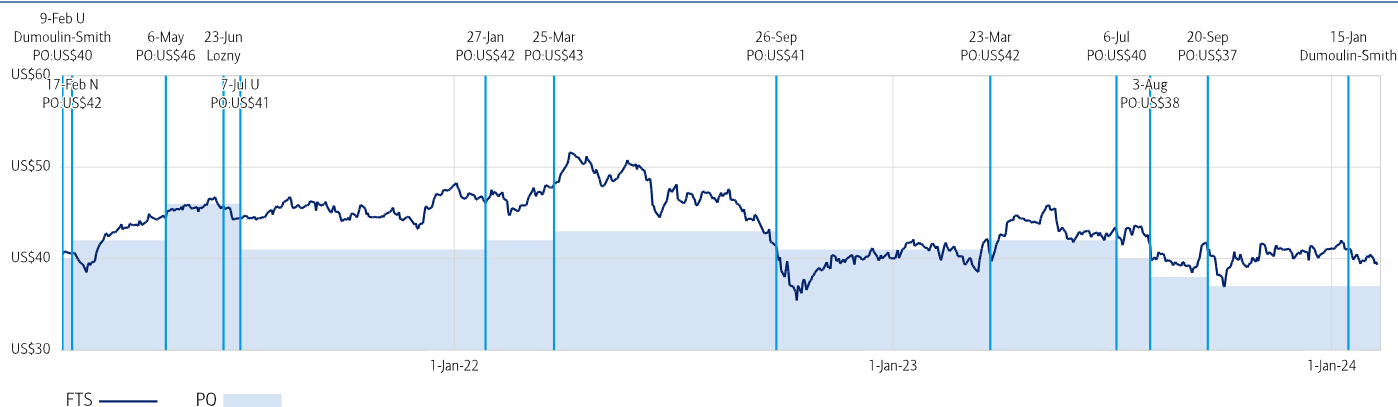
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

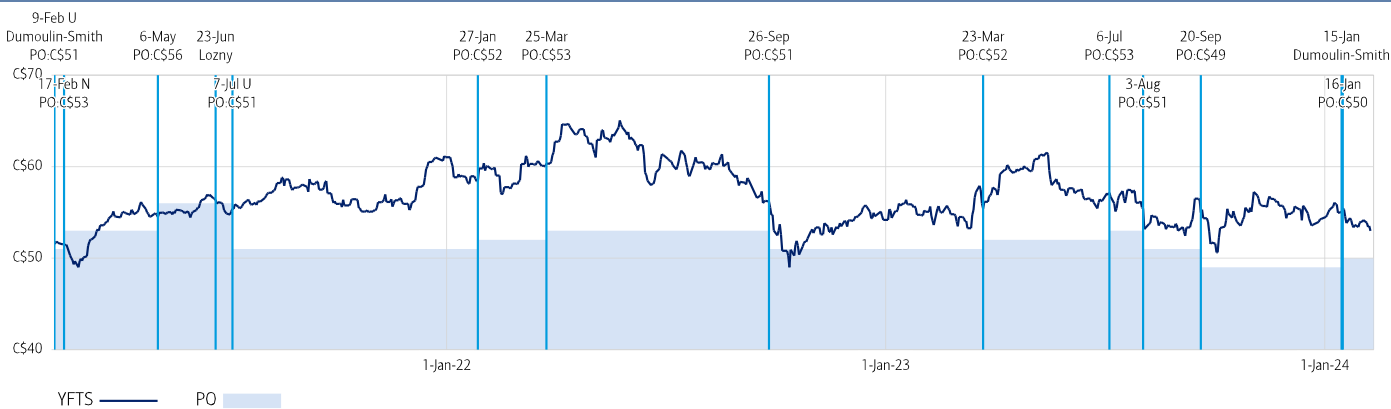
Disclosures

Important Disclosures

Fortis (FTS) Price Chart

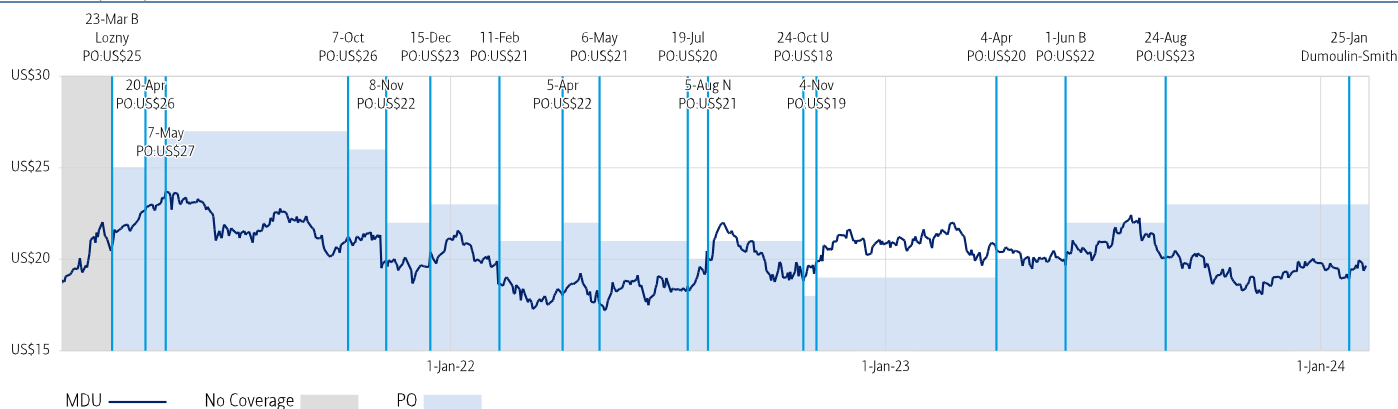


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Fortis (YFTS) Price Chart

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

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MDU Resources (MDU) Price Chart

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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Underperform	N/A	≥ 20%

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