

## Pinnacle West

# Recalibrating expectations after record heat as higher rates loom

Reiterate Rating: NEUTRAL | PO: 69.00 USD | Price: 72.36 USD

## EPS preview: Full year intact on strong Q3 weather

We expect PNW to post Q3 EPS of \$3.41, substantially higher than last year's \$2.88 largely on the back of record-setting temperatures in its service territory. The full year guidance of \$4.10-4.30 was raised post-Q2 and includes July temperatures, and we see continued positive contribution from August degree days. We are biased against another raise of the top end of the guidance range and expect that as in past years, PNW will likely take the opportunity to de-risk next year via O&M pull-forward. A raise of the bottom end of the range to \$4.20 is a possibility; we see 2023 full-year EPS at \$4.28.

## 2024 still step change higher, parent reset in 2025

We continue to reflect the latest regulatory data points from the Arizona Public Service (APS) rate case including staff's rec of a 9.68% ROE, a meaningful step up of the current 8.9%. The procedural schedule suggests a decision in either late 2023 or early 2024 with rates in effect shortly thereafter. We reduce our estimates incrementally by 5c in '24 and by 13c in '25 to reflect holdco refinancing at higher rates – details inside. Though \$625m of term loans resetting in '24 are at close to market rates (5.1% as of Dec '22), the \$500m note due '25 is currently at 1.3%, driving a larger reset higher. We still see the 5-7% CAGR as intact using the current base of \$4.00 in '22, though growth will be nonlinear with a step change higher in '24 and moderating thereafter.

## PO to \$69, reiterate Neutral

We mark-to-market our valuation to reflect the latest peer multiple of 14.1x, from 15.4x previously. Our PO moves to \$69 from \$78 and we reiterate our Neutral rating given valuation and the regulatory outlook. PNW received a steady stream of positive data points for most of 2023 as reflected by shares' outperformance vs. the broader group (YTD +16% vs. UTY through Oct 6). As the calendar shifts to fall updates, we see the setup for PNW as more balanced. The company's regulatory and stakeholder efforts have clearly borne fruit via improved relationships and perception in the state, but lack of support for a renewable generation rider puts a question mark over planned clean energy capital over the forecast period. Industrial customer growth and interest remains high though some mixed data points from a large customer delaying its Arizona facility further contribute to uncertainty.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.47	4.26	4.28	4.94	5.01
EPS Change (YoY)	12.3%	-22.1%	0.5%	15.4%	1.4%
Consensus EPS (Bloomberg)			4.21	4.98	5.16
DPS	3.36	3.42	3.48	3.65	3.84
Valuation (Dec)					
P/E	13.2x	17.0x	16.9x	14.6x	14.4x
GAAP P/E	13.2x	17.0x	16.9x	14.6x	14.4x
Dividend Yield	4.6%	4.7%	4.8%	5.0%	5.3%
EV / EBITDA*	16.4x	16.1x	16.0x	14.2x	13.2x
Free Cash Flow Yield*	-7.5%	-5.7%	-5.2%	-4.9%	-4.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

09 October 2023

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	78.00	69.00
2023E Rev (m)	4383.0	4385.7
2024E Rev (m)	4641.5	4641.7
2025E Rev (m)	4831.1	4831.3
2023E EPS	4.26	4.28
2024E EPS	4.99	4.94
2025E EPS	5.14	5.01

**Julien Dumoulin-Smith**

Research Analyst

BofAS

+1 646 855 5855

[julien.dumoulin-smith@bofa.com](mailto:julien.dumoulin-smith@bofa.com)

**Dariusz Lozny, CFA**

Research Analyst

BofAS

+1 646 743 2122

[dariusz.lozny@bofa.com](mailto:dariusz.lozny@bofa.com)

**Paul Zimbardo**

Research Analyst

BofAS

+1 646 855 1470

[paul.zimbardo@bofa.com](mailto:paul.zimbardo@bofa.com)

### Stock Data

Price	72.36 USD
Price Objective	69.00 USD
Date Established	9-Oct-2023
Investment Opinion	B-2-7
52-Week Range	59.03 USD - 86.03 USD
Mrkt Val (mn) / Shares Out (mn)	8,199 USD / 113.3
Average Daily Value (mn)	51.25 USD
BofA Ticker / Exchange	PNW / NYS
Bloomberg / Reuters	PNW US / PNW.N
ROE (2023E)	8.0%
Net Dbt to Eqty (Dec-2022A)	125.6%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 09 October 2023 06:00AM EDT

# iQprofile<sup>SM</sup> Pinnacle West

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	3.5%	3.1%	3.0%	3.4%	3.6%
Return on Equity	10.7%	8.1%	8.0%	9.2%	8.9%
Operating Margin	21.2%	16.9%	16.8%	19.3%	20.2%
Free Cash Flow	(613)	(466)	(424)	(403)	(372)

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

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.4x	2.6x	2.6x	2.3x	2.3x
Asset Replacement Ratio	2.0x	2.1x	2.2x	2.3x	2.2x
Tax Rate	14.8%	13.0%	14.4%	14.4%	14.4%
Net Debt-to-Equity Ratio	114.7%	125.6%	136.3%	128.8%	126.6%
Interest Cover	3.5x	2.9x	2.8x	3.0x	2.9x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	3,804	4,324	4,386	4,642	4,831
% Change	6.0%	13.7%	1.4%	5.8%	4.1%
Gross Profit	1,697	1,708	1,726	1,935	2,076
% Change	3.8%	0.6%	1.0%	12.1%	7.3%
EBITDA	1,456	1,485	1,492	1,689	1,818
% Change	3.8%	2.0%	0.5%	13.2%	7.6%
Net Interest & Other Income	(59)	(156)	(149)	(177)	(219)
<b>Net Income (Adjusted)</b>	<b>619</b>	<b>483</b>	<b>487</b>	<b>597</b>	<b>633</b>
<b>% Change</b>	<b>12.6%</b>	<b>-22.0%</b>	<b>0.8%</b>	<b>22.7%</b>	<b>5.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	619	484	488	597	633
Depreciation & Amortization	719	818	753	795	840
Change in Working Capital	0	0	1	1	1
Deferred Taxation Charge	113	37	(7)	(7)	(7)
Other Adjustments, Net	(591)	(97)	11	11	11
Capital Expenditure	(1,473)	(1,707)	(1,670)	(1,800)	(1,850)
<b>Free Cash Flow</b>	<b>-613</b>	<b>-466</b>	<b>-424</b>	<b>-403</b>	<b>-372</b>
<b>% Change</b>	<b>-70.3%</b>	<b>24.0%</b>	<b>9.1%</b>	<b>5.0%</b>	<b>7.6%</b>

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	10	5	33	62	91
Trade Receivables	392	453	0	0	0
Other Current Assets	1,149	1,293	1,745	1,745	1,744
Property, Plant & Equipment	15,987	16,854	17,777	18,788	19,804
Other Non-Current Assets	4,465	4,118	4,118	4,118	4,118
<b>Total Assets</b>	<b>22,003</b>	<b>22,723</b>	<b>23,674</b>	<b>24,713</b>	<b>25,758</b>
Short-Term Debt	0	0	23	38	56
Other Current Liabilities	1,757	1,762	1,763	1,763	1,764
Long-Term Debt	6,914	7,741	8,562	8,942	9,455
Other Non-Current Liabilities	7,311	7,060	7,053	7,046	7,040
<b>Total Liabilities</b>	<b>15,982</b>	<b>16,564</b>	<b>17,401</b>	<b>17,790</b>	<b>18,315</b>
<b>Total Equity</b>	<b>6,021</b>	<b>6,160</b>	<b>6,273</b>	<b>6,924</b>	<b>7,443</b>
<b>Total Equity &amp; Liabilities</b>	<b>22,003</b>	<b>22,723</b>	<b>23,674</b>	<b>24,713</b>	<b>25,758</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Electric Utilities

## Company Description

Pinnacle West, through its regulated utility, Arizona Public Service (APS), provides electricity to more than one million customers in 11 counties in Arizona, including the Phoenix metropolitan area. APS provides power to over 1Mn customers and is a vertically integrated utility with ownership of transmission, distribution, and generation assets.

## Investment Rationale

We rate PNW Neutral. Arizona remains a discount jurisdiction given a below-average regulatory scheme, but treatment of utilities has improved of late and we have confidence that PNW will be able to achieve its long-term 5-7% EPS target CAGR. With a historical test year rate making scheme, we see PNW as likely to under-earn its authorized ROE for much of the forecast period, with additional equity prior to the next case filing.

## Stock Data

Average Daily Volume 708,262

## Quarterly Earnings Estimates

	2022	2023
Q1	0.15A	-0.03A
Q2	1.45A	0.94A
Q3	2.88A	3.41E
Q4	-0.21A	-0.03E

### Q3 EPS: Beat and raise low end

We expect PNW to post Q3 EPS of \$3.41, ahead of Street consensus of \$3.34. Given the well-known weather contribution from a record hot summer, we see the most relevant question being will they / won't they raise EPS guidance for a second time this year. We err on the side of expecting conservatism from management given: 1) historical precedent – PNW pulled forward significant O&M in 2020 after a particularly hot summer, 2) optics around the APS rate case which is moving toward a final order, and 3) opportunity to de-risk 2024. For these reasons, we expect the company to tighten its guidance range of \$4.10-4.30, raising the low end to \$4.20.

- **Key drivers** – The sales contribution from customer/load growth along with weather is expected to be the biggest upside driver in the quarter. Note that while elevated July degree days are included in the updated guidance range, August was also well above average (+28%) which we expect will be a significant upside contributor. Other items are expected to be largely ratable with the exception of O&M.
- **Wildcard** – Timing of O&M savings / pull forward, and the magnitude of the spending between Q3 and Q4 remains uncertain, though based on historical practice we expect it to be weighted toward Q4. Since we do not expect PNW to raise the top end of the guidance range again, we anticipate the O&M pull forward to be used as a lever to solve for EPS near the upper end of \$4.30 given other known and measurables.

#### Exhibit 1: PNW EPS walk

We expect a beat in Q3, raise low end of '23 guidance

	EPS	1Q22	2Q22	3Q22	4Q22
<b>FY22A Adjusted EPS</b>	<b>4.34</b>	<b>0.15</b>	<b>1.45</b>	<b>2.88</b>	<b>-0.13</b>
<b>Weather (normalize)</b>	<b>-0.18</b>	<b>0.09</b>	<b>-0.20</b>	<b>-0.05</b>	<b>-0.03</b>
<b>Normalized EPS</b>	<b>4.16</b>	<b>0.24</b>	<b>1.25</b>	<b>2.83</b>	<b>-0.16</b>
<b>Sales growth / weather</b>	<b>1.17</b>	<b>0.06</b>	<b>0.01</b>	<b>0.75</b>	<b>0.35</b>
<b>Transmission</b>	<b>0.14</b>	<b>-0.01</b>	<b>0.12</b>	<b>0.02</b>	<b>0.01</b>
<b>LFCR - May</b>	<b>0.36</b>	<b>0.02</b>	<b>0.10</b>	<b>0.12</b>	<b>0.12</b>
<b>Other</b>	<b>0.06</b>	<b>0.06</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Operating revenue</b>	<b>1.73</b>	<b>0.13</b>	<b>0.23</b>	<b>0.89</b>	<b>0.48</b>
<b>O&amp;M</b>	<b>-0.58</b>	<b>-0.21</b>	<b>-0.21</b>	<b>-0.05</b>	<b>-0.11</b>
<b>D&amp;A</b>	<b>-0.24</b>	<b>-0.04</b>	<b>-0.06</b>	<b>-0.07</b>	<b>-0.07</b>
<b>Other taxes</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Pension &amp; OPEB</b>	<b>-0.38</b>	<b>-0.09</b>	<b>-0.10</b>	<b>-0.10</b>	<b>-0.09</b>
<b>Interest expense</b>	<b>-0.40</b>	<b>-0.05</b>	<b>-0.12</b>	<b>-0.12</b>	<b>-0.11</b>
<b>Corp &amp; elimination, other</b>	<b>0.00</b>	<b>-0.01</b>	<b>-0.05</b>	<b>0.03</b>	<b>0.03</b>
<b>Share count dilution</b>	<b>-0.01</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>FY23E Adjusted EPS</b>	<b>4.28</b>	<b>-0.03</b>	<b>0.94</b>	<b>3.41</b>	<b>-0.03</b>
<b>FY23 Consensus</b>	<b>4.21</b>			<b>3.34</b>	<b>-0.05</b>
<b>BofA Beat(Miss) vs Consensus</b>	<b>2%</b>			<b>2%</b>	<b>nm</b>
<b>FY23 Adj EPS Guidance (PNW)</b>	<b>\$4.10-4.30</b>				

Source: BofA Global Research estimates, Bloomberg

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## Estimates slightly lower on holdco debt resets

We make incremental tweaks to our forecasts, having previously updated the estimates for APS based on the latest rate case data points and including a 9.68% authorized ROE and -50 bps of underearning.

The incremental tweak that we make is to assume a higher refinancing rate than previously for the \$500m holdco senior unsecured notes maturing in 2025 that currently pay 1.3%. We assume a 5% interest rate stepup (to 6.3%), which drives an incremental \$25m pretax interest expense step up, or ~16c EPS. Note we had *previously* assumed a 3% step up on this maturity, thus the 2% is incremental (6c downside vs previous forecast). We also assume that the weighted average of holdco debt moves to 6% in 2024, which accounts for the other move down in our estimates.

For bridging to 2024, we continue to assume a meaningful step up in APS' earnings power following rate case resolution early in the year. Given the other structural pressures – rates, underearning – the cadence of EPS growth on our forecast remains nonlinear, though this is largely appreciated by investors.

We also continue to reflect a full \$500m of equity issuance in 2024 per the company's existing guidance as well as an incremental \$375m in each of 2025-26, thus an incremental update to the financing plan post rate case does not represent much of a downside risk to our estimates.

### Exhibit 2: PNW EPS estimates

We move estimates lower on parent interest expense and see y/y EPS growth moderating post '24

	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Arizona Public Service	\$5.20	\$5.74	\$4.78	\$4.64	\$5.37	\$5.62	\$5.78	\$6.00
Corporate	(\$0.15)	(\$0.12)	(\$0.17)	(\$0.20)	(\$0.29)	(\$0.48)	(\$0.49)	(\$0.52)
Non-controlling interest	(\$0.17)	(\$0.15)	(\$0.15)	(\$0.15)	(\$0.14)	(\$0.14)	(\$0.13)	(\$0.13)
<b>PNW EPS</b>	<b>\$4.87</b>	<b>\$5.47</b>	<b>\$4.26</b>	<b>\$4.28</b>	<b>\$4.94</b>	<b>\$5.01</b>	<b>\$5.19</b>	<b>\$5.42</b>
Previous BofA estimate	\$4.87	\$5.47	\$4.87	\$4.23	\$4.99	\$5.12		
EPS y/y % CAGR	2.1%	12.2%	-22.0%	0.5%	15.3%	1.4%	3.6%	4.4%
EPS % CAGR from 2022 midpoint (\$4.00, guide 5-7%)				7.1%	11.1%	7.8%	6.7%	6.3%
EPS Guidance				4.10-4.30				
Consensus PNW EPS	\$5.06	\$5.06	\$5.06	\$4.21	\$4.98	\$5.16		
EPS y/y % CAGR	6.1%	0.0%	0.0%	-16.9%	18.4%	3.7%		
EPS % CAGR from 2022 (guide 5-7%)				5.2%	11.6%	8.9%		

Source: BofA Global Research estimates, Bloomberg

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Valuation

We mark-to-market our valuation to reflect the latest peer multiple of 14.1x, from 15.4x previously. Our PO moves to \$69 from \$78 and we reiterate our Neutral rating given valuation and the regulatory outlook.

Exhibit 3: PNW valuation  
PO \$69, reiterate Neutral

Price Objective \$69	
PNW Valuation: P/E Based on 2025E EPS	
Price Objective	
2025 EPS	\$5.01
Group Peer Multiple - Electric	14.1x
Group EPS CAGR - Electric	5.00%
P/E Multiple - Utility Average	14.8x
Premium	-1.0x
Equity value - Utility	\$69.20
Price objective	\$69
2024 Dividend	\$3.7
Dividend Yield	5.0%
Total Return (%)	0.5%

Source: BofA Global Research estimates, Bloomberg

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## Price objective basis & risk

### Pinnacle West (PNW)

Our price objective of \$69 is based on a peer utility P/E multiple of 14.1x on our 2025E EPS of \$5.01 with a -1.0x discount to account for future rate case risk, uncertain recovery of clean generation spend, resource adequacy concerns in the state, and general below-average regulatory environment in Arizona, PNW's sole jurisdiction. Electric and gas peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.

Upside and downside risks to the Price Objective are changes in 1) regulatory, political, and legislative relationships/outcomes, 2) load growth in territory versus expectations, 3) riders and capital trackers implementation 4) weather, nuclear, and natural disasters, 5) interest rates, 6) pension liabilities and asset returns, 7) equity needs relative to forecasts, 8) capital expenditures, and 9) ability to control costs to earn a return on equity.

## 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
<b>BUY</b>				
	Alliant Energy Corporation	LNT	LNT 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
	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
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI 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
	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

## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	ReNew Power	RNW	RNW 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
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP 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
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	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
	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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
<b>UNDERPERFORM</b>				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	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
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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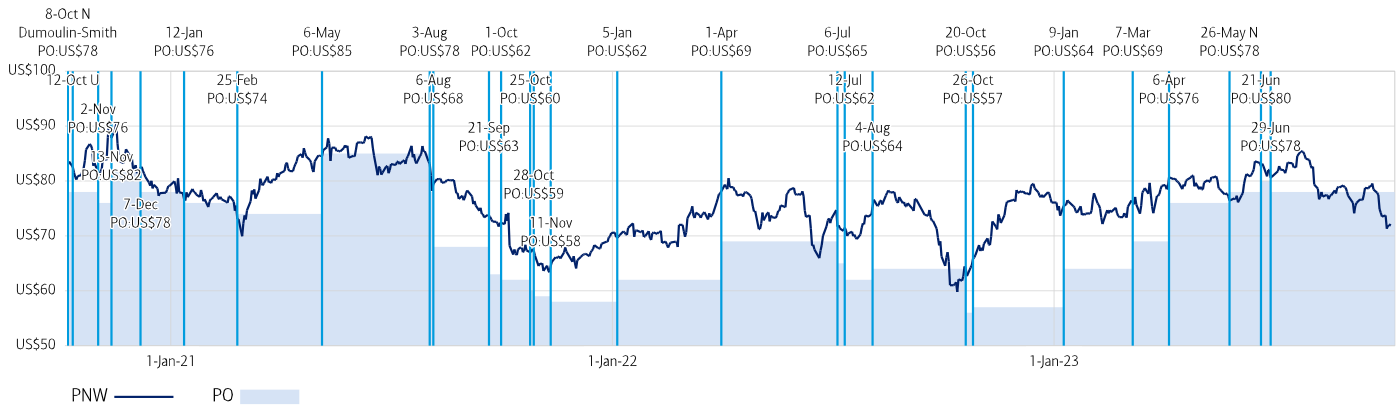
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	80	51.28%	Buy	51	63.75%
Hold	42	26.92%	Hold	32	76.19%
Sell	34	21.79%	Sell	22	64.71%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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