# Sustainable Energy and Mobility

## Impacts to Our Coverage from Election Outcome

**Early read on election impacts to Sustainable Energy & Mobility.** While there are several states still deemed too close to call, preliminary results indicate a Trump victory in the White House. Generally speaking, we expect our coverage to trade down on these headlines while the official vote is finalized. Regardless of the preliminary outcome, we expect a period of uncertainty will follow today's vote and believe several of our names will remain volatile during this period. Below we outline our updated election thoughts on sub-segments and specific companies within our coverage. See our note evaluating election/policy risk from early in Q3 here.

- **The IRA will likely remain in place, even under a Trump administration.** The positive economic impact and job growth in red states benefiting from IRA incentives has been well documented and has been a recurring point of emphasis in Q3 reporting so far. This growth and the public support of over a dozen Republican members of Congress lead us to believe the IRA will remain. In the event that it is altered, we believe EV tax credits and/or offshore wind credits are the most likely targets of reform within the energy portion of the legislation. To be clear, we see several strong reasons the IRA will remain intact which are:
  - Growing electricity demand (data centers/AI and not wanting to fall behind).
  - Push for onshoring of manufacturing.
  - Significant job creation (particularly in red states).
  - Other legislative initiatives will likely take priority.
- **Renewables broadly negative in a Trump scenario.** While we believe the IRA will remain intact regardless, we expect our Renewables names to trade down in the near-term due to uncertainty and nearly every company being exposed to the IRA either directly or indirectly. Within our Renewables coverage, we highlight DAR and ITRI as two of the least exposed names.
- **EVs broadly negative in a Trump scenario, with TSLA the exception.** The removal of EV tax credits would be a negative for the industry broadly, however, we see TSLA as an outlier due to 1) its competitive advantages in manufacturing/scale and 2) Musk's close ties to Trump.
- **We think Musk may be part of keeping the solar/battery credits intact.**
- **Red wave will create more uncertainty for our coverage near-term.** Questions regarding the permanence of tax credits and ramifications from foreign relations (China) will likely surface in the near-term. One potential outcome is a more stringent stance on which companies are able to qualify for tax credits (benefiting FSLR).
- **A tougher stance on China would be a positive for FSLR & MP, mixed for TSLA, NXT, ALB.**
- **Names with the lowest election exposure are ITRI, DAR, QS, and the water utilities.**
- **FSLR most levered to IRA, but also best under higher tariffs.** We expect FSLR to trade down on the news near-term as it benefits the most from the IRA, but also arguably stands to benefit the most under higher tariffs/more trade restrictions.
- **See details section below for our view of each company's impact.**

### INDUSTRY FLASH REPORT

*Prices as of 11/5/2024*

| Ticker | Price | Mkt Cap (mil) | Rating | Risk |
|---|---|---|---|---|
| ALB | $99.78 | $11,761 | N | A |
| AMRC | $35.40 | $1,887 | O | A |
| BE | $11.40 | $1,288 | O | S |
| CWT | $51.09 | $2,784 | O | L |
| DAR | $40.03 | $6,550 | O | H |
| FEAM | $0.46 | $27 | N | S |
| FLNC | $22.42 | $3,841 | O | S |
| FSLR | $215.89 | $23,188 | O | H |
| GWH | $8.62 | $101 | O | S |
| HASI | $35.28 | $2,579 | O | A |
| ITRI | $117.68 | $5,324 | O | A |
| LCID | $2.25 | $5,157 | N | S |
| MP | $18.61 | $3,476 | O | S |
| MSEX | $66.85 | $1,178 | N | L |
| NKLA | $3.21 | $143 | O | S |
| NOVA | $7.06 | $864 | O | H |
| NXT | $44.09 | $6,496 | O | H |
| QS | $5.20 | $2,257 | N | H |
| RIVN | $10.59 | $10,601 | O | S |
| TSLA | $251.44 | $874,508 | O | H |
| WBX | $0.98 | $215 | O | S |
| WTRG | $40.12 | $10,235 | O | L |

Sources: FactSet and Baird Data

**Please refer to Appendix - Important Disclosures and Analyst Certification**

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- **ALB.** Removal of EV tax credits a slight negative, and only slight due to the limited number of models currently qualifying for tax credits. More stringent requirements on where lithium is sourced could be a positive for ALB due to its potential domestic production and diversification in location of resources.
- **AMRC.** AMRC generates revenue across many of the sub-sectors of our coverage including energy efficiency, biogas, solar, and energy storage. AMRC and its customers receive Investment Tax Credits for solar and storage as well as tax credits/RINs for biogas production.
- **BE**. BE currently qualifies for a 10% Investment Tax Credit until the end of this year, and it is currently unclear whether it will be extended. BE also receives manufacturing tax credits. In the future, BE could benefit from hydrogen tax credits, but we do not model any benefit from hydrogen production/shared tax credits.
- **CWT.** The water utilities have near the lowest exposure within our coverage as they do not benefit from any form of IRA credits. Additionally, there may be a scenario where a Republican-led EPA alters the PFAS regulations implemented earlier this year which we believe would have a mixed impact.
- **DAR.** DAR produces renewable diesel at its Diamond Green Diesel (DGD) JV. In Q4, it intends to bring on production of Sustainable Aviation Fuel with Valero, its JV partner. Both renewable diesel and SAF receive incentives from the Inflation Reduction Act. We believe both administrations will continue to support the biofuel industry, but a Trump administration could change the incentive scheme to not account for carbon intensity.
- **FEAM.** FEAM is in a development stage materials company. It is operating a small scale Borine mine in CA. Reduced incentives around EVs could be a headwind in the long run, but for now the company is still in the development phase.
- **FLNC.** FLNC customers benefit from a 30% investment tax credit (ITC) for energy storage. Additionally, it is ramping module production and domestic cell supply in attempt to help its customers qualify for the 10% bonus credit for domestic content. Additionally, FLNC still sources battery cells from China which could negatively impact them with increase in tariff/heightened trade war. That said, FLNC is establishing domestic supply chains which could benefit them under higher tariffs.
- **FSLR.** FSLR has the most leverage to the IRA, but it also would benefit if the U.S. trade war with China intensifies. FSLR benefits in several ways from the Inflation Reduction Act. Foremost, it receives manufacturing tax credits for its domestic manufacturing. We value the present value of these tax credits at $97/share. Second, its customers receive a 30% investment tax credit and FSLR's domestically produced panels help enable the bonus 10% domestic content adder. FSLR benefits from "adders" to their contracts when customers qualify for the domestic content bonus. Additionally, FSLR benefits from regulations / tariffs on foreign made panels. Additionally, FSLR has significant concentration in United States sales which intensifies this risk.
- **GWH.** GWH benefits from domestic manufacturing credits and its customers benefit from the energy storage investment tax credit.
- **HASI.** The pipeline of investments could be impacted by changes to the IRA, but not the current portfolio. HASI is indirectly impacted due to its exposure to several renewable technologies, but it is a lower impact than several of our other Renewables names.
- **ITRI**. Within our list ITRI has the least policy/regulatory risk of our Outperform rated stocks. Although ITRI benefits from electrification, renewable deployments, and EV adoption, it does not directly rely on tax credits/subsidies.
- **LCID.** Removal of EV tax credits is a slight negative for LCID in out years when it starts production of its lower priced vehicle.
- **MP**. Removal of EV tax credits could slow demand for rare earths in electric vehicles. At the same time, if domestic content requirements become more stringent and/or foreign relations with China worsen, this could benefit MP as one of two non-Chinese rare earth suppliers of scale. Furthermore, domestic production of magnets when Stage III is completed could be a positive.
- **MSEX.** The water utilities have near the lowest exposure within our coverage as they do not benefit from any form of IRA credits. Additionally, there may be a scenario where a Republican-led EPA alters the PFAS regulations implemented earlier this year which we believe would have a mixed impact.
- **NOVA.** The primary way in which NOVA benefits from the IRA is through an expansion of the TAM due to the 30% ITC (and adders) for solar projects.
- **NKLA.** NKLA's sales are largely subsidized through the California Hybrid and Zero-Emission Truck and Bus Voucher Incentive Program (HVIP). We believe green hydrogen production and infrastructure is needed for NKLA's long-term success, and subsidies in the IRA for hydrogen could be at risk.
- **NXT.** The primary way in which NXT benefits from the IRA is through an expansion of the TAM due to the 30% ITC (and adders) for solar projects. There is also a shared benefit of the PTC with its contract manufacturing partners, however, this is a minor benefit relative to the ITC's indirect impact in our view. We see less risk to this piece of the IRA given that the ITC has received support from both political parties over the years and believe NXT has lower risk from the election relative many solar names.

- **QS.** Although it could earn production tax credits for domestic production, QS is in preproduction. Additionally, its first revenue likely comes from a license agreement, and the location of its partner's factory has not been disclosed.
- **RIVN.** Moderate. Removal of EV tax credits would be a negative for RIVN especially as it starts production of its next-generation platform, i.e., R2 and R3.
- **TSLA.** Removal of EV tax credits are a negative, but we note TSLA operated several years without the EV tax credit for consumers. We think its lower-priced next-generation platform should also allow it to navigate a no tax credit environment better than peers. TSLA's Energy business also benefits from storage investment tax credits Additionally, TSLA receives production tax credits for modules and cells.
- **WBX.** Removal of EV tax credits could pose risk to WBX's North American sales. Additionally, a very small amount of WBX's forecasted revenue comes from government funded public charging infrastructure.
- **WTRG.** The water utilities have near the lowest exposure within our coverage as they do not benefit from any form of IRA credits. Additionally, there may be a scenario where a Republican-led EPA alters the PFAS regulations implemented earlier this year which we believe would have a mixed impact.

# US Power & Utilities

## US Election Impacts

Industry Overview | 06 November 2024 | Equity | United States | Utilities

Key takeaways

- We review the reported election results for the Arizona Corporation Commission and Gubnatorial races in Missouri and Indiana
- Reports indicate that a ballot measure in Washington State to ban any further bans on natural gas has passed
- We expect the utility sector to react negatively to a Trump victory given market fears around the development of renewables

**Likely Republican majority on Arizona Commission**

As of this writing the Arizona Secretary of State's website is reporting that all three Republican candidates are ahead in the Arizona Corporation Commission (ACC) elections, establishing a majority with the two incumbent Republicans not up for election on the five seat body. We believe this puts the policy of reduction in regulatory lag championed by Republican commissioners fully on the agenda for 2025 and would beneficial for Buy rated Pinnacle West Resources (PNW) and Underperform rated Fortis Inc (FTS) the two utilities in our coverage with regulated utilities in the state. Republican candidates Walden, Lopez, and Marquez Peterson have 17.8%, 17.3%, and 16.8%, with Aguilar the closest Democratic candidate with 15.7% with approximately 55% of the vote counted. See Exhibit 2.

**Republican Governors win in Missouri and Indiana**

Gubernatorial elections in states where utility commissions are appointed by Governors matter for the sector. The most impactful of these outcomes for utility commissions are in IN and MO where Republicans won, and a Democratic seat on the state utility commissions is up in 2026. In our view this provides a positive backdrop for economic development in both states, which we see as helpful for Neutral rated Ameren (AEE) and Buy rated Evergy (EVRG) in Missouri, and Neutral rated Centerpoint (CNP) and Duke Energy (DUK), as well as Buy rated NiSource (NI) in Indiana. See Exhibit 1.

**Washington ballot initiative current results**

In Washington state, with 62% of the vote reporting as of this writing the Washington Secretary of State's website is reporting that Ballot Initiative 2066, which would ban any bans on natural gas in the state the Yes leads with a vote of 51.2% to 48.8% and has not been called. If passed, this would be beneficial for continued natural gas investment in the state for Buy rated MDU Resources (MDU) and Underperform rated Avista Corp. (AVA).

**Trump Administration with split government or a sweep**

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As of this writing the Associated Press has called the Presidential election for former President Trump has 277 electoral votes called in his favor. On called races for the Senate the Republicans will gain control and the US House remains uncalled. In a split government with Trump, the utility sector could react negatively to a Trump win due to a fear of lower renewables deployment, however as we wrote in our Election preview note, the IRA will likely stay in place and wind and solar deployments actually increased ~28% in 2017-2020 vs. the last four years of the Obama administration . In a Republican sweep, the IRA would likely be at risk of repeal to pay for other tax cuts that have been campaigned on (overtime, tips, foreign income), and as a way pay for an extension of the Tax Cuts and Jobs Act of 2017 tax cuts that are set to expire after 2025. We see wind, solar, and nuclear tax credits however likely to continue in any replacement budget reconciliation bill.

## Election Results Review and Impacts

### Gubernatorial Elections in States with appointed commissions

Exhibit 1 below presents the results reported as of this writing on the relevant Secretary of State websites for the gubernatorial races in states where utility commissions are appointed. For the gubernatorial races we see the most impactful outcomes being the Republican wins in Indiana and Missouri where each utility commission in those states has a term ending for a Democrat commissioner in 2026. We see this as likely beneficial for a continuation of the economic development agenda and the policy for increased utility investment spurred by constructive regulation. This provides a positive tailwind for Buy rated Evergy Inc. and Neutral rated Ameren Corp. in Missouri and for Neutral rated Centerpoint Energy and Duke Energy as well as Buy rated NiSource in Indiana.

**Exhibit 1: Gubernatorial Elections in States with appointed commissions**

**The Associated Press has called the races below for the current vote count leader**

**For an accessible version Merrill clients call 800-637-7455; Merrill Edge Self-Directed clients call 877-653-4732**

| Election | Covered Companies in State | Next Commission Term(s) Up by Party | % Vote In | Democratic Party Candidate | Vote % | Republican Party Candidate | Vote % | Incumbent? | Can Commission Majority Shift? |
|---|---|---|---|---|---|---|---|---|---|
| **Delaware** | EXC | 4 seats up in 2026 - 2 I's and 2 D's | 99% | Matt Meyer | 55.9 % | Michael Ramone | 44.1 % | Incumbent Governor Carney is not running | In '25 if R wins |
| **Indiana** | CNP; DUK: NI | R seat up in '25, 1 D and 1 R seat up in '26, D seat up in '27, I seat up in '28 | 89% | Jennifer Mccormick | 54.6 % | Mike Braun | 40.7 % | Incumbent Governor Holcomb is not running | In '26 if R Wins |
| **Missouri** | AEE, EVRG | D seat up in '26, R seat up in '27, 1 R seat and 1 I seat up in '30 | 99% | Crystal Quade | 59.1 % | Mike Kehoe | 38.8 % | Incumbent Governor Parson is not running | In '26 if R Wins |
| **New Hampshire** | ES | No party offiliations - 1 seat in '25, 1 | 91% | Joyce Craig | 44.7 % | Kelly Ayotte | 53.3 % | Incumbent Governor | N/A |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | seat in '27, and 1 seat in '29 | | | | | | Sununu is not running | |
| **North Carolina** | D; DUK | 3 seats in '25 - 1 R, 2 I; 1 I seat in '27; 3 seats in '29 - 1 D, 2 R | 99% | Josh Stein | 54.8 % | Mark Robinson | 40.2 % | Incumbent Governor Cooper is not running | In '25 if R wins |
| **Utah** | N/A | 1 R seat in '25, 1 R seat in '27, 1 I seat in '29 | 60% | Brian King | 30.5 % | Spencer Cox | 56.2 % | Spencer Cox is the current Governor | In '25 if D wins |
| **Vermont** | N/A | No party offiliations - 1 seat in '25, 1 seat in '27, and 1 seat in '29 | 99% | Esther Charlestin | 21.8 % | Phil Scott | 73.4 % | Phil Scott is the current Governor | N/A |
| **Washington** | AVA; MDU | 1 D seat in '25, 1 D seat in '27, and 1 R seat in '29 | 62% | Bob Ferguson | 56.4 % | Dave Reichert | 43.6 % | Incumbent Governor Jay Inslee in not running | In '25 if R wins |
| **West Virginia** | AEP; FE | 1 R seat in '25, 1 I seat in '27, and oen R seat in '29 | 93% | Steve Williams | 31.5 % | Patrick Morrisey | 62.1 % | Incumbent Governor Jim Justice is running for WV Senate | In '25 if D wins |

**There are gubenatorial elections also in Montana and North Dakota but those commissions are elected, not appointed by the Governor**

**Third party candidate affiliation - G is Green Party, L is Libertarian, C is Constitution Party**

**Source: Secretary of State websites, Associated Press**

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### State Utility Commission Elections

For directly elected commissions the only majority that was set to be determined by the election was the Arizona Corporation Commission (ACC) in Arizona. The remaining election results for commissioners are presented in Exhibit 2 below. In Arizona three seats were up for election on the five seat commission with two incumbent Republicans not up for election. The Arizona Secretary of State's website is reporting that the three Republicans are all ahead of the highest vote getting Democrat.

This will likely maintain the Republican majority on the commission and allow for a continuation of the policy to reduce regulatory lag in the state in 2025. We see this as beneficial for Buy rated Pinnacle West Resources (PNW) and Underperform rated Fortis Inc. (FTS) the two utilities in our coverage with regulated utility operations in the state. However, we see the most impact for PNW as they only have utility operations in Arizona.

**Exhibit 2: State Utility Commission Election Results**

**Arizona is the most important race, with the race not called, Republicans remain poised to maintain their majority**

**For an accessible version Merrill clients call 800-637-7455; Merrill Edge Self-Directed clients call 877-653-4732**

| **Election** | Covered Companies in State | Name of Commission; Number of | % Vote In | Democratic/Independent Party Candidate | Vote % | Republican Party Candidate | Vote % | Incumbent? |
|---|---|---|---|---|---|---|---|---|

| | | Commissioners | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Alabama** | SO | Alabama Public Service Commission - 3 Commissioners - President up | N/A | None | ~0% | Twinkle Andress Cavanaugh | ~100 % | President Cavanaugh is an incumbent |
| **Arizona** | FTS; PNW | Arizona Corporation Commission - 5 Commissioners; 3 seats up; Top 3 win | 55% | Ylenia Aguilar | 15.7 % | Lea Marquez Peterson | 16.8 % | Lea Marquez Peterson is an incumbent |
| **Arizona** | FTS; PNW | Arizona Corporation Commission - 5 Commissioners; 3 seats up; Top 3 win | 55% | Joshua Polacheck | 14.7 % | Renee Lopez | 17.3 % | N/A |
| **Arizona** | FTS; PNW | Arizona Corporation Commission - 5 Commissioners; 3 seats up; Top 3 win | 55% | Jonathan Hill | 15.5 % | Rachel Walden | 17.8 % | N/A |
| **Louisiana** | AEP; ETR | Louisiana Publice Service Commission - 5 Comissioners - District 2 seat | 667 of 667 Parishes | Nick Laborde | 25% | Jean-Paul Coussan | 54% | Non partisan primary on Nov 5; if a candidate wins >50% they are elected; if not there is a run off on Dec 7 |
| **Montana** | MDU; NWE | Montana Public Service Commission - 5 Commissioners - District 2 seat | Not Reported | Susan Bilo | 40% | Brad Molnar | 60% | No incumbent - Brad Molnar previously served on the commission from 2005 - 2013 |
| **Montana** | MDU; NWE | Montana Public Service Commission - 5 Commissioners - District 3 seat | Not Reported | Leonard Williams | 37% | Jeffrey Welborn | 63% | No incumbent running |
| **Montana** | MDU; NWE | Montana Public Service Commission - 5 Commissioners - District 3 seat | Not Reported | Elena Evans - Independent | 54% | Jennifer Fielder | 46% | Jennifer Fielder is the incumbent |
| **Nebraska** | N/A | Nebraska Public Service Commission - 5 Commissioners - District 1 seat | N/A | None | ~0% | Dan Watermeier | ~100 % | Dan Watermeier is an incumbent |
| **Nebraska** | N/A | Nebraska Public Service Commission - 5 Commissioners - District 3 seat | N/A | None | ~0% | Tim Schram | ~100 % | Tim Schram is an incumbent |
| **North Dakota** | MDU; XEL | North Dakota Public Service Commission - 3 Commissioners - 1 seat up | >95% | Tracey Wilkie | 30% | Randel Christmann | 70% | Randel Christmann is an incumbent |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Oklahoma** | AEP; OGE | Oklahoma Corporation Commission - 3 Commissioners - 1 seat up | 99% | Harold Spradling | 28.9 % | Brian Bingman | 63.7 % | No incumbent running |
| **South Dakota** | BKH; MDU; NWE | South Dakota Public Utilities Commission - 3 Commissioners - 1 seat up | 70% | Kristie Fiegen | 71% | Forrest Wilson | 24% | Kristie Fiegen is an incumbent |

**Source: Secretary of State websites, Associated Press**

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U.S. Power & Utilities

# Election First Blush; AEP Earnings

AEP first look 6-8% off lower base mixed; Presidential election negative to Renewables and neutral to Regulated Utes, in our view. We review Commission election outcomes too, which point to stability for SO, PNW, ETR, OGE & NWE.

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POSITIVE

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**Election Takes: Back to a Trump world: Negative Renewables, neutral Regulateds w/ caveats, watching nuclear:** As Trump will be the new President of the United States, we naturally expect a negative reaction for renewable exposed utilities today (**AES** / **NEE**). With the Senate majority now flipping to Republican, its important to watch the House outcomes where control remains undecided. A red sweep presumably would argue for more salient calls to repeal parts or all of IRA, even with current Republican state support for tax credits, which we think would present headline risk to IPPs (**CEG** / **TLN** / **PEG**), as well as companies that lean heavily on tax credit transferability (**NEE**, **AES**, **LNT**, **WEC**), or in the regulated arena with the nuclear PTC (**DUK**). Finally, we see this outcome as also negative for OSW exposed utilities (**D** / **ES**). We see this outcome as the most positive for **SRE** in our coverage universe given the exposure to LNG. For core regulateds, this is generally neutral with the caveat to watch balance sheets and the size of transferability cash flow benefits. With the Trump election outcome, we're also watching Texas given it's previously been discussed that Governor Abbott could join Trump's cabinet, and a shift in leadership at the state matters for **CNP**, **SRE**, **TXNM** & others who operate in the state. Please see more details from Barclays policy experts here.

### Key Takeaways from Utilities State Elections: Largely Inline Across Board

- **Alabama (SO):** AL PSC president Twinkle Andress Cavanaugh won the ballot by receiving ~97% of the votes, thus successfully re-elected as the president of the commission. We see as SO's Alabama Power benefits from annual mechanism, the election result is helpful for policy continuity.

- **Arizona (PNW):** AZ ACC has a composition of 5 commissioners and 3 of them, including chair, is facing re-election in this cycle, namely Chair James O'Connor (R), commissioner Lea Marquez Peterson (R) , and commissioner Anna Tovar (D) . Although AZ has not concluded counting votes (currently at ~60% this morning), preliminary result shows Republican candidates are at the top of the ticket, including Rachel Walden (17.85%), Rene Lopez (17.26%), and Lea Marquez Peterson (16.83%). Leading Democratic candidate is Ylenia Aguilar, receiving 15.72% of votes.

- **Louisiana (ETR): Jean-Paul Coussan (R)** won the seat for the Commission (to replace Craig Greene) where the Commission is now made up of 3 republicans and 2 democrats. Coussan guided during his campaign he wants to focus on natural gas resources and keeping rates affordable, as well as improve the grid to protect from storm risk. We see this as **neutral** to utilities in LA.

- **Montana (NWE):** As of 11:45pm none of the PSC seats have been called but Jeff Welborn and Brad Molnar (both Republican) were leading with Elena Evans (independent) was narrowly leading in District 4. The Commission is currently five republicans and if the races were called based on pending results we see it as a **somewhat natural** data point for MT utilities.
- **Oklahoma (OGE): Brian Bingman (R)** won the seat for the Commission (to replace Bob Anthony) where the Commission is now made up of three Republicans (unchanged from prior make-up). We see this as a **neutral** data point for OK utilities.
- **North Dakota (XEL): Randy Christmann (R)** won the seat renewing his term with the Commission now made up of three republicans (unchanged from prior make-up). We see this as a **neutral** data point for ND utilities.
- **South Dakota (XEL, NWE):** As of 1:30am on November 6 Kristie Fiegen (R) was positioned to win the election with ~70% of votes with unofficial election results. Fiegen is the incumbent and we see this as a **neutral** data point for SD utilities.

**AEP (mixed): FY25 guide down contemplated with LT growth raise to 6-8% on revised 2025 base; Strong load growth prospects; Equity seems manageable:** AEP reported 3Q24 EPS of $1.85/sh vs. Barc $1.81/sh, BBG $1.85/sh, and 3Q23 of $1.77/sh. Company narrowed FY24 EPS guidance range to $5.58-5.68/sh from $5.53-5.73/sh, keeping midpoint of $5.63 unchanged. 2025 EPS guidance is provided at $5.75-5.95/sh, and refreshed LT EPS growth rate to 6-8% off FY25 midpoint, from 6-7%. This implies a 1-2% guide down to street consensus numbers at the midpoint in 2025/2026, which implies $6.26/sh of EPS in 2026, putting the stock at an inline multiple vs. our comps on 2026E. 5yr capital plan is refreshed to $54bn (2025-2029) from $43bn (2024-2028), raising RAB CAGR from 7.2% to "~8%". We also note nuclear generation capital merely changed (from previous $400mm to current $500mm). On credit metrics, TTM metric remains 14.7% vs 14.6% last quarter, with targeted 14-15% FFO/debt re-affirmed. On cash flow guidance, annual breakdown was not provided during this quarter, but we see debt to capitalization raised to 62-64% from previous 61-63%. On sources of funding, asset monetization is mentioned and is lumped with equity needs (total for $5.35bn over 5y period), with no specific guidance on an annual basis, which we look for an EEI update. We note in the previous 5yr funding plan, total equity was $3.5bn) and we see transco NCI is worth ~$1bn. All in, we think this implies $7-800mn/yr of equity financing and we look for mgmt commentary on the call. On load growth, AEP's total weather-normalized sales growth is revised to 3.5%/8.3%/8.4%/8.9% for 2024 through 2027, mostly driven by commercial load. We note guidance for 2024 through 2026 was 1.5%/3.3%/2.4%, respectively. With the guide down already contemplated, and sentiment negative on AEP, we think the stock could outperform this morning but we note with 8% rate base growth and equity implying 1.6% dilution per year to EPS, we see it likely AEP is at the midpoint or lower in the range through the plan.

WASHINGTON POLICY INDUSTRY REPORT

# 2024 Election

November 6, 2024

## Trump Wins White House, Senate Goes Republican, House Too Close to Call

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**WHAT YOU SHOULD KNOW:** After ~$16B in spending and more plot twists than we care to count, the 2024 election ended largely in line with our expectations at the outset: Trump will return to the White House and Republicans will take control of the Senate next year. The unknowns at this hour are (1) what the Republican margin will be in the Senate; and (2) which party will control the House of Representatives. This was a resounding victory for Trump as he improved on his 2020 performance in most areas, conclusively secured an Electoral College victory, and could win the popular vote if forecasts hold. While we await House results, we can at least move forward knowing that Trump is the president-elect and there will be sweeping policy changes in January. As is often the case following elections, the market will now begin the process of attempting to separate rhetoric from reality. To this end, Trump promised a torrent of tariffs, a historically restrictive immigration agenda, trillions in tax cuts, and repeal of increasingly popular laws like the IRA and the ACA. This update includes our list of winners and losers from Trump returning to the White House and a handful of initial thoughts on which policies from the campaign trail may be softened.

# Trump Winners and Losers

Please see below for an abbreviated list of winners and losers from Trump returning to the White House.

- **Winner: M&A and Consolidation.** One of the more meaningful market implications of Trump II could be the fostering of a far more supportive environment for consolidation. There are caveats as turnover for some key policy positions could take time, but any shift from current leadership would likely lead to more M&A activity. We view this as positive for deals currently under review, such as Capital One's (COF, Neutral; Analyst: Caintic) proposed purchase of Discover Financial (DFS, Neutral; Analyst: Caintic). It is also likely directionally positive for firms benefiting from increased deal volume such as investment banks and boutique advisories.
- **Winner: Fannie Mae and Freddie Mac.** We firmly believe that Fannie Mae (FNMA, Not Rated) and Freddie Mac (FMCC, Not Rated) could benefit from a renewed effort to push the firms out of conservatorship. With full control of the Treasury Department and the Federal Housing Finance Agency (FHFA), executing the end of the conservatorships is possible, even though we caution that timelines relating to the GSEs tend to slip.
- **Winner: Private Prisons.** With Trump returning to the White House, there will be a far firmer embrace of Geo Group (GEO, Not Rated) and CXW (CXW, Not Rated). A GOP White House would allow for contracting with the USMS and the BOP, but more importantly they would take a far more aggressive stance on border enforcement, which would impact the ICE business lines at these firms.
- **Winner: Digital Assets.** Trump's clear support for the digital asset ecosystem is directionally positive for companies like Coinbase (COIN, Not Rated), MicroStrategy (MSTR, Buy, $1,800 PT; Analyst: Harte), and the miners such as Riot Platforms (RIOT, Buy, $22 PT; Analyst: Lewis).
- **Winner: Consumer Finance.** We assume that Trump will dismiss Director Chopra immediately after being inaugurated. This would be directionally positive for (1) firms currently facing CFPB litigation such as Credit Acceptance (CACC, Not Rated) and Upbound Group (UPBD, Buy, $45PT; Analyst: Caintic); and (2) firms negatively impacted by ongoing CFPB rulemaking such as the credit card late fee proposal such as Synchrony Financial (SYF, Neutral; Analyst: Caintic) and Bread Financial (BFH, Neutral; Analyst: Caintic).
- **Winner: Defense Sector.** There will be more support for increased defense spending with Republicans in charge of the White House and the Senate, although control of the House could have an impact on certain priorities and perhaps specific budget levels. Our initial view is that funding for Israel and Taiwan will continue unabated, but funding for Ukraine will face headwinds. As a general matter, continued increases to defense funding remains the path of least resistance in Washington.
- **Winner: Fossil Fuels, Nuclear, Clean Coal.** We expect the Trump White House will roll back green energy regulations, which is directionally positive for fossil fuels through administrative actions aimed at expediting approval of natural gas pipelines and removing restrictions on federal land drilling. We also note that the Trump campaign supported "nuclear, clean coal, and hydropower."
- **Winners: STLDI and HSAs.** We believe the Trump administration will prioritize expanding short-term limited duration insurance (STLDI) plans, which are offered by firms like Everest Reinsurance (EG, Not Rated). We also believe that there will be a pronounced effort to expand Health Savings Accounts (HSAs), which could happen administratively and through legislation. This could be positive for companies in the HSA space such as Health Equity (HQY, Buy, $110PT; Analyst: Larsen) and Webster Bank (WBS, Not Rated). More broadly, the Affordable Care Act (ACA) remains safe.
- **Loser: Green Energy Will See Administrative Shifts, but IRA Investments Largely Safe.** The Inflation Reduction Act (IRA) will face persistent headline risk once Trump returns to the White House, but we firmly believe that the bulk of the IRA's green energy tax credits will be safe next year. We note that Trump campaign advisors stated that a Trump II administration would "maximize fossil fuel production," which could be part of an administrative policy agenda. For example, we also expect Trump II to remove restrictions on drilling on federal land, shutter federal offices dedicated to supporting green energy investments (e.g., Loan Programs Office), and withdraw from the Paris climate accord.
- **Loser: Firms Exposed to Global Trade.** Trump has repeatedly floated the concept of a 10% universal tariff on imports and a tariff of 60%-100% on Chinese goods. Reasonable minds can disagree on whether these proposals will become reality or just part of a broader negotiating strategy, but private estimates suggest that they could cost the average family $2,600.

# Seperating Rhetoric From Reality

As is often the case following elections, the market will now begin the process of attempting to separate rhetoric from reality. To this end, Trump promised a torrent of tariffs, a historically restrictive immigration agenda, trillions in tax cuts, and repeal of increasingly popular laws like the IRA and the ACA.

## Trump Will Absolutely Use Tariffs Liberally, but Economic Implications Could Be a Modest Governor

We believe Trump is serious about tariffs, and he has wide latitude on this front, but our view is that there will be a degree of incrementalism on this front given the economic implications. As a reminder, Trump's initial round of tariffs covered ~14% of imported goods and the threat of tariffs played a large part in negotiations throughout his term.

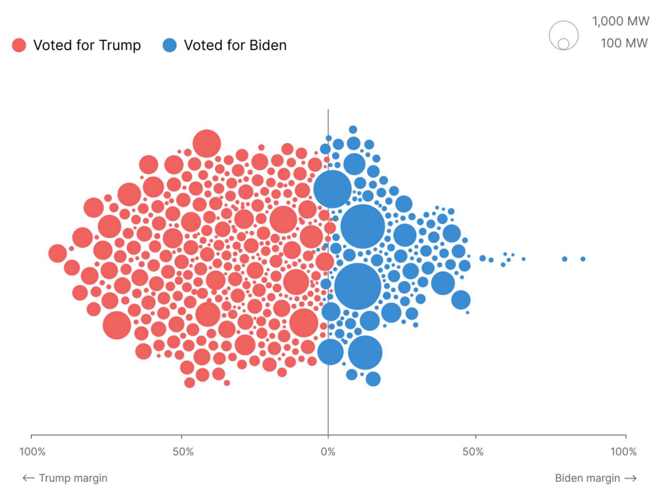
We firmly believe that Trump will be more willing to embrace tariffs in his second term, but we are not yet ready to assume that we will see the universal 10% tariff immediately. Rather, we see ramping the tariffs on Chinese goods as a logical first step. The escalation from that point is a clear concern that will likely be present for the remainder of his time in office.

## Inflation Reduction Act Will Not Be Repealed, but Expect Certain Changes

The Inflation Reduction Act (IRA) will face persistent headline risk once Trump returns to the White House, and unified GOP control of Washington would certainly lead to more investigations and oversight, but we firmly believe that the bulk of the IRA's green energy provisions will be safe given that the combination of environmental benefit and job creation should provide considerable political cover.

Our only caveat is that we expect changes to the IRA's election vehicle provisions and we could see some targeted spending recissions on specific programs.

**New Clean Energy Capacity by County**




*Source: Cleanview/EIA, BTIG Research. Notes: Includes capacity built in 2023(FY) and 2024 (YTD through 8/24/24).*

## More Deficit Spending Ahead, but Congress Will Curtail Some of Trump's Campaign Proposals

How much Washington spends over the next two years will be impacted by which party controls the House, so we will not detail our spending thoughts in this update. As a general matter, though, we expect more deficit spending in the next Congress as lawmakers are likely to extend expiring tax provisions in some fashion.

With that being said, we are bearish on some of Trump's higher-profile proposals being enacted given their price tags. Specifically, we remain bearish on Congress clearing an exemption of either overtime income or tip income from taxes. Extending the TCJA will be the first priority and lowering the corporate rate will be on the agenda, both of which suggest to us that lawmakers will leave those other proposals on the cutting room floor.

### Overview of Trump Budget Proposals, 10-Year Window, $B

| Policy Proposals | Low | Central | High |
|---|---|---|---|
| Extend and Modify the Tax Cuts & Jobs Act (TCJA) | -$4,600 | -$5,350 | -$5,950 |
| Exempt Overtime Income from Taxes | -$500 | -$2,000 | -$3,000 |
| End Taxation of Social Security Benefits | -$1,200 | -$1,300 | -$1,450 |
| Exempt Tip Income from Taxes | -$100 | -$300 | -$550 |
| Lower Corporate Tax Rate to 15% for Domestic Manufacturers | -$150 | -$200 | -$600 |
| Enact or Expand Other Individual and Small Business Tax Breaks | -$150 | -$200 | -$350 |
| Strengthen and Modernize the Military | -$100 | -$400 | -$2,450 |
| Secure the Border and Deport Unauthorized Immigrants | $0 | -$350 | -$1,000 |
| Enact Housing Reforms, Including Credits for First-Time Homebuyers | -$100 | -$150 | -$350 |
| Boost Support for Health Care, Long-Term Care, and Caregiving | -$50 | -$150 | -$300 |
| **Subtotal, Tax Cuts and Spending Increases** | -$6,950 | -$10,400 | -$16,000 |
| | | | |
| Establish a Universal Baseline Tariff and Additional Tariffs | $4,300 | $2,700 | $2,000 |
| Reverse Current Energy/Environment Policies and Expand Production | $750 | $700 | $550 |
| Reduce Waste, Fraud, and Abuse | $250 | $100 | $0 |
| End the Department of Education and Support School Choice | $200 | $200 | $0 |
| **Subtotal, Revenue Increases and Spending Reductions** | $5,500 | $3,700 | $2,550 |
| | | | |
| **Net Interest** | -$200 | -$1,050 | -$2,100 |
| | | | |
| **Total, Net Deficit Impact** | -$1,650 | -$7,750 | -$15,550 |

*Source: CRFB; BTIG Research*

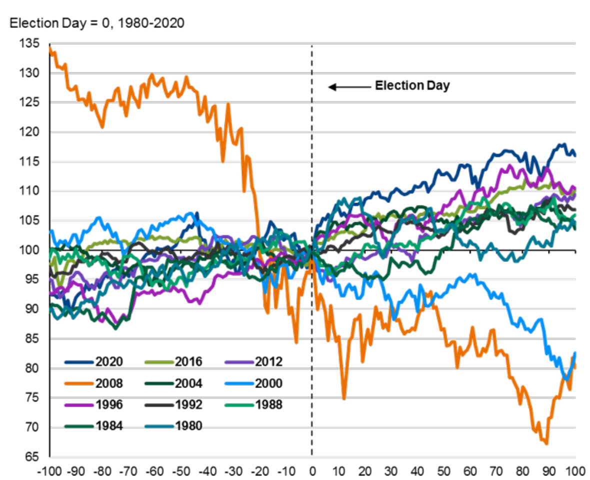
## Immigration Policy Remains an Unknown at This Stage

We know that the Trump administration will prioritize border security, but it is unclear to what extent he will carry out what he has called the “largest domestic deportation operation in American history.” Our contacts continue to argue that the use of statutes such as the Alien Enemies Act of 1798 and the Insurrection Act could be challenged in court. More broadly, there is an as-yet-unknown direct cost to mass deportation and untold economic implications. Our base case is that we will see heightened border security, expedited removals, and alternative means of pressure on other nations, but the concept of mass deportation poses questions we are unable to answer at this stage.

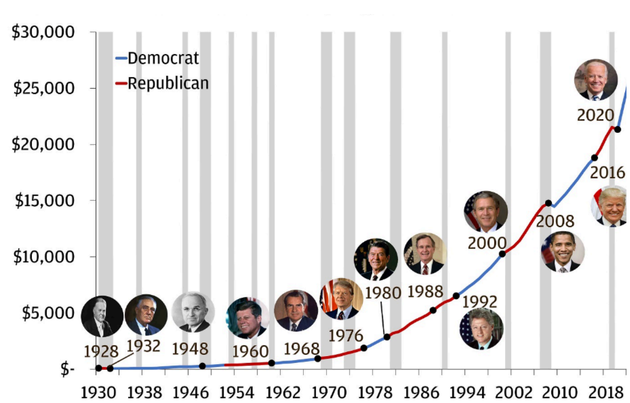
# The Economy and the Markets Tend to Keep Marching

Going back to 1980, stocks have rallied the year after an election more times than not. From 1980 through 2020, there were 11 presidential elections with a split of 5 Democratic victories and 6 GOP victories. The S&P 500 index was up the year following 9 of those 11 elections with an average return of 16%. Of course, there are acute sector considerations and there are broader macroeconomic implications, but in general the U.S. economy continues to march forward.

### S&P 500 Price Index Prior to and Following Presidential Elections




### U.S. Nominal Gross Domestic Product (GDP), in $B




*Sources: J.P. Morgan Wealth Management, BEA, Haver Analytics, Bloomberg, BTIG Research*

## BTIG Covered Companies Mentioned in this Report

Bread Financial Holdings Inc (BFH, Neutral, Closing Price: $52.76)
Capital One Financial Corp. (COF, Neutral, Closing Price: $166.05)
Discover Financial Services (DFS, Neutral, Closing Price: $151.85)
Health Equity Inc. (HQY, Buy, $110 PT; Closing Price: $89.23)
MicroStrategy, Inc. (MSTR, Buy, $290 PT; Closing Price: $227.80)
Riot Platforms, Inc. (RIOT, Buy, $22 PT; Closing Price: $9.71)
Synchrony Financial (SYF, Neutral, Closing Price: $56.82)
Upbound Group Inc (UPBD, Buy, $45 PT; Closing Price: $30.91)

Deutsche Bank
Research

North America
United States

Industrials
Clean Technology

Industry

# US Election Results

Date
6 November 2024

Industry Update

# Republican Presidential and Senate Victory Impact to Solar

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## Potential Election Impact to our Solar Coverage

Announced earlier this morning, President-elect Donald Trump has won the electoral vote, securing both the Presidency and the Senate for the Republican party. At the time of writing this report, the House of Representatives has not been decisively called.

We believe this **Republican win of the Executive Branch and Senate will likely lead to the scaling back of certain incentives**, thus dampening sentiment on the solar industry. This assessment is based on candidate and party statements, websites, and media reports. While we acknowledge this potential negative impact, **we see minimal risks of production tax advantages being eliminated** under the Republican administration, given (i) the benefits to US domestic production, and (ii) Trump's stance on China trade. **We see elevated risks for the removal or scaling back of the various 'adders' to the current 30% ITC.**

We expect the Solar space to **experience downward pressure and high volatility** through the coming days, **with the most meaningful impact on NOVA and RUN**, and a less significant, though still negative, impact on ENPH and SEDG (also SEDG to report tonight, click here to to view our preview). While we expect FSLR to trade with the sector in the short-term, we believe the company is largely insulated from these headwinds over the medium-term. Below, we outline the key rationale behind our theses and outline the risks to various tax incentives and credits.

## Key topics

- **Investment Tax Credit: With a Republican Presidential and Senate win,** we do see **some risks of ITC incentives either being removed or scaled back** more quickly than previously expected.
  - We would not be surprised to see the various 'adders' to the current 30% ITC be removed. Those adders include low-income adder (10%), energy community (10%), low-income community (10%), and domestic content (10%). <u>We view the last one as the most likely to be kept under a Trump administration, given its elements of US protectionism.</u>
  - **Stocks likely to be most impacted: Sunrun and Sunnova.**
  - **Stocks likely to be moderately impacted: Enphase and SolarEdge**
- **Production Tax Credit:** We believe most Republicans **are largely favorable**

towards the different PTCs, and we foresee **minimal risks** of these credits being removed.

  - **Largest likely beneficiaries: First Solar, Enphase and SolarEdge.**

- **Overall Demand Impact:** With a **Republican President and Senate**, the situation is likely to be less **positive, and we believe the government focus could shift towards protecting fossil-fuel-based energy**. If we are to see ITC removal, this would impact Residential demand, with the largest impact likely seen by NOVA and RUN, but also ENPH and to a lesser degree SEDG.
- **Tariffs:** We believe a **Trump administration will likely maintain and/or increase current tariffs**. This could be beneficial for FSLR.

## Stock Impact

Overall, we see **minimal risks to First Solar**, which is largely exposed to the 45x tax credits (~$1bn in our numbers for this year). While the Republican victory will likely bring dampened sentiment on the space along with short-lived volatility – from which FSLR would not be immune – we believe the stock will recover quickly as fundamentals are not impacted.

We see **increased risks to RUN and NOVA**, due their respective exposure to the ITC; we see elevated risks to cash generation.

We believe **Enphase and SolarEdge are in the middle**: They could see some impact in the case of ITC being removed, as this would impact overall demand sentiment. As a reminder, ENPH is mostly residential exposed, with the majority (~70%) of its revenues US-based. SEDG is less exposed to the US also has higher end-market diversification.

## Tariffs History and Overview

### History of Solar Tariffs

- **2012**: Initial tariffs of 30% were imposed on solar products from China. This marked the beginning of trade actions targeting the Chinese solar industry.
- **2015**: The U.S. Department of Commerce issued countervailing duty orders on imports of certain crystalline silicon photovoltaic products from China and antidumping duty orders on imports of these products from China and Taiwan. Countervailing duties addressed subsidies provided China, while antidumping duties targeted products sold at below-normal value.
- **2017**: The Trump administration initiated a Section 301 investigation against China, broadly addressing unfair trade practices. This investigation ultimately led to additional tariffs on a wide range of goods, including solar products.
- **2018:** Section 201 tariffs were implemented.
- **2022**: The Uyghur Forced Labor Prevention Act was enacted. This legislation prohibited imports of goods made with forced labor in Xinjiang, China, significantly impacting the solar industry due to the region's role in polysilicon production.
- **2024**: The Biden administration extended and expanded the scope of Section 201 and 301 tariffs.
- **2024**: The U.S. Department of Commerce announced its preliminary affirmative determinations in the countervailing duty (CVD) investigations of crystalline photovoltaic cells – whether or not assembled into modules (solar cells) from Cambodia, Malaysia, Thailand, and Vietnam.

### Current Solar Tariffs in Place

- **Section 201:** On January 23, 2018, the Trump administration approved recommendations to provide relief to U.S. manufacturers. On February 4, 2022, the Biden administration announced a 4-year extension of these tariffs along with a modification to exclude bifacial solar panels. On May 16, 2024, the government removed the bifacial module exclusion in addition to ending the solar bridge and '*cracking down on stockpiling*'
  - The tariffs were placed on crystalline solar photovoltaic cells and modules imported from numerous countries. The tariffs do not apply to the first 5GW of cells imported into the US each year, but subjugates imports above that level to the tariff.
  - **February 7, 2024 - February 6, 2025**: 14.25%.
  - **February 7, 2025 - February 6, 2026**: 14%.
  - **February 7, 2026**, the tariff is scheduled to expire.
- **Section 301:** In August 2017, the Trump administration initiated an investigation under Section 301 against China, focusing on the country's practices related to technology transfer, intellectual property, and innovation. The investigation concluded that '*the acts, policies, and practices of the Chinese government related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory and burden or restrict U.S. commerce*.' As a result, the Office of the U.S. Trade Representative imposed a 25% tariff on products from China. On May 14, 2024, the Biden administration expanded these tariffs.
  - **Solar Cells**: Regardless of whether or not the cells are assembled into modules, tariffs increased from 25% to **50%** in 2024.
  - **Steel and Aluminum**: 0-7.5% to **25%** in 2024.

  - **Semiconductors**: 25% to **50% by 2025**.
  - **Electric Vehicles (EVs)**: 25% to **100%** in 2024. The administration notes EV exports from China rose 70% from 2022 to 2023. The 100% tariff is designed to protect American manufacturers from what the administration views as China's unfair trade practices.
  - **Batteries, Battery Components and Parts**: **Lithium-Ion EV batteries** tariffs increased from 7.5% to **25%** in 2024, with **non-EV Lithium-Ion batteries** also increased 7.5% to **25% but starting in 2026**. Similarly, **Battery Parts** increased from 7.5% to **25%** in 2024.
  - **Critical Materials**: **Graphite and permanent magnets** will increase from 0% to **25% in 2026** with **other critical materials** up from 0% to **25%** in 2024.
- **Uyghur Forced Labor Prevention Act:** Enacted in June 2022, this act bans imports of solar products made with polysilicon from the Xinjiang region of China due to concerns about forced labor.
- **AD/CVD:** On October 1, 2024, the U.S. Department of Commerce announced its preliminary affirmative determinations in the countervailing duty (CVD) investigations of crystalline photovoltaic cells – whether or not assembled into modules from Cambodia, Malaysia, Thailand, and Vietnam. The Department is conducting concurrent antidumping duty investigations of solar cells from Cambodia, Malaysia, Thailand and Vietnam.

Figure 1: CVD Investigation Case Calendar

| CVD Investigations | |
|---|---|
| **Event** | **Date** |
| Petition(s) Filed | April 24, 2024 |
| Commerce Initiation Date | May 14, 2024 |
| ITC Preliminary Determinations | June 10, 2024 |
| Commerce Preliminary Determinations | September 30, 2024 |
| Commerce Final Determinations | February 10, 2025 |
| ITC Final Determinations | March 27, 2025 |
| Issuance of Orders | April 3, 2025 |

*Source : Deutsche Bank, International Trade Administration*

## Americas Clean Energy

# Inflation Reduction Act 3.0: Implications of election result

According to media outlets, Donald Trump has won the presidential election. While we continue to await certainty on the US congressional races, we believe it is prudent to revisit stocks across our US coverage universe that are most exposed to the Inflation Reduction Act (IRA), which has played a critical role in galvanizing investments in renewables through a variety of incentives. **As a result, we highlight the top 9 companies exposed to the IRA based on % of earnings attributable to IRA incentives.**

We continue to examine stocks across our US coverage that have the most current or prospective leverage to the IRA legislation, as highlighted in Exhibit 2.

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**Exhibit 1: We highlight 9 stocks across Americas Coverage that have the most exposure to IRA incentives based on % of earnings**
Top IRA exposed names based on earnings exposure across Americas Coverage

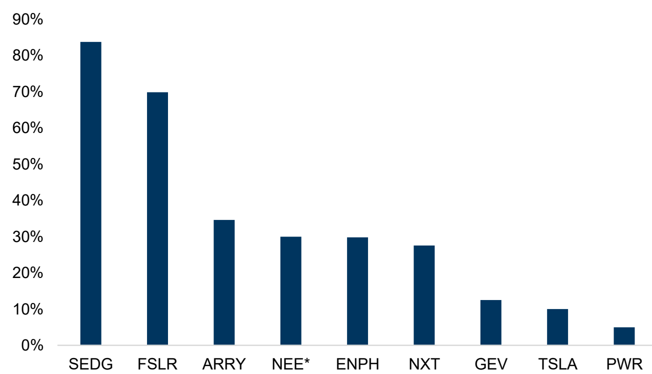
| Industry | Company | Ticker | Analyst | Rating | Mkt. Cap ($bn) | YTD % | 12-mo PT | Upside/ Downside | IRA Exposure (EPS/stock) |
|---|---|---|---|---|---|---|---|---|---|
| Clean Technology | First Solar | FSLR | Brian Lee, CFA | Buy | $20.9 | 13% | $279 | 43% | ● |
| | Enphase | ENPH | Brian Lee, CFA | Buy | $11.4 | -37% | $145 | 75% | ◕ |
| | Array Technologies | ARRY | Brian Lee, CFA | Buy | $1.0 | -61% | $14 | 114% | ◕ |
| | SolarEdge | SEDG | Brian Lee, CFA | Sell | $1.0 | -82% | $19 | 11% | ● |
| | Nextracker | NXT | Brian Lee, CFA | Buy | $5.9 | -15% | $63 | 58% | ◕ |
| Energy Services | Quanta Services | PWR | Neil Mehta | Buy | $45.3 | 40% | $328 | 9% | ◔ |
| US Multi-Industry | GE Vernova | GEV | Joe Ritchie | Buy | $82.7 | 115% | $324 | 7% | ◑ |
| Utilities | NextEra | NEE | Carly Davenport | Buy | $163.1 | 30% | $92 | 16% | ◕ |
| Autos & Industrial Tech | Tesla | TSLA | Mark Delaney, CFA | Neutral | $873.7 | 1% | $250 | 0% | ◑ |

◔ 5% or less ◑ 5% to 25% ◕ 25% to 50% ● 25% to 50%

Pricing as of October 31, 2024

Source: Goldman Sachs Global Investment Research

**Exhibit 2: Ranking of IRA exposure based on % of EPS**
Top IRA exposed names based on profitability exposure across Americas Coverage




*NEE based on EBITDA

Source: Goldman Sachs Global Investment Research

# Stocks in Focus - Clean Technology (Brian Lee)

**Within our Clean Technology coverage, we view ARRY, FSLR, and SEDG as having the most future earnings exposure to the IRA. Below, we detail our framework for each stock plus ENPH and NXT (also in the top 9).**

### First Solar (FSLR; Buy - covered by Brian Lee)

**Company overview:** FSLR is the largest solar module manufacturer in the US, specializing in thin-film technologies. The company maintains a strong presence in the US, which represented ~90% of its 2023 sales. We expect FSLR to have a nameplate capacity of ~25GW by the end of 2026, including ~14GW of annual production capacity within the US.

**How it benefits from IRA:** The IRA includes domestic manufacturing credits for solar cells ($0.04/w), modules ($0.07/w), and wafers (~$0.06-$0.07/w), resulting in $0.17/w of total credits. FSLR recently inaugurated its 3.5GW facility in Alabama, and expects to bring online a similar sized facility in Louisiana in 2026. As a result, we model the company's annual domestic capacity to increase from ~5.9GW in 4Q23 to 10.2GW in 4Q24 and 14.7GW in 4Q26. Notably, other companies are also able to leverage FSLR modules to qualify for a 10% domestic content bonus that is realized from purchasing domestically manufactured modules.

**IRA exposure:** As of 2023, the company benefited from $675mn of manufacturing credits due to its domestic manufacturing, or 81% of FSLR's non-GAAP EPS of $7.74. In 2024 the company guided to realizing roughly $1.02bn-$1.05bn in IRA credits as well. **In 2026, we forecast $2.0bn in IRA credits, which represents ~70% of our non-GAAP EPS of $27.66.**

### Enphase Energy (ENPH; Buy - covered by Brian Lee)

**Company overview:** ENPH is the global manufacturing leader for solar microinverters, which are mostly installed in residential markets but also commercial. ENPH also provides residential energy storage systems, in addition to energy management hardware and software products. The US accounted for ~64% of ENPH's 2023 revenue, but the company's products are deployed in more than 150 countries.

**How it benefits from IRA:** ENPH benefits from domestic manufacturing credits included in the IRA, which provides $0.11/w for solar microinverters. We note that the IQ8 microinverter has different configurations that range from 245 watts to 384 watts of max continuous output power, offering ~$27-$42 of gross tax credits per microinverter, which it then partly shares with its contract manufacturing partner. ENPH started realizing 45X credits from its US manufacturing operations in 2Q23, which we estimate can ramp from ~500k units in 1Q24 to nearly 2.0mn units in 4Q24.

**IRA exposure:** In 2023, ENPH generated ~$42mn in net tax credits, or 11% of GAAP EPS (diluted) and 7% of non-GAAP EPS (diluted), and management guided for $38mn-$41mn in net tax credits in 4Q24 (or ~61% of our current GAAP EPS and 32% of non-GAAP EPS). **Looking ahead, we forecast ~$275mn in IRA credits in 2026, or 30% of our non-GAAP EPS of $6.42.** In addition, we believe ENPH is well-positioned to benefit from resi solar TPOs seeking to take advantage of the 10% domestic content tax adder since microinverters can nearly achieve the 40% domestic content threshold on their own.

### Array Technologies (ARRY; Buy - covered by Brian Lee)

**Company overview:** ARRY is a leading supplier of solar trackers, both domestically and internationally, a technology deployed mostly in ground-mount solar projects to enable the solar panel to track the sun, increasing efficiency. ARRY is therefore highly levered to the growth in utility-scale solar installations in the US where we forecast a CAGR of ~7% between 2024-2027 and the region accounted for 74% of ARRY's 2023 revenue.

**How it benefits from IRA:** We view ARRY as an immediate beneficiary of demand tailwinds from the IRA, specifically the extension of the solar ITC at 30% and an additional 10% bonus for meeting domestic content requirements. On the manufacturing side, the company is well-positioned to benefit from the US utility-scale market under the IRA, leveraging strategic partnerships with vendors for 45X Credit eligible parts, which yield "Vendor Rebates" tied to tax credit benefits. ARRY has 30GW of domestic manufacturing capability, which positions the company to be able to meet demand from continued utility scale growth in the US.

**IRA exposure:** While ARRY does not specifically break out 45X credits, the company noted on the most recent earnings call that adj. GMs inclusive of IRA benefits were ~35%, compared to GMs ex. IRA benefit that would have been in the low 30s. These credits include benefits from torque tubes $0.87/kg and fasteners $2.28/kg, which the company noted to be ~$0.015-$0.017/MW. ARRY is also looking for further clarity regarding eligibility of additional parts that might qualify under 45X as well. **Looking ahead, we forecast ARRY to receive ~$80mn in 45X credits in FY2026, or ~35% of non-GAAP EPS.** We estimate that these IRA credits will reduce COGS in FY2026 by roughly (~8%).

### Nextracker (NXT; Buy - covered by Brian Lee)

**Company overview:** NXT is a global leader in providing integrated solar tracker and software solutions to utility-scale and distributed generation solar projects. NXT has a strong sales presence across all regions, and the company's geography mix is 68%/32% US/International in fiscal 2024E. NXT maintains the largest market share (38% as of CY2023) within the US, where the top 3 players in the market account for 89% of tracker shipments.

**How it benefits from the IRA:** NXT is the market leader in the US and maintains annual manufacturing of >30GW domestically. As a result, the company benefits from 45X manufacturing credits, as well as demand tailwinds from the ITC/domestic content adders under the IRA. These 45X domestic manufacturing credits are used to reduce the bill of materials and show up as a reduction in COGS under the company's reporting. NXT is eligible for credits in relation to torque tubes $0.87/kg and fasteners $2.28/kg, which we estimate to be in the range of ~$0.015-$0.017/MW.  The company had ~$47mn in advanced manufacturing tax credit vendor rebates in FY1Q25, which represented $0.31 cents of additional earnings in the quarter and implies a roughly ~55% share of the credits that vendors received.

**IRA exposure:** While NXT does report credits it receives quarterly, we only have 1 quarter of data; we estimate that NXT is receiving north of 50% credit share with vendors. The company looks to utilize these credits to lower its bill of materials, and we estimate that in F1Q25 these 45X manufacturing credits resulted in a (~8%) decrease in COGS. We anticipate the company to utilize both, 45X credits and price, as levers to maintain its target margin profile of high 20s to low 30s as well as expand the company's TAM. **Looking ahead, we forecast ~$204mn in IRA credits in FY2027, or 28% of our FY2027 non-GAAP EPS estimate of $3.84.**

### SolarEdge (SEDG; Sell - covered by Brian Lee)

**Company overview:** SEDG is a leading global solar inverter supplier and provides solutions for residential, commercial, and small utility-scale solar systems. SEDG has a strong international sales presence, and we estimate its geographic sales mix of ~70%/30% international/US. Notably, SEDG is one of two dominant residential solar inverter suppliers in the US.

**How it benefits from IRA:** The IRA includes domestic manufacturing credits for residential inverters, with a $0.065/w credit for string inverters and $0.11/w for microinverters or string inverters paired with optimizers. Additionally, commercial inverters offer a $0.02/w credit. SEDG started receiving manufacturing credits in 4Q23 with its string inverter manufacturing facility in Texas and it recently started shipping optimizers from its facility in Florida, which should provide a boost to the credits it receives.

**IRA exposure:** SEDG generated tax credits of $11mn in 2Q24, which compares favorably to its non-GAAP net loss of $101mn. **In 2026, we forecast $164mn of IRA credits, which reduces COGS by 9% and represents 84% of our non-GAAP EPS estimate of $3.22.** The company should also benefit from resi solar TPOs looking to take advantage of the 10% domestic content adder when inverters are paired with an optimizer, which can almost achieve the 40% domestic content threshold.

## Stocks in Focus - Energy Services (Neil Mehta, Ati Modak)

**Within the Energy Services coverage, we view PWR as the stock with most exposure to the IRA.**

### Quanta Services (PWR; Buy - covered by Neil Mehta/Ati Modak)

**Company overview:** Quanta Services is a specialty contractor that primarily provides engineering, construction and maintenance services for the electric and gas utility and midstream oil and gas end markets. Given this exposure, Quanta is a key player for the deployment of renewables across North America, and we believe PWR's transmission and distribution work for large-scale utilities positions the company as a primary beneficiary of increased power demand.

**How it benefits from IRA:** As a provider of engineering, construction and maintenance services for wind and solar projects as well as services for transmission and distribution, PWR benefits from the IRA mostly through increased demand.

**IRA exposure:** While we attribute no earnings to the IRA in 2023, we note that every 10% increase in installed capacity of solar equates to a 1% increase in earnings per year through 2030E, all else equal. Given this, we anticipate the IRA will drive an improved earnings outlook. We highlight PWR as well-positioned to capitalize on increased power demand and T&D investments given the company's 15% market share as well as experience building out 50% of the US transmission system.

## Stocks in Focus - Utilities (Carly Davenport)

**Within the Utilities coverage, we view NEE as having the most stock related exposure to the IRA.**

### NextEra Energy (NEE; Buy - Covered by Carly Davenport)

**Company overview:** NEE is the parent company of the regulated utility Florida Power & Light (FPL), as well as its renewable focused subsidiary NextEra Energy Resources (NEER). NEER owns the largest renewable portfolio in the nation, and management mentioned it has a 20% market share in the renewable developer space. NEER has a development plan that aims to install up to ~47 GWs of renewables and storage through 2027, and expects to achieve a total renewable and storage portfolio of 81 GWs by the end of 2027.

**How it benefits from IRA:** As the largest renewable developer in the US with a ~20% market share, NEE has significantly benefited from tax credits that the IRA both extended and created. NEE plans to use tax equity financing and tax credit monetization to fund its growth, and without the existing tax credits for renewables it would be challenging to grow at the same pace. We believe NEE's strong, long-term growth outlook is supported by these tax credits, though we note the inflection in power demand has created a new source of pricing/volume support.

**IRA exposure:** Currently, we estimate 29% of 2023 revenue was attributable to IRA tax credits. **Looking ahead, we expect ~30% of NEE's 2026 EBITDA is exposed to IRA credits.** Additionally, NEE leverages tax equity financing, which is a market that has experienced strong growth given the vast amount of tax credits created by the IRA, to fund its growth.

## Stocks in Focus - US Multi-Industry (Joe Ritchie)

**Within the US Multi-industry coverage, we view GEV as having the most earnings exposure to the IRA.**

### GE Vernova (GEV; Buy - covered by Joe Ritchie)

**Company overview:** GEV is an electric power (i.e., gas, wind, nuclear, hydro, solar) company that provides equipment/services to generate, transfer, convert and store electricity. The company has three reporting segments: Power, Wind and Electrification, and is a global business with operations in the US (38% of 2023 sales), Europe (25%), Asia (16%) and all other regions (21%). Over the long term, we are optimistic on GEV's position in helping the world electrify and decarbonize given GEV's assets serve > a $250bn market with a current backlog > $100bn.

**How it benefits from the IRA:** For GEV, the IRA holds most value for its Wind segment. They have adopted a strategy of focusing their efforts domestically and currently ~70% of their Onshore Wind equipment RPO is attributed to the United States. The IRA has introduced new and extended existing ITCs and PTCs, which improves the economics for GEV's customers and turbine producers for US projects. The life of the new PTCs will be ~10 years and could extend well beyond that, providing a tailwind to long-term demand for wind projects in the US. We estimate 10%-15% of 2025-2026 profitability is attributable to IRA credits.

**IRA exposure:** We expect GEV to benefit from the IRA ITC/PTC credits which would support greater volume leverage and increased cash flow for the company. Onshore makes up ~80% of the Wind segment today, and they are seeing an influx of capital and incentives in the US, which they estimate is driving ~$1bn/GW in project/manufacturing tax benefits. Within Onshore Wind, the IRA drove > $10bn in orders in 2023 (B2B: > 1.3x) and this should start to ramp in 2H24, on the back of which we expect Onshore Wind to grow +6%/+6% in 2025/2026. Within our Multis coverage, we believe GEV is uniquely positioned to benefit from this secular growth trend.

## Stocks in Focus - Autos & Industrial Tech (Mark Delaney)

**Within the Autos and Industrial Tech coverage, we view TSLA as having the most IRA exposure.**

### Tesla (TSLA; Neutral - Covered by Mark Delaney)

**Company overview:** Tesla is a leading provider of electric vehicles, energy generation and storage systems, and related software and services. We believe that Tesla is well-positioned for long-term growth, given its leading position in the EV and clean energy markets (which we attribute in part to its ability to offer full solutions including charging, storage, software/FSD and services with a direct sales model), but we believe that this is generally reflected in the stock given the premium valuation.

**How it benefits from the IRA:** Tesla is both a direct beneficiary of the IRA bill from the 45X advanced manufacturing production credits and indirectly from the 30D consumer clean vehicle credit.

We believe that Tesla is directly benefiting from 45X credits of up to $45 per kWh for batteries and packs in total, which as an illustration could total ~$4.5K for a vehicle with a 100 kWh pack (for the vehicles where the company makes both the 4680 cells and the packs). Additionally, Tesla benefits from lower costs on the cells that its partner Panasonic generates on cell production in Nevada. For vehicles where Tesla shares the cell credit and captures the pack credit, we estimate that it could benefit by ~$1K-$3K per vehicle.

Tesla also indirectly benefits from the 30D consumer credit, which provides consumers the ability to claim EV credits of up to $7,500 per vehicle (albeit the EV must meet certain critical mineral and battery component requirements). While Tesla may not receive a direct benefit, we believe the consumer 30D credit stimulates demand by helping with the affordability of EVs. Notably, most Model Y and Model 3 variants (Model 3 and Model Y accounted for >90% of Tesla's US deliveries in 2023, per Motor

Intelligence) are eligible for the EV tax credit of up to $7,500.

**IRA exposure:** Given our Tesla delivery estimates in 2026 and the likely continued ramp of 4680 cells for Tesla's vehicle fleet, **we estimate that the direct impact of the IRA credits (45X manufacturing credits) to Tesla's overall earnings in 2026 will be a mid-single digit to mid-teens percent.**

## Valuation and Key Risks

- **FSLR (Buy):** Our 12-month price target of $279 is based on an 11X ex-cash P/E multiple on our Q5-Q8 EPS with ~$6 per share in net cash added back. Key risks include module oversupply, higher than expected module costs, trade policy and changes to US manufacturing credits.
- **ARRY (Buy):** Our 12-month price target of $14 is based on a 13X P/E on Q5-Q8 EPS. Key risks include competition, customer attrition, patent protection, market demand, policy, and supplier product availability/pricing.
- **ENPH (Buy):** Our 12-month price target of $145 is based on a 25X P/E multiple applied to our Q5-Q8 EPS, and adding back ~$7 of net cash per share. Key risks include lower-than-expected revenue growth and margins, changes in the competitive and technology landscape, US-China tariffs, and abnormal inventory builds across the channel.
- **NXT (Buy)**: Our 12-month price target of $63 is based on a 17.5X P/E multiple on our Q5-Q8 EPS. Key risks include increasing competition, customer attrition, patent protection, market demand, policy, and supplier product availability/pricing.
- **SEDG (Sell)**: Our 12-month price target of $19 is base don a 10X ex-cash P/E multiple on Q5-Q8 EPS with ~$0.72 in net cash per shade added back. Key risks include a rebound in pricing, ASP increases due to favorable product mix, inventory channel clearing out faster than expected, policy shifts that could reignite growth, any increase in energy prices or demand could drive more demand for cheaper energy production across the board, especially if consumers are hard hit, which would drive residential installations.
- **PWR (Buy):** Our 12-month price target is $328, which reflects our target 18.0x STM (second twelve months, or Q5-Q8) EV/EBITDA multiple. Key risks include **1)** Slower revenue CAGR across segments from loss in project volume momentum, **2)** Delays in project deliverables from supply chain related challenges, **3)** Slower margin progression across the three segments from cost inflation or other operational challenges.
- **GEV (Buy):** Our 12-month price target of $324 is based on our Q5-Q8 EBITDA multiple of 20x.. Key risks include, slower growth due to regulatory/geopolitical changes, project delays from supply chain disruptions and execution risk.
- **NEE (Buy):** Our 12-month price target of $92 is based on a SOTP. Key risks relate to 1) a slowdown in renewables demand or deterioration in economics for these projects, 2) the impact of higher interest rates on financing costs, 3) ability to

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# Renewable & Alternative Energy

## Following Decisive Presidential Election, Fate of the IRA Rests With the House

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### CONCLUSION

Donald Trump decisively won the Presidency and Republicans successfully flipped the Senate. Unsurprisingly, our coverage universe is under tremendous pressure pre-market (down 10-20%+) given higher risks of a whole/partial IRA repeal. The two remaining important unknowns surround whether Republicans take the House and their potential margin of victory. Our Macro team believes the GOP is slightly favored to maintain a narrow House majority (<10 seats). The margin of victory within the House is important as some Republicans have openly voiced support for the IRA due to the jobs created in red counties. A narrow GOP House majority could provide a buying opportunity for certain names (NXT, FSLR); however, a decisive GOP majority leaves much of our coverage searching for a bottom. We revisit the key points from our July IRA update below and will provide a comprehensive update on our coverage once we have a clearer view on the House.

**Briefly Revisiting Our IRA Repeal Downside Note From July:**

- **What's at risk from wholly/partially repealing the IRA?** The Rhodium group and MIT/CEEPR estimate that almost $250B of capital has been deployed since 3Q'22 (IRA passed in August 2022) across clean energy manufacturing, production, carbon capture/removal, and other forms of industrial de-carbonization. These investments tend to be deployed in red counties and are often financed by banks or infrastructure funds. Thus, eliminating both demand/supply-side credits places a significant amount of capital at risk.

- **What's been the impact of the IRA to renewable project development?** Large-scale solar/storage projects under development have increased by >50%/>105%, there has been a significant increase in LT renewable resource expectations by utilities, cash-generation from resi developers is approaching an inflection given IRA bonuses, and green hydrogen projects could come online by '30.

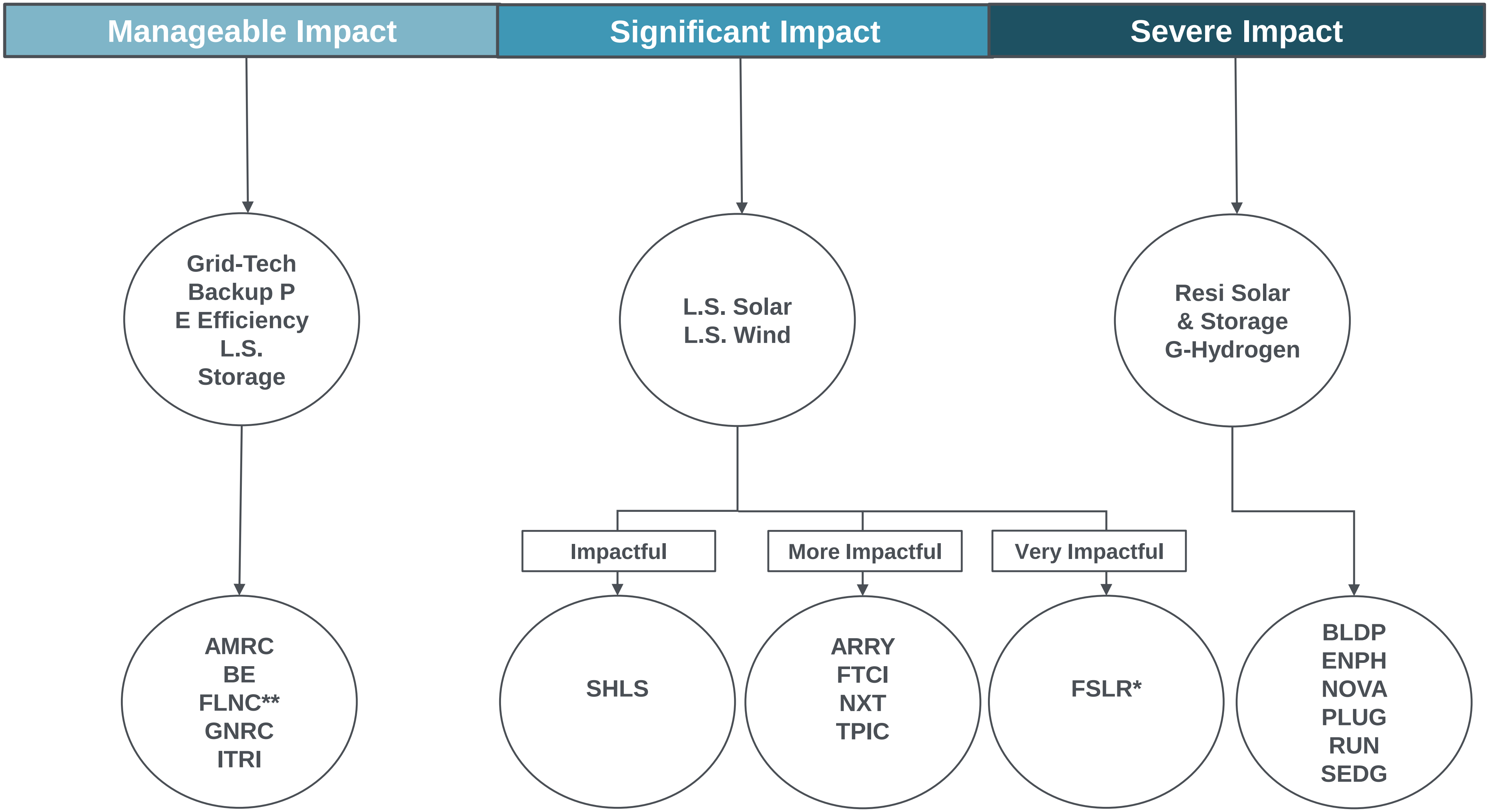
- **What's the potential market impact from a full/partial repeal?** History informs us that renewable project development "resets" at lower levels following abrupt negative changes in policy; however, divining the degree of disruption with high confidence is an exercise in futility. Thus, we highlight a broader perspective on whether full/partial IRA repeal scenarios could have a manageable (0-10%), significant (10-50%), or severe (>50%) impact to longer term expectations. We view the potential impact to: grid/efficiency/storage expectations as manageable (AMRC, BE, FLNC, GNRC, ITRI), ute-scale renewables as significant (ARRY, FSLR [severe], FTCI, NXT, SHLS, TPIC), and resi/green-hydrogen as severe (BLDP, ENPH, NOVA, PLUG, RUN, SEDG). Finally, while we view the longer-term impact to storage as manageable, we flag that significantly increased tariffs on China create significant uncertainty for '25 until supply-chains re-adjust. *See flowchart in full note.*

| Related Companies: | Share Price: |
|---|---|
| AMRC | 35.40 |
| ARRY | 7.61 |
| BE | 11.40 |
| BLDP | 1.67 |
| ENPH | 89.94 |
| FLNC | 22.42 |
| FSLR | 215.89 |
| FTCI | 0.58 |
| GNRC | 181.81 |
| ITRI | 117.68 |
| NOVA | 7.06 |
| NXT | 44.09 |
| PLUG | 2.52 |
| RUN | 16.91 |
| SEDG | 18.87 |
| SHLS | 6.14 |
| TPIC | 3.73 |

### INDUSTRY RISKS

Adverse changes in regulatory policy, rapid increases in interest rates, and growth beneath expectations.

# What’s the potential market impact from a partial IRA repeal?




Manageable impact: 0-10%; Significant impact: 10-50%; Severe impact: >50%

*LS = Large-Scale; FSLR has severe impact since elimination of 45X credits reduces 2026 EPS by >60%

**Anti-china trade policy could result in near-term disruption. The manageable impact comment for storage refers to demand levels once supply-chains readjust

EQUITY RESEARCH

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November 6, 2024

# Global Power, Utilities & Infrastructure

## U.S. Elections - What to expect under a Trump presidency

**Our view:** As detailed below, we expect headwinds for regulated utility and renewable power stocks with U.S. assets, while North American midstream stocks could benefit from policies that facilitate increased oil and gas production, and possibly permitting reform.

### Independent Power Producers

- North American Renewable IPPs: We expect North American renewable power stocks (**NEE, AES**) will be under pressure given concerns about President Trump's plan to repeal the Inflation Reduction Act, while also backing measures to increase fossil fuel production. The House dynamic will determine the fate of the IRA, as 19 Republicans have expressed support.
  - **U.S.-based IPPs:** Looser regulation may encourage new gas-fired facilities, thus moderating higher power prices, but the buildout will take years, thus preserving the positive backdrop for merchant generators. We favor **VST** among the IPPs.
  - **Canadian-based IPPs:** We expect the sector to trade lower under a Trump government on sentiment regardless of whether companies have development exposure in the U.S. (**BEP** has the most exposure, while **BLX**, **INE**, and **NPI** have no construction-ready U.S. projects).
- **European Renewables:** A Trump presidency would likely present a challenge to the future sentiment for European renewables with some pure European renewables players down about 10% today. We believe this is explained by the market expectation of a reduction in the valuation of future growth pipelines, particularly for U.S. assets. Across the key renewable technologies, we see offshore wind as the most exposed given the permitting process for future projects might be halted by federal government agencies. Of the companies in our coverage that are the most exposed to U.S. offshore wind, we highlight **Ørsted**, **EDPR** and **Iberdrola**, while highlighting that there may also be a wider negative sentiment towards the outlook for renewables across the sector.

### Regulated Utilities

- **U.S. Regulated Utilities:** We believe that utility investors expect a victory by President Trump to drive negative sentiment for defensive utilities with little exposure to datacenters, like the gas and water utilities. The Trump trade seems to have been a prevailing strategy, according to numerous investor conversations. A Republican sweep would raise questions regarding broader support for clean energy as well as whether tax reform may have a negative impact on utilities.
- **Canadian Regulated Utilities:** In addition to the themes highlighted for U.S. Regulated Utilities, we note the potential for corporate tax cuts, which would be flowed through to customers with a negative overall impact on utility cash flow given deferred taxes and double leverage. As such, a tax cut could negatively impact the credit metrics for utilities with material U.S. operations (i.e., **Algonquin**, **Emera**, **Fortis**), possibly resulting in a modest incremental need for equity.
- **European Regulated Utilities:** As originally highlighted in the RBC Strategy Spotlight (please click here), we do not expect the U.S. election results to have a material impact on the sector.

### Midstream

- **What's good for producers is good for midstream.** We expect President Trump to favor fossil fuel production, and any increase in oil and gas production should be good for midstreamers by filling up excess capacity and underpinning new infrastructure projects. In addition, if permitting and other regulatory requirements loosen, midstream infrastructure (including pipeline) costs could benefit from lower costs as well as shorter-cycle construction times (i.e., faster conversion to cash flow).
- **No material impact for WCSB-focused midstream stocks.** While there could be implications on the margin for energy prices, Lower 48 supply and the growth in energy demand, we do not expect the U.S. election outcome to materially impact the Western Canadian-focused midstream stocks.

Priced as of prior trading day's market close, EST (unless otherwise noted). All values in USD unless otherwise noted
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**For Required Non-U.S. Analyst and Conflicts Disclosures, see page 3**

UBS



# European Energy

## US Election Reaction - European Energy

Equities

Europe including UK

Energy

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From a macro perspective, we believe a Trump presidency has **mixed outcomes for crude oil**, although the initial view is likely to be negative given sentiment around potential increases to US supply, the negative potential impact to demand from tariffs and any increased probability of a ceasefire in Ukraine (link). The main tail risk could be geopolitical in nature.

We see **more bearish implications for European natural gas** under any increased probability of a ceasefire in Ukraine with net long paper positions in TTF back to mid-2021 high points. The market may start to factor in higher expectations of higher Russian piped gas exports to Europe which would reduce the risk premium in the price.

We see **more bearish implications for European refining margins**, also reflecting any increased potential for a ceasefire in Ukraine and any return of Russian diesel and vacuum gasoil (VGO) to Europe putting pressure on margins. This however may be partially offset by lower opex for refiners given likely decreased logistics and energy costs.

From a stock perspective, we see the **key potential beneficiaries of a Trump presidency** as those with more financial exposure to Russia, less exposure to European natural gas and less exposure to renewables in the US. This would therefore include:

- **bp** - given its 19.75% stake in Rosneft (now deconsolidated) and less earnings exposure to natural gas.
- **OMV** - given its gas supply contracts with Russia, partially offset by a higher earnings sensitivity to natural gas in Europe.
- **TTE** - given its 19.4% stake in Novatek (now deconsolidated) and LNG projects in Russia (Yamal and Artic LNG 2), partially offset by a higher earnings sensitivity to natural gas in Europe.
- **MOL** - on improved sentiment for Hungary.

Meanwhile, those on the other side and more likely to be laggards under a Trump presidency include:

- **Equinor** - more exposure to European natural gas and renewable power in the US.
- **Neste** - more exposure to renewable fuels in the US with greater attention on the potential conversion of the BTC to a PTC. This however has been known for some time and we do not yet know of any potential change in policy at the federal level, whilst the LCFS mandates in California are set to be increased on 8 November.
- **Tupras** - more exposure to European refining margins whilst the company could lose its competitive advantage over other European peers given its access already to cheap Russian oil and gas.
- **Green hydrogen stocks** - sentiment is likely to weaken given greater risk of a slower build out of renewables in the US and hydrogen funding at risk. All eyes on the IRA approval (45V) from the US Treasury by year-end. Most exposed project backlog is NEL, in our view.

WELLS FARGO

Flash Comment — November 6, 2024

**Clean Energy**

# Clean Energy: Red Sweep Reaction to Be Red, but We're Buyers of FSLR on Weakness

## Our Call

We're buyers of FSLR on weakness. Knee-jerk reaction to Election & pot'l repeal of IRA will likely cause FSLR to be weak today. However, we think it's unlikely 45X credits are touched. Plus ASPs could go higher if Trump enacts restrictive tariffs.

## Initial Thoughts

**Red Wave = Red on Your Screen Today.** We see the knee-jerk mkt reaction to the likely red sweep as negative for entire clean energy sector (FSLR, NXT, ARRY, SHLS, ENPH, SEDG) on the notion that parts of the IRA will be repealed and the environment will generally be less friendly for renewables. Overall, we would expect the sector to be weak for some time as the potential risk of IRA repeal will likely weigh on the space & investors are likely to assume the worst. Thus, we remain cautious overall.

**Parts of IRA Are Likely to Get Partially Rolled Back**. We would expect Republicans to dismantle parts of the IRA. However, based on prior comments, the most likely impacted sector could be EVs. While it's possible Congress could repeal the ITCs, 45X credits, or other elements of IRA that support the solar industry, we believe this is less likely given solar manufacturing jobs in the US have been added in mostly red states.

**And Could Be Truncated.** Congress could also potentially sunset some provisions in the IRA (like ITC and PTC) earlier than the current law is written as a way to reduce the cost of the bill and create offsets for other spending initiatives.

**Red Sweep to Be Read as Net Negative for FSLR**. While the specter of higher tariffs on China is positive for FSLR, the potential risk of changes to the IRA likely more than offset this tailwind as FLSR is the IRA beneficiary in solar. Additionally, the potential loss of domestic content adders could have negative implications for FSLR pricing power (we est. $0.06/w of FSLR ASP is tied to domestic content). FSLR is down 14% pre-market vs. a 2% gain for the S&P 500.

**Perception Vs Reality—FSLR (OW) Remains Top Pick**. As the dust settles, we think FSLR will emerge a winner. There's bipartisan support for 45X credits & we believe it's unlikely these credits get repealed under any scenario as they underpin US jobs. We also see upside to FSLR's ASPs depending on the nature of tariffs (up to +$0.10/w). Finally, FEOC legislation to ban foreign entities from receiving IRA funds could get new life in this Congress, presenting another pot'l positive tailwind for FSLR.

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## Summary Comparative Table

| | | Price | Market | P/E | | EV/Sales | | EV/EBITDA | | | Rev Growth | | Gross Margin | | EBITDA Margin | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ticker | 11/05/2024 | Cap ($MM) | 2024E | 2025E | 2024E | 2025E | 2024E | 2025E | 2026E | 1-yr | 3-yr | 2024E | 2031E | 2024E | 2031E |
| Resi / C&I Solar | ENPH | $89.94 | $12,152 | 38.1x | 22.5x | 8.8x | 7.0x | 30.2x | 18.5x | 14.6x | (42%) | (7%) | 46% | 48% | 29% | 35% |
| | GNRC | $181.81 | $10,936 | 26.4x | 21.7x | 2.8x | 2.5x | 15.9x | 13.1x | 11.2x | 7% | 8% | 39% | 39% | 18% | 21% |
| | SEDG | $18.87 | $1,081 | - | - | 1.0x | 0.2x | NA | NA | 4.4x | (64%) | (7%) | (0%) | 32% | (39%) | 13% |
| | **Resi / C&I Solar Median** | | | **32.3x** | **22.1x** | **2.8x** | **2.5x** | **23.1x** | **15.8x** | **11.2x** | **(42%)** | **(7%)** | **39%** | **39%** | **18%** | **21%** |
| Resi Solar Installers | NOVA | $7.06 | $882 | - | - | 10.7x | 9.6x | 8.6x | 8.1x | 8.0x | 15% | 20% | 44% | 51% | 123% | 125% |
| | RUN | $16.91 | $3,780 | - | - | 6.3x | 6.1x | 11.0x | 12.7x | 12.0x | 2% | 8% | 18% | 21% | 57% | 54% |
| | **Resi Solar Installers Median** | | | **-** | **-** | **8.5x** | **7.9x** | **9.8x** | **10.4x** | **10.0x** | **8%** | **14%** | **31%** | **36%** | **90%** | **89%** |
| Utility-Scale Solar | ARRY | $7.61 | $1,156 | 12.1x | 9.7x | 2.0x | 1.5x | 9.6x | 7.7x | 5.9x | (40%) | (3%) | 35% | 28% | 21% | 19% |
| | CSIQ | $16.33 | $1,081 | 14.7x | 4.3x | 0.3x | 0.3x | 3.4x | 3.0x | 2.2x | (8%) | 10% | 17% | 19% | 10% | 16% |
| | FSLR | $215.89 | $23,113 | 16.6x | 11.3x | 5.2x | 3.2x | 10.9x | 6.5x | 3.2x | 27% | 29% | 47% | 38% | 48% | 48% |
| | FTCI | $0.58 | $74 | - | - | 1.2x | 0.5x | NA | NA | 11.6x | (56%) | 31% | (19%) | NA | (76%) | NA |
| | JKS-US | $28.16 | $1,452 | 37.0x | 9.6x | 0.6x | 0.6x | 8.6x | 7.3x | 5.2x | (19%) | 1% | 12% | NA | 7% | NA |
| | MAXN | $10.50 | $161 | - | - | NA | NA | NA | NA | NA | (46%) | (14%) | NA | NA | (22%) | NA |
| | NXT | $44.09 | $6,324 | 12.0x | 11.6x | 2.2x | 1.7x | 9.1x | 7.5x | 6.2x | 20% | 18% | 37% | 25% | 24% | 19% |
| | SHLS | $6.14 | $1,023 | 27.3x | 23.3x | 3.0x | 2.7x | 11.6x | 11.6x | 9.1x | (21%) | (1%) | 41% | 40% | 26% | 29% |
| | **Utility-Scale Solar Median** | | | **15.7x** | **10.5x** | **2.0x** | **1.5x** | **9.3x** | **7.4x** | **5.9x** | **(20%)** | **6%** | **35%** | **28%** | **15%** | **19%** |
| Hydrogen Fuel Cells | BE | $11.40 | $2,601 | - | - | 2.2x | 2.1x | 25.2x | 13.1x | 10.1x | 12% | 8% | 26% | 33% | 9% | 22% |
| | BLDP | $1.67 | $500 | - | - | (0.9x) | 0.4x | NA | NA | NA | (0%) | 32% | (14%) | 19% | (136%) | 9% |
| | FCEL | $0.37 | $204 | - | - | (0.4x) | (0.3x) | NA | NA | (1.2x) | (10%) | 44% | (21%) | 11% | (81%) | 19% |
| | PLUG | $2.52 | $2,217 | - | - | 0.5x | 1.2x | NA | NA | NA | (8%) | 35% | (68%) | 30% | (104%) | 26% |
| | **Hydrogen Fuel Cells Median** | | | **-** | **-** | **0.0x** | **0.8x** | **25.2x** | **13.1x** | **4.4x** | **(4%)** | **34%** | **(17%)** | **24%** | **(92%)** | **21%** |
| Bio-gas | MNTK | $5.79 | $832 | 27.8x | 19.7x | 4.1x | 3.9x | 13.3x | 12.0x | NA | 19% | 16% | NA | NA | 31% | NA |
| | OPAL | $3.88 | $110 | 9.0x | 5.0x | 3.1x | 2.5x | 11.0x | 7.2x | NA | 26% | 25% | 39% | NA | 28% | NA |
| | **Biogas Median** | | | **18.4x** | **12.3x** | **3.6x** | **3.2x** | **12.2x** | **9.6x** | **-** | **23%** | **21%** | **39%** | **-** | **30%** | **-** |
| | **Solar Median** | | | **21.5x** | **11.5x** | **2.5x** | **2.1x** | **10.2x** | **7.9x** | **7.1x** | **(19%)** | **8%** | **36%** | **35%** | **21%** | **25%** |
| | **Clean Energy Median** | | | **21.5x** | **11.5x** | **2.2x** | **1.9x** | **11.0x** | **8.1x** | **7.1x** | **(8%)** | **10%** | **26%** | **31%** | **18%** | **21%** |

Note: Estimates for NXT are calendarized. The company's fiscal year ends on March 31st.
Note 1: FactSet consensus estimates used for non-covered companies (FTCI, JKS, MAXN, MNTK, OPAL, SHLS).
Source: FactSet and Wells Fargo Securities, LLC estimates