North American Utilities & IPPs

1Q20 Regulated Utility Preview: Who is key in COVID resiliency?

Price Objective Change

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Prospects for 1Q20: COVID, oil prices and mild weather

We present our 1Q20 regulated preview including LNT, AEE, AEP, AWK, ED, DTE, DUK, EIX, ETR, WTRG, EVRG, ES, FE, PNW, PPL, WEC, and XEL. Overall, we see the sector splitting into stocks well-suited to weather the storm that started in 1Q – and those that are less equipped. Key factors that distinguish between these include: Having decoupling and/or bad debt trackers to balance out decreases in demand from COVID, oil price, and mild weather pressures (**ES**, **ED**, **WEC**); revenues with a heftier reliance on resi or fixed-charges vs industrial or volumetric (**FE**, **AWK**, **WTRG**) strong FFO/debt metrics (**AEE**); and having room in original 2020 O&M projections for more savings given these pressures (both **LNT** and **XEL** had factored in increases YoY). We have updated our models and made a number of changes to our ests and POs using a 17.6x peer multiple for both electric and gas.

Key company views for 1Q

For 1Q, we expect **EIX** mgmt. to focus on wildfire mitigation execution as well as decoupling/other constructive regulatory mechanisms to offset COVID related pressures; focus remains on the equity overhang where mgmt. is likely to delay its '20 issuance into 2H - *'20* equity addresses mgmt.'s current expectations for wildfire related liabilities and timely recovery of memo accounts ($1.09bn in aggregate); we believe clarity on these outcome remain protracted and uncertain at best. For **DUK**, we see a weak 1Q with weather related headwinds; expect mgmt. to talk-up cost reductions up to $150mn to offset COVID related pressures (3-5% decline in load?); rate case risks in Carolinas remain with ROE and coal ash to be litigated with still wide bid-ask. Resi compositions of **AWK** and **WTRG** should help limit load degradation, they are largely not decoupled. LT, we would expect tailwinds for further industry consolidation as muni's face add'l budget pressure and see both base capital plans as intact over the forecast period with upside from tuck-ins. While **PPL** is decoupled in the UK, we stress a year two lag before true up and see the company as particularly exposed to load degradation in KY as near term rate relief seems less likely given the current rate paradigm and international crisis (albeit plans for timing not totally clear). UK risks appear to be improving but watch govt reactions to Covid on biz response. On top of O&M room (with -8c YoY), we see **LNT**'s Wisconsin regulatory env, confidence in getting renewables online (w/ two of four already commissioned), and credit metrics ($1.17bn of available liquidity) as strengths. **XEL** too could have more O&M savings and push out rate cases expected this year depending on if spend can be tracked. **AEP** is sensitive given it already factors in significant O&M savings in 2020 guide, but the company has noted it could bend the curve further to mitigate demand impacts from COVID and oil prices; some reprieve at Indiana (still underway) and confidence on North Central have us remain at Buy. **FE** is expected to have a quiet quarter as the Street awaits updates of the the New Jersey rate cases; the rest of the year is quiet on the reg front (a pos). For **AEE** we look for any sign of accelerated coal retirement given this fall's integrated resource plan (IRP) but note federal coal quality regulations have been eased of late. Finally, **ES** may start to give a (further) sense of incremental grid mod spend and is largely one of the lease impacted companies as it is almost fully decoupled. **Click for our other previews: SMID-cap (PacNW), SMID-cap (rest of country), PEG & EXC, AGR & NEE, Gas LDCs and Other Diversifieds**

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1Q Summary and PO Changes

We include a brief summary of our 1Q estimates compared vs Street as well as PO changes reflected in this report.

Table 1: PO Changes

Company	Ticker	New PO	Old PO
Alliant Energy Corp	LNT	$56.00	$58.00
Ameren Corp.	AEE	$85.00	$80.00
American Electric Power, Inc	AEP	$93.00	$89.00
American Water	AWK	$133.00	$128.00
Consolidated Edison	ED	$93.00	$100.00
DTE Energy Co.	DTE	$112.00	$116.00
Duke Energy	DUK	$93.00	$93.00
Edison International	EIX	$69.00	$61.00
Entergy Corp.	ETR	$122.00	$108.00
Essential Utilities	WTRG	$47.00	$50.00
Evergy, Inc	EVRG	$69.00	$70.00
Eversource Energy	ES	$83.00	$93.00
FirstEnergy Corp.	FE	$47.00	$47.00
Pinnacle West Capital Co.	PNW	$84.00	$105.00
PPL Corporation	PPL	$29.00	$36.00
WEC Energy Group Inc.	WEC	$85.00	$95.00
Xcel Energy Inc.	XEL	$66.00	$70.00

Source: BofA Global Research

Table 2: 1Q Estimate Summary: only significant beat remains Sempra

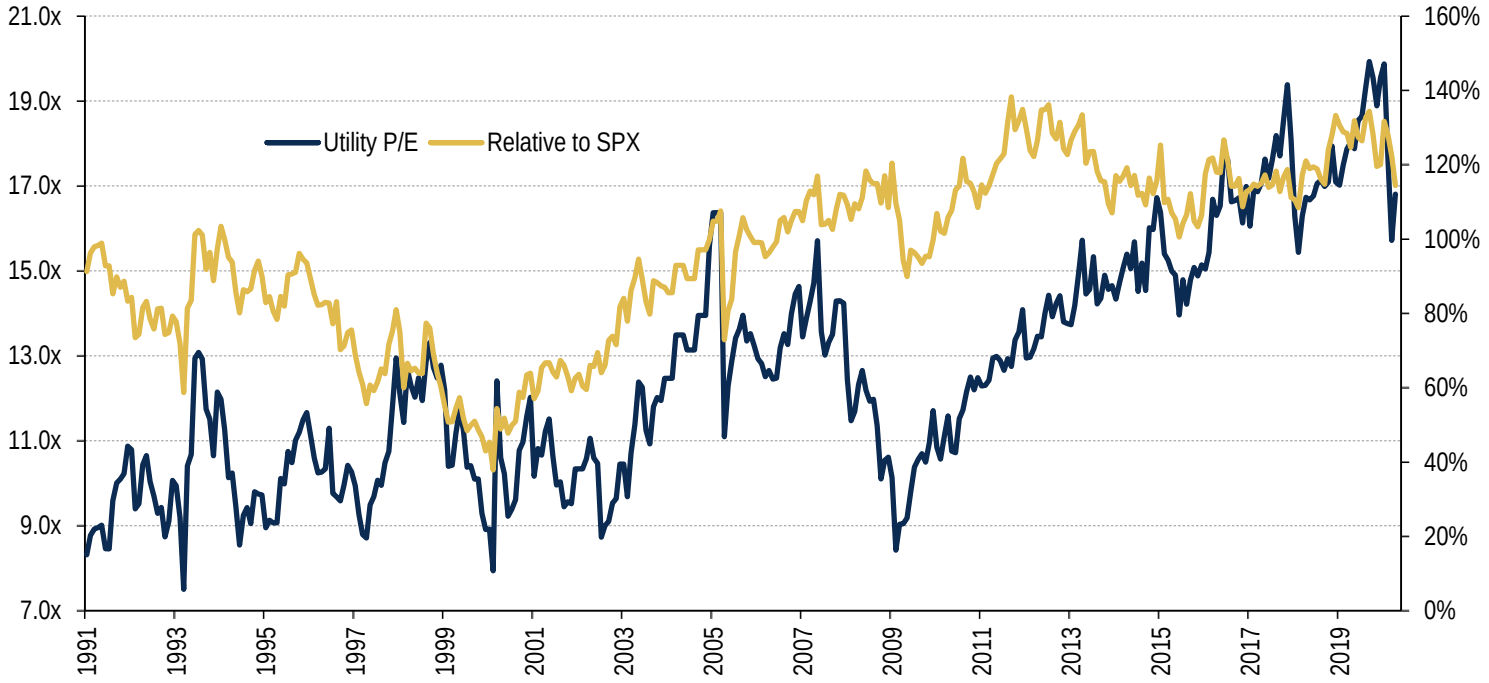
Diversified		1Q20 - BofAe	1Q20 - Cons	Delta
Avangrid Inc.	AGR	$0.71	$0.76	-7%
CenterPoint Energy Inc	CNP	$0.47	$0.46	2%
Dominion Resources	D	$1.11	$1.13	-2%
Exelon Corp.	EXC	$0.86	$0.85	1%
NextEra Energy	NEE	$2.24	$2.20	2%
Public Service Enterprise Group	PEG	$1.05	$1.06	-1%
Sempra Energy	SRE	$2.35	$1.97	19%
Southern Company	SO	$0.72	$0.73	-1%
Regulated		1Q20 - BofAe	1Q20 - Cons	Delta
Alliant Energy Corp	LNT	$0.55	$0.55	0%
Ameren Corp.	AEE	$0.67	$0.73	-8%
American Electric Power, Inc	AEP	$1.03	$1.15	-10%
American Water	AWK	$0.67	$0.67	0%
Consolidated Edison	ED	$1.33	$1.41	-6%
DTE Energy Co.	DTE	$1.80	$1.93	-7%
Duke Energy	DUK	$1.14	$1.23	-7%
Edison International	EIX	$0.81	$0.84	-4%
Entergy Corp.	ETR	$1.01	$1.01	0%
Essential Utilities	WTRG	$0.61	$0.58	5%
Evergy, Inc	EVRG	$0.40	$0.47	-15%
Eversource Energy	ES	$1.02	$1.02	0%
FirstEnergy Corp.	FE	$0.62	$0.63	-2%
Pinnacle West Capital Co.	PNW	$0.15	$0.16	-6%
PPL Corporation	PPL	$0.73	$0.72	1%
WEC Energy Group Inc.	WEC	$1.32	$1.32	0%
Xcel Energy Inc.	XEL	$0.53	$0.62	-15%
SMID		1Q20 - BofAe	1Q20 - Cons	Delta
Avista Corp	AVA	$0.62	$0.63	-2%
Black Hills Corp	BKH	$1.60	$1.66	-4%
CMS Energy	CMS	$0.79	$0.86	-8%
Hawaiian Electric Industries	HE	$0.42	$0.45	-7%
Idacorp, Inc	IDA	$0.77	$0.81	-5%
NorthWestern Corp	NWE	$1.23	$1.27	-3%
OGE Energy Corp	OGE	$0.18	$0.21	-14%
PNM Resources	PNM	$0.18	$0.36	-50%
Portland General Electric Company	POR	$0.90	$0.90	0%
Unitil Corp	UTL	$0.93	$1.05	-11%

Source: BofA Global Research, FactSet

Macro Backdrop

We believe investors are generally skeptical of current sector valuations – and see the continued upward trajectory of the sector as still showing an expensive backdrop from a high level perspective. The chart below shows the latest mark-to-market of the group on an absolute basis and against the SPX; utilities are now trading below their all-time highs on both a relative and absolute basis.

Chart 1: Utility PE vs SPX

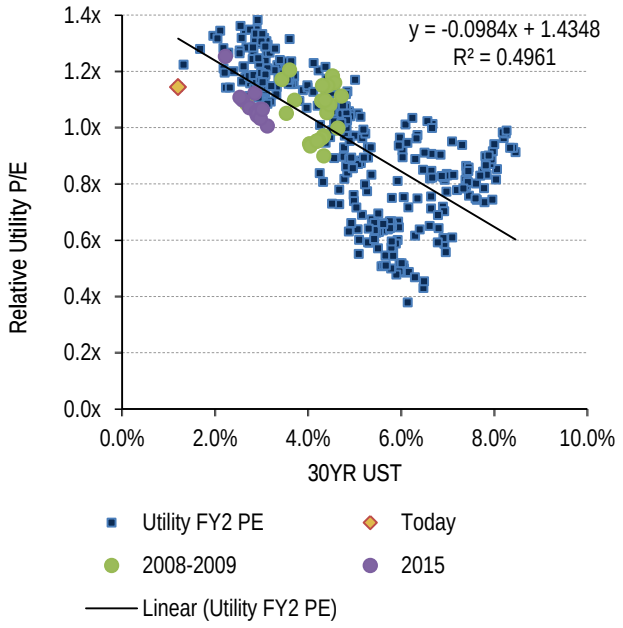


Source: BofA Global Research Estimates, company report, Bloomberg

When adjusting for the S&P itself *and* the treasury environment: different story

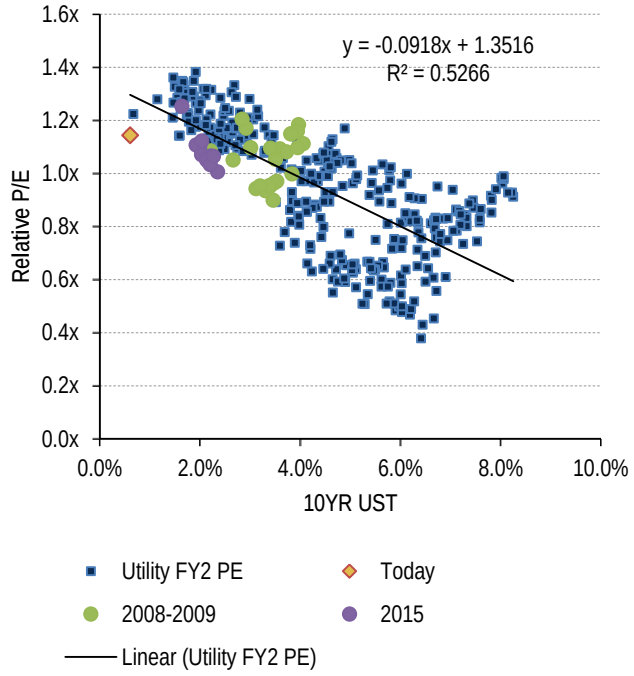
In the exhibits below, we show a time series of where the sector has traded relative to the linear regression on a relative and absolute basis for Treasuries to illustrate the premium; the group has started to trade more in line with its historical linear relationship with 10Yr and 30 Yr Treasuries on a relative basis and could argue somewhat cheap vs historical relationships.

Chart 2: Relative Utility PE vs. 30 YR UST



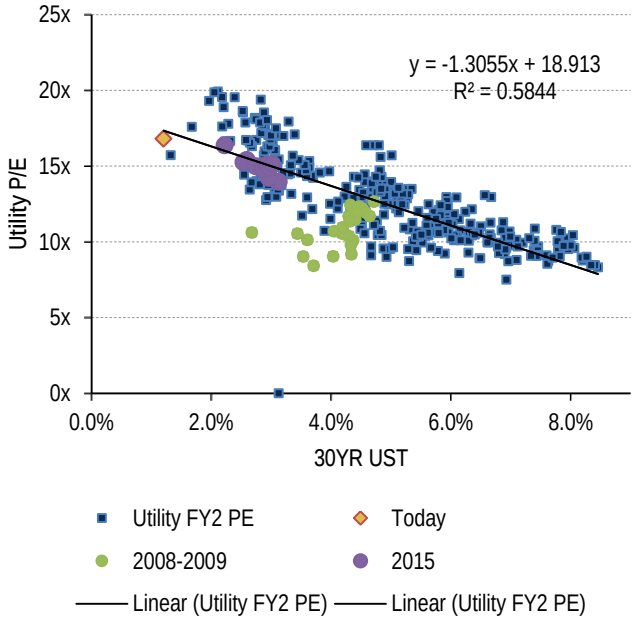
Source: BofA Global Research, Bloomberg

Chart 3: Relative Utility PE vs. 10 YR UST



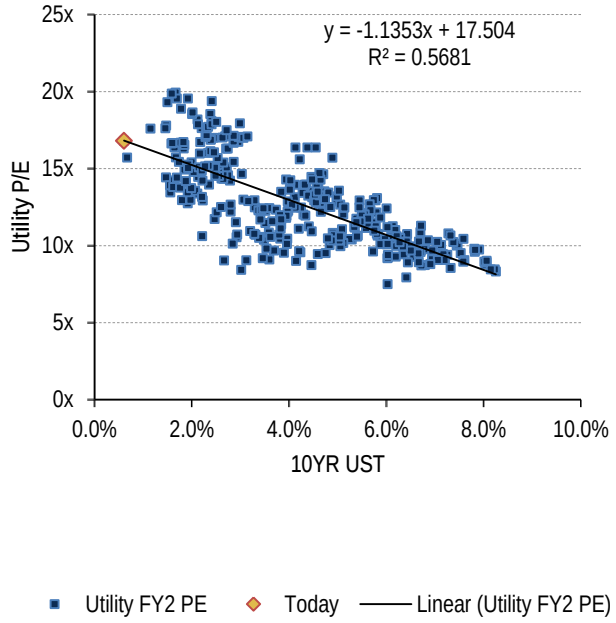
Source: BofA Global Research, Bloomberg

Chart 4: Absolute Utility PE vs. 30 YR UST



Source: BofA Global Research, Bloomberg

Chart 5: Absolute Utility PE vs. 10 YR UST

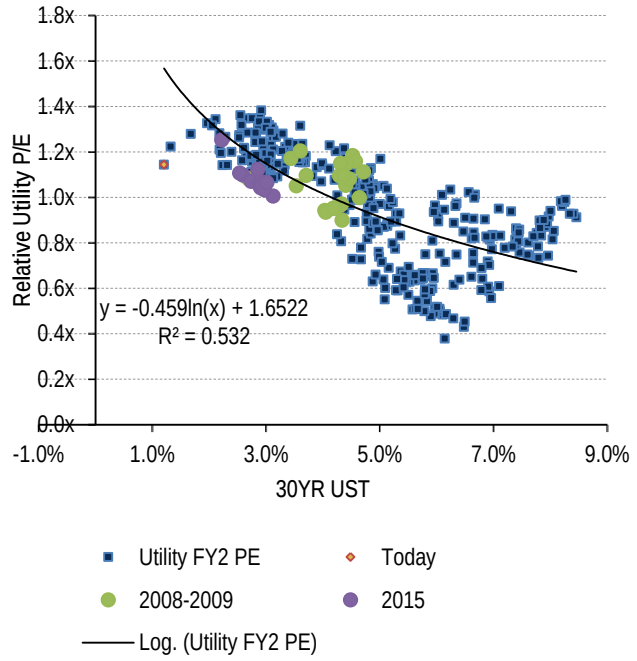


Source: BofA Global Research, Bloomberg

Non-linear makes more sense to us…

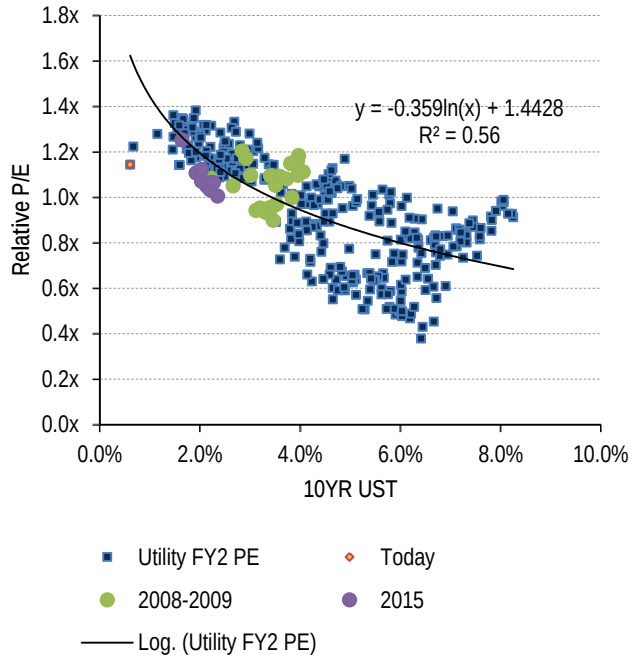
We provide the non-linear relationship below as well given the greater percent change on valuations for every 1% move. We emphasize the limited shift in authorized returns through the cycle also argues that value creation should accelerate with rates declining too. On this basis, the sector looks much less expensive.

Chart 6: Relative Utility PE vs. 30 YR UST



Source: BofA Global Research, Bloomberg

Chart 7: Relative Utility PE vs. 10 YR UST



Source: BofA Global Research, Bloomberg

Alliant (LNT)

We reiterate our Buy going into the 1Q20 call. We adjust down '20 and '21 ests -2c to reflect potential demand impacts from COVID, oil, and 1Q weather – balanced by our expectation that LNT has room for O&M savings as -8c YoY is included in the co's original '20 ests. This takes into account the co's recently disclosed electric sales sensitivity (1% change correlates with an EPS impact of 2c for resi, 1c for industrial, and 1c for commercial), the forecast of 1% sales increasing this yr, and the class breakdown ('19 margins 46% resi, 28% commercial, 26% industrial – with 30-40% of industrial demand fixed, and a hefty chunk agriculture focused that we see as more resilient). We see the company as having stronger credit metrics as well, with $1.17bn of available liquidity as of April 2, 2020. Also recall LNT executed on equity in March. We see other positives for the company including its regulatory relationship in Wisconsin (having deferral of bad debts approved), its ongoing renewable deliveries for the two wind projects to commission in 3Q-4Q (two already commissioned in 1Q), and West Riverside to commission next quarter. Finally, we anticipate the company discusses its forthcoming Wisconsin rate case and solar case. We forecast a 1Q20 estimate of $0.55/sh (the same as Consensus).

LNT 1Q20 Walk

Below we forecast a $0.55/sh 1Q20 EPS, compared to a $0.55/sh Consensus and a $0.53/sh 1Q19 EPS the prior year.

- **Drivers**: We expect about +19c of benefits from the IPL Gas and Electric base rate increases and WPL Electric's as well.
- **Other**: We expect a few of the drivers that LNT provided in its 2020 annual walk (e.g. depreciation, AFUDC, interest expense, other expenses) will be weighted to later quarters, meaning less of an impact of 1Q. Note LNT also has some equity dilution.
- **Wildcard**: As for most companies, the mild winter was noticeable for LNT. We note that 1Q19 saw a +5c benefit (to be reversed now) associated with 800 heating degree days more than average; as such, we expect a -3c hurt in 1Q20 from the mild winter that was 500 days below average. COVID shouldn't impact LNT in a big way yet, since stay at home started mid-March; we expect that the leap day benefit largely counter-balances demand impact since LNT doesn't have decoupling.

Table 3: LNT 1Q20 walk

1Q20 EPS Walk	Notes	EPS Impact
1Q19 Starting Point		$0.53
Weather impact 1Q19	*Had positive*	($0.05)
Weather impact 1Q20	*Very mild*	($0.03)
IPL Base rate increase	*IPL Electric effective 1/8/20; IPL Gas effective 12/18/19*	$0.10
WPL Electric	*New rates at WPL*	$0.09
Depreciation	*-$0.18/sh for full year; weighted more heavily later in yr*	($0.03)
AFUDC increases	*-$0.13/sh for full year*	($0.02)
Other items / O&M / ATC	*-$0.08/sh for full year*	($0.02)
Int Expense	*Debt issuance at WPL and IPL - less neg impact: some was later / intr rates better*	($0.01)
COVID	*Stay at home mid-March balanced by leap yr extra day*	$0.00
Dilution	*Incremental equity dilution*	($0.02)
1Q20 EPS		$0.55
Consensus		$0.55
2020 EPS		$2.44
2020 Consensus EPS		$2.41
2020 Guidance		2.34-2.48
1Q19 Sharecount		237
1Q20 Sharecount		245

Source: BofA Global Research estimates, company report, Bloomberg

Items to track going into 1Q20 call

Key COVID considerations

- **Retail electric margins and sensitivities**: LNT provided sales sensitivities in early April, indicating that a +1% change in electric sales in '20 correlates with a $0.02/sh resi impact, a $0.01/sh commercial impact, and a $0.01/sh industrial impact. It also shared that its 2019 retail electric margins were split such that 46% were resi, 28% commercial, and 26% industrial. Also importantly, LNT acknowledged that 40% of Iowa and 30% of Wisconsin C&I margins are demand-based charges.

- **Diverse industrial customers not all equally impacted**: LNT has a number of C&I customer types, diversifying demand impact. In Iowa, customers are particularly focused on food/agriculture – as well as some chemicals, and manufacturing. In Wisconsin, customers are focused on metals, chemicals, petroleum and plastics (i.e. biofuels), and food. We expect that ethanol has of course been pressured by oil and gas prices, but note that electric demand from farmers should still stays strong as it is too soon to decrease long-term food demand expectations (which would require decisions now to plant less crops for a lower yield this fall).

- **Not decoupled (*for now*) *but* Wisconsin grants bad debt mechanism**: LNT is not decoupled and in its original 2020 guidance expected about 1% sales growth; this included the leap year and industrial customers with operational issues in '19 coming back to normal in '20. Importantly, we see Wisconsin as a positive regulatory environment for LNT, particularly as the state regulators recently approved deferral of bad debts above the revenue requirement. We highlight that the state is evaluating how to proceed with impacts to demand, and we look for future commentary around decoupling in the future.

- **Space for more O&M cuts**: LNT has some room in its earnings for more O&M savings, particularly as it baked in -$0.08/sh YoY in its annual 2020 walk. We expect that the company has some leverage to increase O&M savings in 2020 making the company more resilient to COVID impacts.

- **We expect more demand data to come**: LNT has real-time demand data for resi and commercial customers since AMI exists in both WI & IA, but LNT has about a month lag for industrial data given the meter technology. We expect LNT to provide more customer class-specific impacts from COVID on demand during the 1Q call.

Wisconsin

- **Rate case**: LNT is still analyzing how to file its Wisconsin rate case during this sensitive time, such that it is mindful of its customers during the economic hardship COVID presents to many. We expect to hear more details on requests on the call.

- **Solar filing**: LNT continues to plan to file for about half of its targeted 1Q solar build in 2Q. The company is wrapping up development activity since Wisconsin requires exact sites pre-filing (Iowa allows the site to be named after). While details might be ready on the 1Q call, some more details might come after.

- **West Riverside Energy Center**: LNT's 730MW gas plant is still expected to commission next quarter (2Q20).

Iowa

- **Renewables on schedule**: Amidst the rush to commission wind by year-end to effortlessly qualify for the production tax credit (PTC), LNT is in good shape. Two IPL projects are already in service (201MW Whispering Willow North, and 200MW Golden Plains), and the remaining 130MW Richland project (expected in service 3Q20) is currently receiving timely equipment deliveries. This on time delivery applies for the Wisconsin wind farm too (150MW Kossuth expected in service 4Q20)

- **Multi-year cases**: We still think there's a potential for multi-year cases in the future, but doubt this will take up much of the conversation on the 1Q call.

Estimates

We include our latest EPS estimates and ROEs below by subsidiary. We tweak down our estimates by a few pennies in '20 and '21 to reflect how LNT is not decoupled and could see EPS impacts from lower demand – but with our expectation the company has some ability to ramp up O&M cuts. We are at the middle of the 5-7% guidance range for LNT looking at '18-'23 CAGR.

Table 4: LNT EPS Estimates

EPS by Segment	2017A	2018A	2019E	2020E	2021E	2022E	2023E
IPL	$0.94	$1.13	$1.19	$1.41	$1.47	$1.56	$1.58
WPL	$0.80	$0.89	$0.97	$0.98	$1.05	$1.11	$1.19
ATC	$0.11	$0.13	$0.13	$0.13	$0.14	$0.14	$0.15
Parent/Other	$0.09	$0.02	$0.01	-$0.08	-$0.08	-$0.07	-$0.07
Total	$1.93	$2.17	$2.31	$2.44	$2.59	$2.74	$2.85
Prior Estimates	$1.93	$2.17	$2.31	$2.46	$2.61	$2.74	$2.85
EPS Guidance							
IPL +WPL		*2.04 - 2.07*	*2.21 -2.23*				
ATC		*0.10 - 0.12*	*0.11 - 1.13*				
Parent/Other		*(0.01) - 0.00*	*(0.05) - (0.03)*				
Guidance	$1.89-$1.97	$2.13-$2.19	2.27-2.33	2.34-2.48			
Non-GAAP EPS Growth Off $2.26 in '19 (5-7%)				7.94%	6.97%	6.67%	5.96%
Consensus	$1.95	$2.16	$2.30	$2.41	$2.58	$2.72	$2.84
Consensus CAGR					6.88%		
Mid				$2.41	$2.56	$2.71	$2.87
High				$2.48	$2.65	$2.84	$3.04
Low				$2.34	$2.46	$2.58	$2.71
Model Embedded ROEs / Equity	2017A	2018A	2019E	2020E	2021E	2022E	2023E
IPL							
Regulatory ROE (Avg)	9.2%	9.8%	9.0%	9.2%	9.4%	9.7%	10.0%
GAAP ROE (AVG)	8.4%	8.9%	8.5%	9.6%	9.5%	9.6%	9.3%
WPL							
Regulatory ROE (Avg)	10.5%	10.1%	10.1%	9.9%	9.9%	9.6%	9.7%
GAAP ROE (AVG)	10.1%	10.3%	10.3%	9.9%	10.4%	10.7%	11.1%
ATC							
Earned ROE	10.5%	10.8%	10.5%	10.2%	10.2%	10.2%	10.2%

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

We update the peer multiple to 17.6x for electric and update our WPL peer multiple to 3x (prev 2x) to reflect the regulatory ability to defer bad debt. We reiterate Buy with a $56/sh PO.

Table 5: LNT SOTP Valuation

2022E SotP Analysis - BofAe										
All figures in USD millions except per share										
Regulated Utilities	2022E Net Income	EPS	P/E Multiple					Equity Value		
			Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric			-	17.6x	-	-	- -	-	-	-
Group EPS '18-'22 CAGR - Electric			-	5.00%	-	-	- -	-	-	-
			-	-	-	-	- -	-	-	-
Relative Utility Group P/E Multiple				18.5x						
IPL	$385	$1.56	19.5x	18.5x	2.0x	20.5x	21.5x	$7,500	$7,885	$8,270
WPL	$275	$1.11	20.5x	18.5x	3.0x	21.5x	22.5x	$5,636	$5,911	$6,186
ATC (LNT Share)	$36	$0.14	19.5x	18.5x	2.0x	20.5x	21.5x	$697	$732	$768
EPS (w/o Parent)	$696	$2.82						$13,832	$14,528	$15,224
Parent NI	-$18	-$0.07	18.5x	18.5x	1.0x	19.5x	20.5x	($330)	($348)	($366)
Add Back: Parent Interest Exp	$14	$0.06	18.5x	18.5x	1.0x	19.5x	20.5x	$252	$133	$279
Less: Parent Debt (Term Loan AEF)					*50% weighting*			($500)	($500)	($500)
								($578)	($715)	($587)
Total Implied			19.5x			20.4x	21.6x	$13,254	$13,813	$14,637
Shares Outstanding (2022E)								247	247	247
Total Equity Value Per Share								$54.00	$56.00	$59.00
Total Return Analysis										
Current Share Price									$51.61	
Price Objective									$56.00	
Implied Return									8.51%	
Dividend Yield									2.75%	
Total Return									11.26%	

Source: BofA Global Research estimates, company report, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Alliant Energy Corporation: Our favorite defensive utility idea	Julien Dumoulin-Smith	11 March 2020
Alliant Energy Corporation: Watching the solar front with carbon goal announcements later this yr; reiterate Buy	Julien Dumoulin-Smith	25 February 2020
Alliant Energy Corporation: Constructive update with more strength ahead: Raise EPS & Reiterate Buy	Julien Dumoulin-Smith	08 November 2019
Alliant Energy Corporation: Iowa resolution, financing updates, and spend all coming up; Maintain Buy	Julien Dumoulin-Smith	05 August 2019

Ameren (AEE)

Our latest EPS projections of $3.43/sh (vs '20 guidance of $3.40-3.60/sh) factor in lower 30-year Treasury assumptions starting at 1.5% in 2020, a lower base ROE for FERC jurisdiction (10.38% with 50bps adder), and our expectation that there is room for cost savings since AEE in its 2020 guidance acknowledged O&M would be increasing at Missouri and Illinois Gas (the exact amount not disclosed). We note that AEE is decoupled in IL, which we think will be a clear benefit; note this leaves about ½ of ratebase (in MO) not decoupled. Although more exposed in MO, we view the company's low portion of industrial energy demand as a positive as well (class break down: 50% margins resi, 40% commercial, 10% industrial), and note that impact of commercial demand is typically more protracted given many billing cycles are 12-month trailing. More specifically, we would expect O&M savings balance out MO commercial sales impact for '20. This still leaves us at ~7% for '20-24 EPS CAGR. Outside of COVID and demand, we expect 1Q commentary to highlight the strong pipeline opportunities the company has outside of its five-year and ten-year capex projections. We specifically watch for any hinting toward potential accelerated retirement of unscrubbed coal, but note that with the outstanding 8th Circuit Case on EPA regulations and lack of securitization legislation will indicate a later update here. Finally, we note the company has strong FFO/debt metrics that sets it apart from peers. As for 1Q20, we expect a $0.67/sh quarter impacted by mild winter, limited COVID impact on demand (due to shoulder month), and lower energy efficiency benefits. Maintain Buy.

1Q20 Walk

We expect a $0.67/sh 1Q20 estimate, versus a Consensus of $0.74/sh and a prior year's 1Q19 est of $0.78/sh.

- **Drivers**: We expect the 1Q result of the Treasury will bring down Illinois Electric ROEs by -2c; this is largely counteracted by ratebase growth (balancing ROE revisions) in IL Electric, IL Growth, and Transmission (+2c).

- **Other**: Note that 1Q19 included $0.03/sh of weather and $0.06/sh of energy efficiency that need to be backed out. The 2019 spring Callaway outage mostly impacted 2Q19, and new rates in AEE Missouri will be a 2Q20 item as well. The company benefited from two refi's in 2019: One March 6th that replaced a $329mn 6.7% with a 450mn 3.5%, and one Oct 1st that replaced a $244mn 5.10% with a $330 3.25%. Lower tax benefits with share-base comp usually benefits 1Q (+3c) and dilution from the $100mn drip is nearly flat.

- **Wildcard**: We see 1Q20 as a mild winter. Looking at heating degree days (HDD) of 2019 and 2020 versus the 10-year average (2009-2018) in Saint Louis, we find 236 more days in 1Q19 and 202 less days in 1Q20. As 1Q19 benefited AEE by +3c, we adjust 1Q19 by -3c. O&M will be another wildcard: We factor in -1c compared to 2019. Finally, COVID impacts on demand are unknown but likely limited in 1Q given the shoulder month it would have impacted (i.e. March).

Table 6: AEE 1Q20 Walk

Ameren 1Q20 Earnings Walk	Notes	EPS
1Q19 EPS		$0.78
Return to normal weather	Cold	($0.03)
1Q20 weather impact	Mild	($0.03)
AEE Illinois		
IL Electric	2019 Average 30 YR UST was 2.58% vs. Current @ 1.368%	($0.02)
IL Gas		$0.01
IL Transmission/Dist./ATXI	Ratebase growth largely balanced by ROE change	$0.01
AEE Missouri		
New Rates	Effective 2Q20	$0.00
Callaway refueling	Roughly 9c for 2019, mostly in 2Q	$0.01
PISA Benefit	Depreciation exp and int exp typically balance out	$0.00
MEEIA Benefits	Lower energy efficiency performance incentive (-11c for 2019)	($0.06)
O&M, Other	Higher O&M over the year (no guide yet)	($0.01)
Interest Refinancings	Two 2019 refi's (March & Oct)	$0.01
Parent Company income tax exp	2020 lower tax benefits w/ share-base comp (3c in 2020 all 1Q)	$0.03
Dilution	Dividend reinvestment plan and employees - $100Mn/yr	($0.00)
COVID	Reduced demand (1Q shoulder months)	($0.01)

Table 6: AEE 1Q20 Walk

Ameren 1Q20 Earnings Walk	Notes	EPS
Other	Donations at AEE Parent more in line w/ normal level, some for COVID	$0.00
1Q20 BofA Adjusted EPS		$0.67
1Q20 BofA Modeled EPS		$0.67
1Q20 Consensus		$0.74
BofA 2020E EPS		$3.43
2020 Consensus		$3.46
1Q19 Shares outstanding		246
1Q20 Shares outstanding		248

Source: BofA Global Research estimates, company report, Bloomberg

Key considerations

We see AEE as well suited to recover on the rebound more than peers.

- **Strong growth yet to come**: AEE showed its growth strength at 4Q19 when it added $3bn to its five-year capex & disclosed a substantial 10-year $36bn runway of 'business as usual' investments. We perceive some slight risks to further acceleration previously contemplated this Fall with IRP update, but overall see among the best positioned longer-term ratebase growth stories. Bottom line we see capex backdorp as securing EPS growth of the 7-8% range (with DPS growth that should beat that given the lower payout ratio), but it will help AEE achieve of on the best 'rate of change' ESG stories in the sector to come. We acknowledge potential pressures on ’20 EPS guide from 30-year treasuries in tandem.

- **Potential accelerated coal retirements & rate-based replacements**: We note AEE might have the opportunity to accelerate its ratebase plan this fall with is integrated resource plan (IRP) filing. Note, though, that actual timing of MO coal retirement could depend on securitization legislation (in '21) as well as Sept resource filing: both key upsides on capex.

- **Illinois is likely later-dated**: While AEE might have upside via more renewables in IL, an extension of formula rates in IL at a higher auth ROE, and more transmission projects, it will likely be a challenge this year. We expect social distancing makes getting to all legislative decisions in the May session difficult, and we could see other issues fill up the November veto session as well. Based on our latest industry conversations, we are expecting a little more difficulty for a broad energy reform involving nukes in the near-term – and could see further out legislation that includes more folks (e.g. labor, environmental) in the future with perhaps more modest gains for utilities (e.g. just formula rates rather than ratebasing renewables).

- **Good balance sheet**: Finally, it would be remiss to ignore AEE's stronger FFO/debt metrics, with projected 19.2% in '19-'25 vs. credit rating 17% min and regulated avg of 16.5% (& larger caps even lower).

- **COVID impact**: AEE in the near-term faces a lower COVID impact given seasonality (i.e. shoulder months limit heating/cooling) and given half of its rate base has limited exposure (i.e. IL electric has full decoupling; IL gas has full decoupling for resi & small commercial & a bad debt expense tracker). AEE faces exposure in MO outside of its energy efficiency mechanism; with 50% of margins resi, 40% commercial, and 10% industrial, increase in resi may offset some drop in commercial but with billing cycles this will likely impact '21 as well.

Estimates

Our estimates remain largely the same as we already adjusted down our EPS expectations for ’20 and beyond given COVID impact on demand (no decoupling in MO) as well as lowered IL ROEs given where 30-year Treasuries have fared thus far. We continue to expect a 1.5% +580bps IL Electric earned ROE.

Table 7: AEE EPS Estimates: towards the bottom end of '20 with risk it could drop below; our focus remains on longer-term compounding outlook

Consolidated EPS Projections	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Segment CAGR ('20-'24)
Ameren Missouri	$1.48	$1.48	$1.94	$1.72	$1.89	$2.04	$2.15	$2.28	$2.41	$2.49	6.26%
Ameren Illinois	$1.05	$1.10	$1.25	$1.39	$1.34	$1.46	$1.64	$1.80	$2.01	$2.22	10.58%
ATXI	$0.23	$0.27	$0.31	$0.32	$0.32	$0.31	$0.30	$0.29	$0.28	$0.28	-2.92%
Other	-$0.07	-$0.02	-$0.13	-$0.09	-$0.12	-$0.12	-$0.11	-$0.11	-$0.11	-$0.11	
Total EPS	$2.68	$2.83	$3.37	$3.35	$3.43	$3.69	$3.97	$4.26	$4.59	$4.88	7.03%
Guidance		*$2.70 - $2.90*	*$3.35-3.45*		*$3.40-3.60*						
EPS CAGR off 2018 ($3.05)				9.86%	6.11%	6.51%	6.83%	6.90%	7.06%	6.95%	
EPS CAGR off 2020 ($3.50)						5.30%	6.54%	6.76%	7.03%	6.88%	
YoY Growth		5.39%	19.14%	-0.53%	2.49%	7.31%	7.80%	7.19%	7.83%	6.29%	
Prior Estimates	*2.68*	*2.83*	*3.37*	*3.35*	*3.43*	*3.69*	*3.97*	*4.26*	*4.59*	*4.88*	
Consensus		$3.46	$3.40	$3.29	$3.46	$3.76	$4.03	$4.30	$4.46		6.25%
Average Earned ROE (Auth in parenthesis)											
Missouri (Auth: electric 9.4-9.8%, gas 9.4-9.95%)		9.5%	12.2%	10.3%	10.0%	9.7%	9.7%	9.8%	10.0%	9.9%	
Illinois (Auth: electric 580bps + 30yr T, gas 9.87%)		9.9%	10.0%	10.0%	8.8%	9.0%	9.2%	9.2%	9.4%	9.5%	
BofA 30-yr Treasury assumption					*1.50%*	*1.75%*	*2.00%*	*2.25%*	*2.50%*	*2.75%*	
ATXI (9.88% plus 50bps adder)		10.82%	10.82%	10.82%	10.38%	10.38%	10.38%	10.38%	10.38%	10.38%	
Consolidated FFO/Debt			23.8%	20.9%	18.1%	18.5%	18.5%	18.7%	19.1%	19.4%	
Guidance (6-8% '18-'23 off of $3.05) --> *Midpoint*				$3.26	$3.49	$3.74	$4.00	$4.28			
Low Implied				$3.23	$3.43	$3.63	$3.85	$4.08			
High Implied				$3.29	$3.56	$3.84	$4.15	$4.48			
Guidance (6-8% '20-'24 off of $3.50) --> *Midpoint*					$3.50	$3.75	$4.01	$4.29	$4.59	$4.91	
Low Implied					$3.50	$3.71	$3.93	$4.17	$4.42	$4.68	
High Implied					$3.50	$3.78	$4.08	$4.41	$4.76	$5.14	

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

We MtM the peer multiple (now 17.6x) and come to a price objective of $85/sh using the same 3x premiums at Missouri and Illinois (not transmission or parent). We reiterate our Buy rating.

Table 8: AEE SOTP Valuation

Ameren Sum of the Parts Valuation - 2022E BofA									
All figures in $Mn except per share									
Regulated Utilities	2022E EPS	P/E Multiple					Equity Value		
		Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric		-	17.6x	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Electric		-	5.00%	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	18.5x	-	-	-	-	-	-
Ameren Missouri	$2.15	20.5x		3.0x	21.5x	22.5x	$44.02	$46.17	$48.32
Ameren Illinois	$1.64	20.5x		3.0x	21.5x	22.5x	$33.56	$35.20	$36.84
Ameren Transmission (ATXI)	$0.30	17.5x		0.0x	18.5x	19.5x	$5.22	$5.52	$5.81
Parent/Unallocated Items	-$0.11	17.5x		0.0x	18.5x	19.5x	-$1.99	-$2.11	-$2.22
Total Implied Utilities	$3.97						$80.81	$84.78	$88.76
Shares outstanding	262								
Implied P/E		21.4x							
Valuation							$81.00	$85.00	$89.00
BofAe Implied Multiple								21.4x	
Current Price								$77.83	
PO								$85.00	
Upside/Downside								9.21%	
NTM Dividend Yield								2.54%	
Total Return								11.76%	

Source: BofA Global Research estimates, company report, Bloomberg

American Electric Power (AEP)

We see the 1Q20 call quite important as it will set the stage for FY20 guidance. It is clear AEP will be negatively impacted by very mild winter as it is not fully decoupled (we factor in -10c for 1Q20 given an even more mild winter than 1Q17, which was -8c YoY). Shares remain among the most controversial of large-cap peers. On top of this, we expect AEP to face lower electric demand from low oil prices' impact on industrial customers (O&G represent 30% of this class) as well as its outcome of its pending Indiana rehearing request. Even so, AEP has been clear that even though it already factors in 'bending the curve' O&M cost cuts, it could factor in more later this year to balance out some of these impacts. The degree to which is so far unclear, so we await commentary to provide a sense. We weigh in the full North Central Wind into our valuation as we see it proceeding forward in key states, but look for any commentary on financing the project (if the asset rotation is possible to pay for the equity check). Upside includes repowering opportunities from the SRE portfolio. We reiterate Buy at a $93/sh PO with an updated peer multiple of 17.6x. Finally, we forecast $1.03/sh for 1Q20 EPS – lower than a $1.15/sh Consensus and 1Q19 results of $1.19/sh.

1Q20 AEP EPS Walk

We estimate EPS of $1.03/sh for 1Q20. This compares to Consensus of $1.15/sh and last year's 1Q19 EPS of $1.19/sh.

- **Drivers**: Apart from weather, 1Q will be driven by a -9c Ohio regulatory provision, YoY wholesale rate changes (+6c for wholesale with Michigan going into effect in February, West Virginia, Arkansas, and Oklahoma last year), and some improvements in O&M (although many are planned for later this year)

- **Other**: A number of 2020 full year walk items are weighted heavier towards other quarters. This includes the -10c for 2020 wholesale load (mostly in 2-3Q), +19c for 2020 O&M (mostly after 1Q), -3c Texas carrying charges (a 2Q item), and a -9c Transmission HoldCo true-up (a 2Q item).

- **Wildcard**: The mild weather will likely account for around -10c YoY for 1Q given that a slightly less mild winter in 1Q17 represented -8c YoY. Note that AEP also has a +1c to return to normal from 1Q19.

Table 9: AEP 1Q20 EPS Walk: street still a bit too high on '20

American Electric Power 1Q20 Earnings Walk	EPS
1Q19 adjusted earnings	$1.19
Vertically Integrated Utilities	($0.11)
Wholesale/Normal Load	($0.02)
Rate Changes	$0.06
Weather	
Return to Normal	$0.01
Current Quarter	($0.10)
Transmission revenues	$0.02
O&M	$0.01
Depreciation and Other	($0.04)
Int/AFUDC	$0.00
Other	($0.01)
Trans./Dist. Utilities	($0.08)
Rate Changes (AEP Ohio, TX DCRF)	$0.01
OH Legacy Riders	($0.01)
OH Reg Prov	($0.09)
Weather	
Weather (Texas) Normalization	$0.00
Weather (Texas) Impact	$0.00
AEP TX transmission revenues (T-cost filings pre-ratecase)	$0.02
O&M	$0.04
TX Carrying Chgs	$0.00
Depreciation and Other	($0.02)
Other Taxes	($0.02)
Other/AFUDC	($0.00)

Table 9: AEP 1Q20 EPS Walk: street still a bit too high on '20

American Electric Power 1Q20 Earnings Walk	EPS
Transmission Holdco	$0.04
Investment growth (ahead of schedule)	$0.04
O&M	$0.00
True-Up	$0.00
Other	$0.01
Generation and Marketing	$0.02
Corporate/Other	($0.02)
Dilution	($0.00)
1Q20E Adjusted EPS	$1.03
1Q20 BofA EPS	$1.03
1Q20 Consensus	$1.15
2020 BofA EPS	$4.25
2020 Consensus	$4.30
2020 Guidance	4.25-4.45

Source: BofA Global Research estimates, company report, Bloomberg

Key items for the 1Q20 call

- **Indiana**: The final outcome for I&M's rate case in Indiana is still underway. Previously, we highlighted that it was possible AEP face a -7c impact from loss of wholesale revenues ($46mn) associated with the case (on top of the ROE result). We note that at the end of March, the Indiana regulatory commission gave the company results of a compliance filing that updated the net impact of the case from $8mn to $26mn. The outcome of the rehearing to recoop the remaining portion associated with wholesale revenues is due 60 days from 3/31. Stay tuned here.

- **Exposure to Covid**: We could see AEP towards the lower end of its guided '20 range based on its exposure to the industrial sales (and specifically Oil & Gas prone growth assumptions). Note that 30% of industrial sales is based on O&G – and that looking at 4Q19, AEP's Industrial GWh growth was 3.5% for the oil & gas related sectors but -6.1% for others. With sensitivity of $0.015/sh for every 1% change in industrial volume (the same for every 1% change in commercial volume as well), we expect the potential loss (vs. the company's originally projected 3.2% growth YoY in industrial GWh Sales) could be a significant driver for a '20 EPS reduction. Flat industrial growth in '20 would bring down '20 EPS by -$0.05/sh alone, and an actual drop in industrial volumes (which we see more likely due to its oil biz dependency) could mean a revision closer to -$0.10 or more. Here, we acknowledge AEP's less decouple profile (largely just Ohio and Texas through regular use of TCOS/DCOS riders) leaves some greater risk vs other more pre play utilities.

- **O&M and mitigating factors**: AEP factors in +19c of O&M cost savings YoY (equates to $200mn of savings established last Nov at EEI) into its 2020 walk already. While not commenting on flexibility, the company noted that it would be evaluating yet further reductions to bend the O&M curve even more this year in effort to balance some of the impacts of lower demand. We see O&M as a mitigating factor to COVID / oil price impacts on demand, Indiana's rate case outcome, and poor 1Q weather. Other ways to mitigate could include filing new rate cases. Finally, we continue to perceive mgmt. strategy as among the best positioned vs. peers between its largely transmission oriented growth strategy and nascent renewable build efforts.

- **Load loss**: As AEP experienced some load loss on the industrial side last year, it factored in some load loss assumptions for 2020 in the residential segment given the normal business cycle for the utility usually sees trends lead by industrial and then followed by resi 12 months later. AEP had factored in a resi decrease of 1.4%. We watch here as COVID work from home mandates could result in more residential use of electric.

- **Wind catcher**: With Louisiana filing its settlement, we await more official certainty before AEP announces how it plans to finance the project. Prior calls have identified 50% to two-thirds financed with equity. We look for whether the company is still able to pursue asset rotations in this environment.

- **Liquidity**: We highlight that AEP had $2.1bn in liquidity at the end of 2019 and that it signed a $1bn credit agreement several weeks ago as well. We expect that the company addresses liquidity and credit concerns as all companies in the utility space have looked to do. Finally, we note that Moody's previously placed AEP on negative outlook last November, but that credit rating agency is well aware of North Central Wind (and the equity associated with the project) as well as measures to reduce O&M at AEP. Note that our FFO/debt reconciliations are roughly around 15% (the company guides to mid-teens).

Estimates

Below we include our estimates largely unchanged from before – still at the bottom of 2020 guidance. We already factored in negative impacts expected from oil price impact as well as COVID impact on industrial demand and the cautious result at Indiana (although still could be mitigated). We note other moving pieces include a further O&M push and 1Q weather pressures.

Table 10: AEP EPS Estimates

EPS	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
APCo	$0.67	$0.73	$0.78	$0.79	$0.82	$0.84	$0.89	$0.93	$0.97
I&M	$0.38	$0.53	$0.51	$0.52	$0.55	$0.55	$0.57	$0.58	$0.60
SWEPCO	$0.25	$0.30	$0.37	$0.36	$0.38	$0.41	$0.45	$0.47	$0.49
PSO	$0.15	$0.17	$0.25	$0.24	$0.27	$0.30	$0.33	$0.35	$0.36
Other Utes (incl. KY)	$0.17	$0.27	$0.24	$0.24	$0.25	$0.25	$0.26	$0.26	$0.26
KY break out	$0.13	$0.14	$0.15	$0.16	$0.17	$0.17	$0.17	$0.17	$0.18
North Central Wind					$0.02	$0.18	$0.17	$0.17	$0.17
Vertically Integrated	$1.64	$2.00	$2.17	$2.14	$2.28	$2.36	$2.49	$2.58	$2.69
Guidance		$2.00	$2.17	$2.19					
Ohio	$0.66	$0.66	$0.67	$0.58	$0.63	$0.65	$0.69	$0.74	$0.80
Texas	$0.39	$0.41	$0.41	$0.44	$0.53	$0.60	$0.69	$0.76	$0.83
T&D	$1.01	$1.05	$1.00	$1.01	$1.15	$1.26	$1.38	$1.50	$1.62
Guidance		$1.05	$1.00	$1.03					
Transmission HoldCo	$0.72	$0.75	$1.05	$1.07	$1.18	$1.28	$1.38	$1.50	$1.66
Guidance		$0.75	$1.05	$1.08					
AEP Energy Supply	$0.30	$0.29	$0.30	$0.33	$0.23	$0.24	$0.26	$0.27	$0.30
Guidance		$0.29	$0.30	$0.35					
Corp & Eliminations	$0.01	($0.14)	($0.28)	($0.30)	($0.31)	($0.31)	($0.30)	($0.31)	($0.32)
Guidance		($0.14)	($0.28)	($0.30)					
Consolidated EPS without North Central	$3.68	$3.95	$4.24	$4.25	$4.53	$4.83	$5.20	$5.56	$5.94
CONSOLIDATED EPS with NORTH CENTRAL WIND	$3.68	$3.95	$4.24	$4.25	$4.56	$5.01	$5.38	$5.73	$6.11
EPS Growth (%)		*7.5%*	*7.3%*	*0.2%*	*7.3%*	*9.9%*	*7.3%*	*6.5%*	*6.7%*
Previous EPS (without North Central)	*$3.68*	*$3.95*	*$4.24*	*$4.25*	*$4.54*	*$4.84*	*$5.21*	*$5.56*	*$5.95*
Consensus		$3.93	$4.22	$4.30	$4.63	$4.97	$5.31	$5.58	
BofAe CAGR without North Central (vs '18 mid)			10.2%	5.0%	5.6%	5.9%	6.2%	6.3%	6.4%
BofAe CAGR with North Central (vs '18 mid)			10.2%	5.0%	5.8%	6.8%	6.9%	6.8%	6.8%
Annual Guidance	3.55-3.68	3.88-3.98	4.14-4.24	4.25-4.45					
Guidance: 5-7% EPS CAGR off of '18 (or '19 orig midpt)		$3.85	$4.19	$4.35	$4.59	$4.86	$5.15	$5.46	$5.82
Low			$4.14	$4.25	$4.46	$4.68	$4.91	$5.16	$5.42
High			$4.24	$4.45	$4.72	$5.05	$5.40	$5.78	$6.18
Share Count	492	493	494	496	497	511	515	519	522

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

We MtM the peer multiple to 17.6x and derive a $93/sh PO with the same premiums awarded per subsidiary. We reiterate our Buy rating.

Table 11: AEP SOTP Valuation

AEP SoTP	2022E EPS				P/E Multiple	Premium/ Discount	Value ($mn)	Value ($/Sh)
Group Peer Multiple - Electric					17.6x			
Group EPS '18-'22 CAGR - Electric					5.00%			
Vertically Integrated Utilities (SWEPCO, PSO, APCo) excl KY	$2.19				18.5x	0.0x	$20,673	$40.5
Kentucky Power break out	$0.17				18.5x	0.0x	$1,612	$3.2
T&D Utilities (Principally D) - TNC/TCC, Ohio Power	$1.26				18.5x	1.0x	$12,502	$24.5
Transmission-Only Utilities - Mostly FERC	$1.28				18.5x	1.0x	$12,735	$24.9
Parent & Other - Principally HoldCo Debt	($0.31)				18.5x	0.0x	($2,904)	($5.7)
Total Regulated & HoldCo Value	$4.59						$44,618	$87.4
Renewables								
Legacy Energy Supply + Marketing/ Increasingly Renewables	$0.24				18.5x	-3.0x	$1,934	$3.8
Total AEP Equity Value - Existing Assets								$91.1
Upside	2022E EPS (or discounted)	Capex	FFO	Earnings Impact (50% Equity)	P/E Multiple	Premium	Probability Weighted	
SWEPCO 1200MW RFP filing - in service '21 (mostly 80% PTC)	0.09	1,089	$75		18.5x	0.0x	100%	$1.7
PSO 1000MW RFP filing - in service '21 (mostly 80% PTC)	0.07	908	$55		18.5x	0.0x	100%	$1.3
Total	0.17	1,997						3.1
Probability-Weighted EPS	0.17							
Discount Factor by year	10%							
Total Capex (probability weighted)				1,997				
Total Equity Needed ($M) (assuming 50%)				799				
Issuance Price (current price)				86.38				
Shares Issued (mn)				9				
Dilution %				2%				
Value Dilution				($808)			($808)	($1.6)
Shares Outstanding								511
Total Equity Value Per Share								$93
							Price Appreciation	7.7%
							+2020 Dividend Yield	3.2%
							Total Return	10.8%

Source: BofA Global Research estimates, company report, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
American Electric Power: Starting from the Top: Breaking down the COVID Impact on C&I Sales	Julien Dumoulin-Smith	25 March 2020
American Electric Power: All on the same 5-7% page: North Central, financing, and rate cases	Julien Dumoulin-Smith	21 February 2020
American Electric Power: Adding to the US1 List: Key utility opportunity in 2020	Julien Dumoulin-Smith	22 January 2020
American Electric Power: Still confident on '20 & Awaiting critical updates with EEI; Reiterate Buy	Julien Dumoulin-Smith	25 October 2019

American Water Works (AWK)

Amid the escalation of the COVID pandemic, we expect continued execution by AWK with their inaugural ten year capital forecast of $20-22Bn intact and the company recently taking action to proactively address NT liquidity. We don't perceive any meaningful delays in spend or regulatory filings (albeit note the timing shift for new rates to take effect for NYAW) and with recent changes in mgmt. taking effect in the beginning of the month, we have confidence in the team's ability to navigate the crisis with potential for a further acceleration in muni acquisitions during any recovery period. While we appreciate the scarcity element and higher sustained investment trajectory for the subsector, we ultimately see the steep premium as unwarranted. We reiterate our Underperform rating.

AWK 1Q20 Earnings Walk

We forecast 1Q20 adjusted EPS of $0.67, in line with consensus and a $0.06 uptick from 1Q19 results of $0.61.

- **Key Drivers:** The primary positive drivers y/y are new rates implemented across a number of states in their footprint as well as various infrastructure surcharges. Partially offsetting results at the regulated segment includes higher D&A and O&M, as well as a bit of a drag at the parent level offsetting MBB contributions.

Table 12: AWK 1Q20 Walk

AWK 1Q20 Earnings Walk		EPS
AWK 1Q19 EPS	$	0.61
Regulated		0.06
Rate Cases & Step Increases		0.07
Infrastructure Charges		0.03
Depreciation		-0.02
O&M		-0.02
MBB		0.02
Parent		-0.02
Interest/Other Impact		-0.02
1Q20 BofAe Adjusted EPS	$	0.67
In Model	*$*	*0.67*
Consensus		$0.67
BofAe 2020 EPS	$	3.85
Guidance		3.79-3.89
2020 Consensus		$3.84
AWK 1Q20 Shares Outstanding		181
AWK 1Q19 Shares Outstanding		181

Source: BofA Global Research, Bloomberg

Predictable Execution Amid Unpredictable Crisis

Amid the escalating COVID crisis, mgmt. of AWK has maintained a clear focus on liquidity: in addition to their $2.25Bn revolver, the company entered into a $750Mn term loan, drawing $500Mn to hold in cash for add'l flexibility. The company has no near term debt maturities and remains confident in its ability to access both debt & equity markets (no equity needed in '20) as they still expect to fully execute on their capital investment plan of $20-$22Bn over the next ten years (any 2020 delays are expected to be made up later this year). To date, the company hasn't seen major disruptions to the supply chain: key distributors have indicated excess inventory, while chemical providers are meeting needs and reporting no shortages. On the margin, we sense commercial trucking capacity as mgmt's only potential concern for transport of chemicals or bottled water in the event of a major service outage – and the company said it has secured contracts with two suppliers with relationships with gov't agencies in any event.

Reg., Leg., and Muni Prospects

We further perceive regulatory filings as generally proceeding as planned – while remote - with no anticipation of a delay in their ongoing NJ rate case. That said, late last month, NYAW announced postponement of the rate increase and improvement charge. We could also see a further uptick in bad debt expense with no real time tracker for recovery. With resi composing 69% of revenue, we see load impact as likely more muted, however. Given the already longer process of engaging in municipal transactions, mgmt hasn't seen particular delays on the acquisition front and we perceive a potential for further acceleration in industry consolidation under a recovery scenario as munis focus on the small businesses. Meanwhile, the capital light MBB is continuing to generate cash with no impacts yet to Military and an expectation that the customer base in homeowners services will be maintained in any economic downturn.

EPS Estimates

The exhibit below reflects our latest EPS estimates with annuals remaining unchanged ahead of our 1Q preview and as we await additional data points. We continue to expect sustained long term growth within their 7-10% LT EPS CAGR and 7% rate base growth longer term.

Table 13: EPS Estimates

AWK	2019A	2020E	2021E	2022E	2023E	2024E
Earnings Metrics						
Regulated Water EPS	3.60	3.84	4.19	4.43	4.66	4.98
Market Based EPS	0.45	0.47	0.51	0.53	0.57	0.63
Parent and Other EPS	-0.44	-0.46	-0.43	-0.40	-0.36	-0.39
Adjusted EPS	3.61	3.85	4.27	4.56	4.87	5.21
Consensus	3.61	3.84	4.23	4.53	4.92	
Guidance	3.56-3.64	3.79-3.89				
Midpoint of Guidance	3.60	3.84				
Implied Guidance - 2020-2024 off 2018 EPS base						
High	3.64	3.89	4.39	4.83	5.31	5.85
Low	3.56	3.79	4.04	4.33	4.63	4.95
Mid	3.60	3.84	4.22	4.58	4.97	5.40
EPS CAGR - BofA off 2018 EPS base - 2020-2024	*7.9%*					

Source: BofA Global Research, Bloomberg

Valuation

The exhibit below reflects our latest valuation: We mark to market our valuation for the latest water utility multiple of 26.3x (vs. 25.2x), with our PO shifting to $133. We maintain our Underperform rating given the large premium vs. electric & gas peers, which we see as unjustified given its only modest relative growth premium.

Table 14: AWK SOTP

Water Utilities	2022E EPS	P/E Multiple					Equity Value		
		Peer	Prem/ Discount	Low	Base	High	Low	Base	High
AWK Earnings		26.3x							
Group EPS '18-'22 CAGR		8.30%							
Water Utilities		28.5x							
NJ	$1.12		3.0x	30.5x	31.5x	32.5x	$34.13	$35.25	$36.37
PA	$1.27		3.0x	30.5x	31.5x	32.5x	$38.81	$40.08	$41.35
IL	$0.35		3.0x	30.5x	31.5x	32.5x	$10.57	$10.92	$11.26
MO	$0.50		2.0x	29.5x	30.5x	31.5x	$14.64	$15.14	$15.63
IN	$0.29		1.0x	28.5x	29.5x	30.5x	$8.27	$8.56	$8.85
CA	$0.19		-1.0x	26.5x	27.5x	28.5x	$5.03	$5.22	$5.42
Other	$0.71		0.0x	27.5x	28.5x	29.5x	$19.50	$20.21	$20.92
Regulated Water EPS	$4.43						$130.95	$135.38	$139.80
Parent/Other Drag	-$0.40		0.0x	27.5x	28.5x	29.5x	-$11.03	-$11.43	-$11.83
Market Based Business									
Military (40%)	$0.21	26.3x	-3.0x	22.3x	23.3x	24.3x	$4.74	$4.95	$5.17
Non Military (60%)	$0.32			11.0x	12.0x	13.0x	$3.51	$3.83	$4.15
Total Market Based Business	$0.53						$8.25	$8.78	$9.31
Valuation	$4.56						$128.00	$133.00	$137.00
Current Price as of 04/19/20								*$131.76*	
Dividend Yield								1.5%	
Total Return							-1.35%	2.45%	5.48%

Source: BofA Global Research, Bloomberg

See our other recent reports on AWK:

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
American Water Works: Takeaways from our latest fireside chat	Julien Dumoulin-Smith	07 April 2020
American Water Works: Adding detail to our valuation approach: Underperform	Julien Dumoulin-Smith	09 March 2020
American Water Works: Analyst Day Redux: A Splash of Deleveraging & More	Julien Dumoulin-Smith	16 December 2019

Consolidated Edison (ED)

ED is expected to deliver Q1 results down slightly from the prior-year quarter. Our 1Q20 estimate of $1.33/sh compared to adjusted EPS of $1.39/sh in 1Q19 and Street consensus of $1.42/sh – we see downside here as effects of Covid-related slowdown are more fully reflected in consensus estimates. ED's main electric and gas business at the Con Edison Company of New York (CECONY) and Orange & Rockland (O&R) is fully decoupled leaving its earnings relatively defensive in the face of Covid-related slowdowns amid ongoing shut-in orders, with the Steam business being the only one exposed to weather and load factors. ED's non-regulated business should see a modest uplift in 2020 on higher earnings from the ongoing Mountain Valley Pipeline (MVP) project as well as the normalizing effect of weather-curtailed renewable production in the Clean Energy Business (CEB).

1Q20 Quarterly Walk

We see Q1 EPS at $1.33/sh, slightly below Street at $1.42 though we perceive downside to consensus ests after weather and demand considerations are more fully factored in to forecasts. Weather is expected to be a drag (we estimate 5 cents, see below) due to milder weather in Q1 2020 affecting principally the Steam business (CECONY and O&R are decoupled for Electric and Gas) offset partially by normalization of the negative effect from 1Q19. We expect a $0.12/sh uplift from new rates at the gas and electric utilities in effect since January with new rates in place following the approval of the joint settlement in the CECONY rate case, and modest uplift at CEB from improving wind resource in Q1 (ex HLBV impact). Key unknown is the drag from stock-based compensation (SBC) which becomes incrementally larger depending on the y/y share price return as of the end of the quarter – given market volatility in Q1 this item is particularly difficult to estimate, though we assume some drag given the share price was higher *on average* during 1Q20 as compared to the prior year.

Table 15: ED 1Q20 Earnings Walk

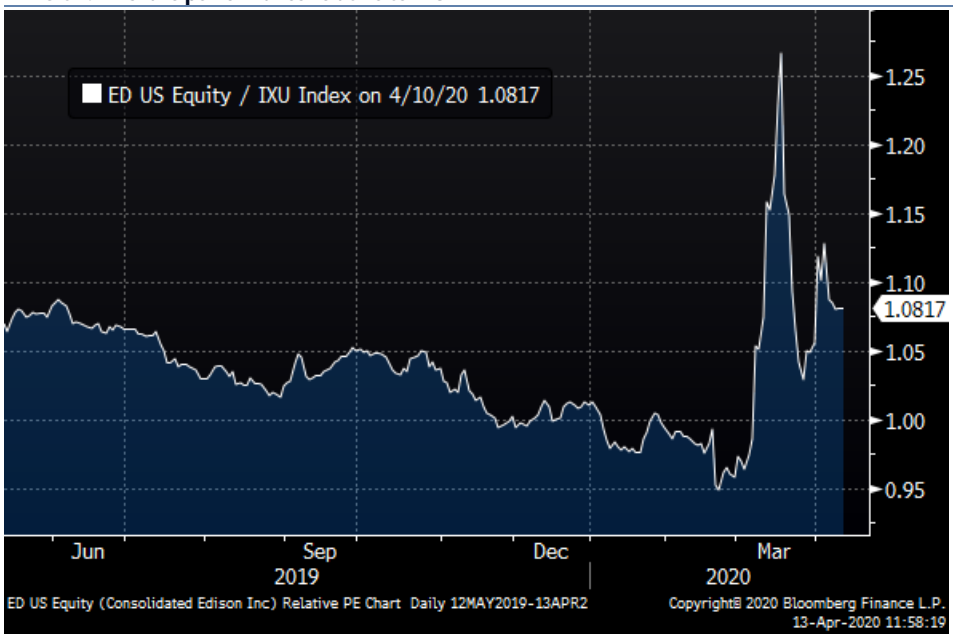
ConEd 1Q20 Earnings Walk		EPS
1Q19 Adjusted EPS	Notes	$1.39
Con Edison of New York (CECONY)		
Rate Changes		0.12
Gas	$84m increase effective Jan. 1, 2020	0.05
Electric	$113m increase effective Jan. 1, 2020	0.07
Impact of Steam 1Q19	Normalizing last year impact	0.01
Impact of Steam 1Q20	Warmer than normal weather; demand due to COVID	(0.05)
O&M		(0.03)
Stock based comp	Share price higher in Q1 2020 based on quarterly average	(0.03)
D&A / Property Taxes		(0.10)
Interest Expense		0.00
Orange & Rockland (O&R)		
Rate Changes		0.02
O&M		0.00
D&A / Property Taxes		(0.01)
Competitive Business		
CET	Flat y/y	0.00
CEB	Normalizing wind resource	0.04
Dilution		(0.03)
1Q20 Adjusted EPS		$1.33
1Q20 Consensus		$1.42
1Q20 in Model		$1.33
2020 BofAe		$4.38
2020 Consensus		$4.42
2020 Guidance		$4.30-$4.50
Share Count		
1Q19		323
1Q20		330

Source: BofA Global Research Estimates, company report, Bloomberg

Stock trading dynamics

Shares of ED have held up relatively well during the March market volatility which was kicked off by concerns about the economic effect of Covid. ED remains one of the more defensive names in our coverage owing to its largely decoupled business – both Electric and Gas distribution at CECONY and O&R are decoupled, leaving the much smaller Steam business along with the Rockland Electric Company (RECO) exposed to changes in load. The New York Independent System Operator (NYISO) has reported electricity demand in Zone J declining by as much as 18% during the weeks since the shut in orders began, largely driven by lower morning peaks as commercial customers are shut down and commuting has declined precipitously. While the timing of the Covid demand shock is more likely to impact Q2, we note that milder Q1 weather can be a negative driver for the steam business, though ED does not disclose sensitivities. ED has weather normalization at the CECONY and O&R gas businesses but not at the electric utility. While ED does not have a separate bad debt expense rider, each rate case creates an allocation for bad debt expense that is then recovered through rates. Nonetheless, on a 2-year forward PE relative to the IXU, ED shares continue to screen relatively expensive. Accordingly we remain comfortable with our Neutral rating, seeing risk and reward as largely balanced.

Exhibit 1: ED share performance relative to IXU



Source: Bloomberg

Weather should be more impactful than demand in Q1

We expect that despite ED's largely decoupled business, the impact of milder than normal weather in Q1 results will be more pronounced in 2020, on an order of magnitude more in line with Q1 2018. As measured by heating degree days at LaGuardia Airport, Q1 was 20% warmer than normal, a level of mild weather last approached in 2016 and 2017. ED's reported weather impact on the steam business includes both the normalization of the prior year's impact as well as that of the current year. As such it is more instructive to look at the total delta in deviation from normal from year to year – note that in 2016 HDDs swung from 18% above normal to 16% below normal, an aggregate change of -34% which resulted in a significant 12 cent impact on EPS. The change in 2020 is not as dramatic as 2019 was only slightly below normal in terms of HDDs, accordingly the total drop in HDDs including the impact of the current year is -18%. We therefore estimate that the impact on EPS from weather impacts on the Steam business is -$0.05. We not however that this impact is historically volatile and numerous factors affect the total EPS swing including the timing of when the biggest deltas from normal occur – HDDs in Jan-Feb are "worth more" in an EPS sense than

those in more shoulder months of Mar-Apr generally speaking. 2020 saw relatively consistent trends in weather, with each Q1 month recording double-digit percentage declines from normal including 20%/15% declines in Jan/Feb. In 2016 by contrast, Jan-Feb declines were approximately 10% while March HDDs were 30% below normal. Bottom line: we see weather as a likely negative driver in Q1 on an order of magnitude similar to 2018. We see this as a much more impactful Q1 event than Covid-related demand declines owing to the timing of state shut-in orders, though both will be Q1 headwinds with the mix shifting toward demand declines looking forward to Q2 and beyond.

Table 16: New York City HDD data

	Q1 2015	Q1 2016	Q1 2017	Q1 2018	Q1 2019	Q1 2020
NYC HDDs	3,057	2,171	2,132	2,406	2,530	2,062
Normal	2,582	2,582	2,582	2,582	2,582	2,582
% Above / Below	18%	-16%	-17%	-7%	-2%	-20%
% Delta		-34%	-2%	11%	5%	-18%
Steam impact ($/sh)		(0.12)	0.02	0.05	(0.01)	

Source: BofA Global Research Estimates, NYSERDA

Credit and financing update

ED's 3-year financing plan includes up to $1.8B of equity issuance in 2020-22. Needs in the current year are seen at up to $600m on top of $88m of equity forwards settled in January, while the forecast for the two following years calls for $1.1B. Street estimates were higher than our forecast. However, they still trail the announced issuance by ~$400m through 2022. On the credit side, Fitch lowered outlooks of ED and its subsidiaries CECONY and Orange and Rockland Utilities Inc. to negative from stable reflecting a weak financial profile associated with lower demand and higher than anticipated bad debt expense involving NY power market due to COVID 19. Admittedly, the companies have revenue recovery mechanisms in place to deal with such situations but Fitch expects those are not sufficient enough to protect the utilities. We continue to see ED's consolidated CFO pre-WC to net debt metric as bouncing back from the ~15% level at the end of 2019, increasing to 17-18% by 2024.

Table 17: ED credit update

Rating Agencies	2015A	2016A	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
CFO		3,459	3,367	2,695	3,134	3,452	3,678	3,912	4,140	4,364	4,747
Add: Pensions		233	187	233	233	233	233	233	233	233	233
Add: Operating Leases		12	12	12	12	12	12	12	12	12	12
Less: Changes in WC		(150)	(83)	414	160	160	160	160	160	160	160
Adj CFO Pre-W/C	3,692	3,554	3,483	3,354	3,539	3,857	4,083	4,317	4,545	4,769	5,152
Long -Term Debt		14,774	16,029	18,970	19,973	20,484	20,989	21,222	21,731	22,103	22,182
Add: Short-Term Debt		1,054	577	1,741	1,692	1,692	1,692	1,692	1,692	1,692	1,692
Add: Pensions		1,623	1,262	1,262	999	999	999	999	999	999	999
Add: Operating Leases		180	180	180	880	880	880	880	880	880	880
Add: Non-Standard Adjustments			134	142	142	167	167	167	167	167	167
Adj Total Debt	17,170	17,765	18,190	22,295	23,711	24,222	24,727	24,960	25,469	25,841	25,920
(CFO Pre-W/C) / Debt	21.5%	20.0%	19.1%	15.0%	14.9%	15.9%	16.5%	17.3%	17.8%	18.5%	19.9%

Source: BofA Global Research estimates, company report, Bloomberg

EPS Estimates

We tweak our 2020 estimates lower on Covid and weather impact at the Steam business, reducing earned ROE to 8.8% (in line with authorized) from 8.9% while we continue to reflect 10 bps of over-earning at CECONY in 2021 and beyond. We also reflect a slight uptick in results at the CEB y/y as below-normal results from 2019 are normalized, though in the long-term growth in this business is expected to come principally via contractual escalators and investment in incremental projects. Our estimates are modestly below Street consensus in '20 and '22 and in-line in '21, reflecting a CAGR of ~4% over our 2019 estimate.

Table 18: ED updated estimates

EPS by Business	2019A	2020E	2021E	2022E	2023E	2024E	2025E
CECONY	$3.79	$3.71	$3.91	$4.07	$4.26	$4.51	$4.77
O&R	$0.21	$0.22	$0.22	$0.23	$0.24	$0.26	$0.27
Regulated	$4.01	$3.93	$4.14	$4.30	$4.50	$4.76	$5.04
Core Regulated Growth (Y/Y)	*-0.12%*	*-1.85%*	*5.22%*	*3.88%*	*4.71%*		
CED Development (Solar)	$0.21	$0.29	$0.31	$0.33	$0.35	$0.37	$0.39
CEE (Energy/Wholesale Marketing)	$0.02	$0.02	$0.02	$0.02	$0.02	$0.02	$0.02
CES (Solutions)	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Clean Energy Businesses	$0.24	$0.32	$0.34	$0.36	$0.38	$0.40	$0.42
Electric Transmission	$0.02	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03
Midstream/Stagecoach	$0.08	$0.06	$0.06	$0.06	$0.06	$0.06	$0.06
MVP	$0.09	$0.11	$0.08	$0.05	$0.05	$0.05	$0.05
Consolidated Edison Transmission	$0.19	$0.20	$0.17	$0.13	$0.13	$0.13	$0.13
Parent	-$0.07	-$0.07	-$0.07	-$0.07	-$0.07	-$0.07	-$0.07
CONSOLIDATED EPS	$4.38	$4.38	$4.57	$4.72	$4.94	$5.22	$5.52
Prior EPS Estimates	$4.08	$4.49	$4.62	$4.78	$4.99		
Management guidance		$4.30-$4.50					
Midpoint		$4.40	$4.58	$4.76	$4.95	$5.15	$5.35
Long term CAGR (3-5% CAGR guide off 2020 guidance)			3.9%	3.6%	4.0%	4.4%	4.7%
Consensus	4.30	4.42	4.59	4.79			
BofAe CAGR '19 -'22	2.6%						
CECONY CAGR '19-22	2.4%						
O&R CAGR '19-22	2.3%						
Earned ROEs							
CECONY	9.2%	8.8%	8.9%	8.9%	8.9%	8.9%	8.9%
O&R	9.3%	9.1%	9.1%	9.1%	9.1%	9.1%	9.1%

Source: BofA Global Research Estimates, company report, Bloomberg

Valuation

We update our PO to $93 following mark to market of the latest peer group multiples of 17.6x for electric and 17.6x for gas. We remain Neutral on ED as the latest guidance provides a below-peer rate of return of 3-5% over a five year period based off 2020's guidance, which implies minimal growth over 2019 at the midpoint. While in our view shares are largely derisked in terms of rate case uncertainty with new rates in place for three years, we would expect the market to remain focused near-term impacts from warmer weather and Covid-related demand destruction in the near term along with a focus on the below-average growth trajectory and uncertain cadence of 2021-22 equity issuance in the medium term. Reiterate Neutral.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Consolidated Edison: Cautious update as equity issuance exceeds expectations	Julien Dumoulin-Smith	21 February 2020
Consolidated Edison: Fine-tuning equity & renewable investments; reiterate Neutral	Julien Dumoulin-Smith	20 December 2019
Consolidated Edison: Moving to conservative ROE outlook following EEI; D/G to Neutral	Julien Dumoulin-Smith	14 November 2019
Consolidated Edison: '19 Narrowed Lower: Long-term still quite compelling despite NT Noise; Buy	Julien Dumoulin-Smith	05 November 2019

Table 19: ED SOTP

ConEd Valuation	Metric	Multiples				Equity Value		
	2022E EPS	Low	Prem/ Discount	Base	High	Bear	Base	Bull
	–	-	-	-	-	-	-	-
	-	-		-	-	-	-	-
Group Peer Multiple - Electric	-	-	17.6x	-	-	-	-	-
Group EPS '18-'22 CAGR - Electric	-	-	5.00%	-	-	-	-	-
	-	-		-	-	-	-	-
Group Peer Multiple - Gas	-	-	17.6x	-	-	-	-	-
Group EPS '18-'22 CAGR - Gas	-	-	5.10%	-	-	-	-	-
	-	-		-	-	-	-	-
Applied Multiple	-	-		-	-	-	-	-
Electric (& Steam)	-	-	18.5x	-	-	-	-	-
Gas	-	-	18.5x	-	-	-	-	-
Utilities		-	-	P/E	-	-	-	-
CECONY Electric	$2.85	18.5x	1.0x	19.5x	20.5x	$53	$56	$58
CECONY Steam	$0.19	18.5x	1.0x	19.5x	20.5x	$3	$4	$4
CECONY Gas	$1.03	18.5x	1.0x	19.5x	20.5x	$19	$20	$21
Total CECONY	$4.07					$75	$79	$83
O&R + RECO Electric	$0.16	18.5x	1.0x	19.5x	20.5x	$3	$3	$3
O&R Gas	$0.07	18.5x	1.0x	19.5x	20.5x	$1	$1	$1
Total O&R	$0.23					$4	$4	$5
Grand Total Utilities EPS	$4.30							
Competitive Businesses								
	2022E EPS			P/E				
CET Electric Transmission (NY Transco)	$0.03	15.5x	-2.0x	16.5x	17.5x	$0.40	$0.42	$0.45
CEE (Wholesale Energy)	$0.02	11.5x	-6.0x	12.5x	13.5x	$0.23	$0.25	$0.27
Infrastructure	2022E EPS			P/E				
Stagecoach Midstream	$0.06	15.5x	-2.0x	16.5x	17.5x	$0.89	$0.95	$1.01
	2022E EBITDA			Baseline	Adjusted			
Mountain Valley Pipeline (MVP)	$70	10.0x	-2.0x	11.0x	9.0x	$1.41	$1.81	$2.21
ConEd Development: Renewables	2022E EBITDA			EBITDA Multiple				
Legacy ED Portfolio	360	9.0x		10.0x	11.0x	3,240	3,599	3,959
Renewables Acquistion (60% of SRE portfolio)	211	9.0x		10.0x	11.0x	1,897	2,107	2,318
Total CEB EBITDA	571							
Less: CEB Project Level Debt						-2,806	-2,806	-2,806
Total Renewable Portfolio Equity Value						2,330	2,901	3,471
Implied Equity Value $/sh						$6.72	$8.36	$10.01
Parent + HoldCo Debt	2022E EPS							
Corp & Other Drag	-$0.07	17.5x	0.0x	18.5x	19.5x	-$1.18	-$1.25	-$1.32
Holding Company: 50% Weighting to Debt Subtraction & 50% Weighting to Interest Expense								
Current HoldCo Debt	-900					-450	-450	-450
Imputed MVP Debt @ 10% Ownership	-324					-324	-324	-324
Add Back: Interest expense (Tax effected)	41	17.5x	0.0x	18.5x	19.5x	361	382	403
Total Adjustment $/Sh						-$1.19	-$1.13	-$1.07
Shares Outstanding							347	
Total Equity Value						$87.00	$93.00	$100.00
Implied Consolidated P/E							19.7x	
Dividend Yield							3.31%	
Total Return						0.4%	7.1%	15.0%

Source: BofA Global Research Estimates, company report, Bloomberg

Duke Energy (DUK)

With DUK's upcoming 1Q call, we expect a sharp focus on cost reduction mitigation measures to offset in part COVID-19 related pressures. While mgmt. is still assessing the impact on load and delayed bad debt expense recovery, we could potentially see up to a -$0.14-16/sh headwind assuming just 2-3% load degradation (although could be materially higher than this) on C&I/wholesale customers and $20mn incremental bad debt similar to '09 levels if not for offsets. Specific details on cost cuts have yet to be delineated, although we look back to 2017 where weather was a significant headwind with mgmt. offsetting the impact through cost reductions of $100-150mn, which would translate to $0.11-$0.16/sh EPS benefit in 2020. Ability to bend the cost curve is notable and opportune following last year favorable weather and pull-ahead on O&M execution. Beyond 1Q details around load pressures and cost reduction, we look to discussions around the North Carolina rate cases where we remain cautious given litigated ROEs and coal ash pressures; perceive the risks of negative revisions to be largely known/priced-in. With potential for multi-year rates/ ROE banding in exchange for enhanced customer metrics the Carolina jurisdictions could be partially de-risked following rate case outcome. Longer-term, the NC IRP filing in Sept that could create additional opportunities for DUK in terms of clean energy and coal reduction opportunities, although we look for further discussion on natural gas build considerations given still uncertainty around ACP. Net-net, we maintain our Neutral rating.

DUK 1Q20 EPS walk

We forecast 1Q20 EPS of $1.14 compared to 1Q19 results of $1.24 and consensus estimates of $1.24. While our estimates are below consensus and down -3% YoY it includes -$0.08 of negative weather est in the quarter. With rate cases in the Carolinas/IN expected to be implemented in 2H and potential cost cuts upwards of $0.16/sh we see the ability to hold the line of 2020 guide.

- **Key drivers**: Positive YoY drivers include the implementation of rates and riders at the electric utilities (+$0.08), the wholesale contract moving to formula rates (+$0.01), new rates at Piedmont (+$0.04), AFUDC on Atlantic Coast Pipeline (+$0.01), other gas utility growth (+$0.01), Offsetting results are regulatory lag (-$0.04), impacts from COVID on load growth (-$0.02), the tax true-up reversal at the gas segment (-$0.06), higher interest expense (-$0.01), preferred coupon interest expense (-$0.04), share dilution (-$0.01), and increased O&M expense due to the Feb. storms in the Carolinas (-$0.03).

- **Unknowns**: Weather is expected to be unfavorable driver in the quarter with HDDs 20% below the norm and 15-18% below the prior year, although slightly offset by more favorable CDDS; the exact magnitude is unclear. Another unknown impact is the decline in load growth from COVID19; while mgmt. provides sensitivity that every 1% decline in load equates to a $0.15/sh impact with industrial load ~20% of retail sales, which has lower margins compared to the other customer classes and Commercial load ~30% of retail, and the ~15% from wholesale, the exact extent of the decline is difficult to discern in 1Q. Further, it remains unclear if the company was able to bend the cost curve on O&M costs, which could be a potential offset, although likely to show up in 2Q.

Table 20: DUK 1Q20 EPS walk

DUK 1Q20 Earnings Walk	EPS
DUK 1Q19 EPS	1.24
Weather - normalize from 1Q19	$0.06
Weather- 1Q20	-$0.11
Electric	$0.03
Rate implementation:	
DEC SC rates (full quarter)	$0.01
DEP SC rates (full quarter)	$0.01
Florida - multi-year plan	$0.01
SOBRA - FL	$0.01
Other Riders - IN and OH	$0.04
Regulatory lag	-$0.04
Load Growth - 1%	-$0.02
AFUDC equity	$0.00
Wholesale - fixed to formula rates	$0.01
Gas	$0.00
LDC Growth	$0.01
New Rates - PNY	$0.04
AFUDC for ACP	$0.01
Tax true-up reversal	-$0.06
Renewables	$0.00
Palmer (60MW) – 2Q in-service	$0.00
Other	-$0.08
O&M - Feb. storms	-$0.03
Interest expense	-$0.01
Other - preferred	-$0.04
Dilution	-$0.01
DUK 1Q BofAe Adjusted EPS	$1.14
Consensus	$1.25
BofAe 2020 EPS	5.21
Guidance	5.05-5.45
2020 Consensus	5.17
DUK 1Q20 Shares Outstanding	732
DUK 1Q19 Shares Outstanding	728
Tax Rate	12%

Source: BofA Global Research estimates, company report, Bloomberg

Bending the O&M cost curve

Given the potential implications from a decline in load with the electric utility largely exposed as several C&I customers have announced closures in its service territory (see further below), we expect mgmt. to look to mitigate these impacts through reductions in O&M. While the company has not yet announced these mitigating measures, we look back to 2017 where weather was a severe headwind with mgmt. able to offset that by $100-150mn in cost reductions. We could very well see mgmt. announce similar cost reductions (relative to flat growth yoy) that would result in a $0.11-$0.16/sh EPS benefit in 2020 to offset (or at least partially) the below headwinds to load. Additionally, mgmt. executed on pulling cost forward with favorable weather last year, including $0.04/sh for foundation giving that could be a benefit as well. While details on where these O&M levers are going to come from have yet to be disclosed, we look forward to additional commentary from mgmt. to see if these are more transitory (i.e. at the utility level) or through sustainable corp. overhead reductions. Net-net, we see this as a positive as it would be able to offset headwinds from load this year.

Load growth considerations and decoupling

DUK's electric utilities & infrastructure jurisdiction (~83% of 2020 adjusted EPS contribution according to guidance) does not have decoupling and is much more exposed to load. On a sensitivity basis, every +/- 1% change in electric load across all customer classes equates to +/- $0.15 change in EPS. Note DUK's industrial load is ~20% of its retail business, which has lower margins compared to the other customer classes driving a lower impact to EPS ($0.02/sh for every 1% change). Commercial load accounts for ~30% of retail, residential is ~35% and the remaining ~15% is wholesale. As we've mentioned before, the residential market may be set up to benefit from COVID-19 as people continue to self-quarantine in their homes (especially true as we enter peak

cooling demand with more residential customers utilizing air conditioning). We also highlight that wholesale represents 15% of its load with every 1% load loss in retail, equating to $0.02-0.03/sh impact to EPS; although this is likely overestimating the impact to some extent as its largest wholesale customers in the Carolinas are residential. Also, the impact for wholesale would only impact the current year as volumes get reset in the following year's rates automatically.

While mgmt. is still assessing the impacts to load, there have been several announced closures in DUK's service territory: BMW in NC and Fiat in IN announced closures in mid-march while many schools and small businesses have also announced closures. See our assumptions below for potential headwinds to EPS from a 2% decline in load (w/ a partial offset by 0.5% increase in residential load), although see this offset in part from increased O&M cost cuts.

Table 21: DUK EPS Load Sensitivity and Assumptions

DUK Load Sensitivity	Every 1% change	Assume 2% decline in load (ex-residential)
Industrial	$0.02	-$0.04
Commercial	$0.05	-$0.09
Residential	$0.09	$0.04
Wholesale	$0.03	-$0.05
Total Headwind		-$0.14

Source: BofA Global Research estimates, company report

Gas LDC's decoupled in NC with weather normalization in SC/TN

On the positive side, most of DUK's gas jurisdiction is decoupled or has weather normalization with only about 9% of total gas earnings exposed to load (~91% of Gas Utilities & Infrastructure business has mostly fixed margins). Piedmont is fully decoupled in North Carolina (75% of Piedmont gas business). South Carolina and Tennessee have weather protection only (25%). From an earnings contribution standpoint Gas Utilities & Infrastructure only accounts for ~12% of 2020 adj. EPS or ~10% excluding ACP's EPS per DUK's latest guidance.

Bad debt expense and recovery of COVID costs

DUK has a bad debt expense rider in Piedmont for fuel expenses (60% of the bill) and a full rider for all bad debt expense at Duke OH gas and electric. For Duke Ohio, bad debt expense is collected through annual uncollectible riders for both the gas and electric businesses, with true-ups. For the Piedmont businesses, these are collected in the fuel rider, and mgmt. can update the fuel costs as often as it needs, although tends to do it every six months driven by under or over-collection status as the cost of natural gas changes. For the other jurisdictions, mgmt. will be tracking incremental bad debt expenses and other COVID-19 related expenses, and if significant, would explore regulatory asset treatment similar to other extraordinary costs when material to the respective utility. *While the majority of the business does not have a bad debt expense rider/mechanism we continue to see a relatively minimal impact from incremental costs associated with bad debt: for context, the company experienced $20mn of incremental bad debt during the 2008/2009 financial recession, which would translate to $0.02-$0.03/sh today (assuming inflationary increase in today's dollars).*

NC rate cases remain key to watch: ROE and coal ash

We continue to expect DUK's rate case in the Carolinas to have a similar outcome to Dominion's coal ash order potentially further cautious for earned/recoverable ROEs where we already assume $0.10-$0.13/sh eventual drag. Further, we expect the ROE to be litigated in the Duke Energy Progress (DEP) case with intervenor testimony on April 13th likely to give further indication of staffs issue with ROE given the wide discrepancy between parties on the current interest rate environment and cost of capital (which has rebounded precipitously for DUK of late). Rate cases remain cautious although see risks of the negative revisions priced-in/largely known.

EPS estimates

We provide our EPS estimates below and see a 4.5% CAGR through '24 with estimates slightly below street and mgmt. guide for 5% growth at the mid-point. See headwinds in 2020 despite sizeable O&M reductions given weather headwinds and reduction in load. We don't expect a guidance cut to be clear with '20 despite 1Q pressures, particularly considering cost levers. DUK appears among the most confident in sourcing these offsets across the sector.

Table 22: DUK EPS Estimates: looking for consensus ests to come down a touch

EPS Estimates	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Electric							
Carolinas	1.65	1.95	1.88	1.94	2.02	2.10	2.20
Indiana	0.57	0.60	0.61	0.62	0.65	0.67	0.69
Ohio - Electric	0.26	0.22	0.25	0.25	0.28	0.31	0.35
Progress- Carolinas	1.02	1.12	1.16	1.16	1.19	1.22	1.24
Progress- Florida	0.81	0.96	0.97	1.02	1.05	1.09	1.10
Commercial Transmission	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Eliminations	0.39	-0.04	0.00	0.00	0.00	0.00	0.00
Consolidated Earnings	4.70	4.81	4.86	4.99	5.19	5.38	5.58
Guidance		4.77	4.94				
Gas							
Ohio - Gas	0.13	0.12	0.14	0.16	0.19	0.20	0.21
Piedmont (PNY)	0.23	0.27	0.31	0.33	0.37	0.41	0.45
Midstream Pipelines	0.02	0.23	0.23	0.29	0.23	0.25	0.25
Eliminations	0.06	0.00	0.00	0.00	0.00	0.00	0.00
Consolidated Earnings	0.45	0.62	0.68	0.79	0.78	0.85	0.91
Guidance		0.51	0.72				
Commercial Renewables	0.14	0.27	0.33	0.33	0.30	0.28	0.29
Guidance		0.32	0.33				
Parent/Other	-0.57	-0.64	-0.73	-0.65	-0.60	-0.56	-0.53
Guidance		-0.60	-0.73				
Adjustments							
BofAe EPS	4.72	5.06	5.14	5.45	5.67	5.95	6.24
Previous Estimates		*5.06*	*5.21*	*5.45*	*5.67*	*5.95*	*6.24*
Guidance	4.65-4.85	*4.95-5.15*	*5.05-5.45*				
Consensus	4.76	5.02	5.16	5.47	5.70	5.97	
Mgmt EPS CAGR: 4-6% from 2019-2023E		5.00	5.25	5.51	5.79	6.08	6.39
Low End		4.80	5.05	5.41	5.62	5.85	6.08
High End		5.20	5.45	5.62	5.96	6.31	6.69
BofAe CAGR '19-'23e						4.5%	
BofAe CAGR '19-'24e							4.5%

Source: BofA Global Research estimates,, Bloomberg, company filings

Valuation: PO of $93

Our PO of $93 based on our latest EPS estimates and mark to market of peer utility multiples of 17.9x for gas and electric. Ability to turn the narrative in the NC jurisdiction would clearly help shares to re-rate on DUK shares although still look for execution.

Critically, the ability to implement PBR (Performance Based Rates) potentially in exchange for implementation of an ROE band/and or multi-year stay out of rate cases appears increasingly likely and among a handful of understated emerging positive trends for shares. We anticipate further discussion albeit beyond the scope of the near-term pressures and Covid related concerns.

Table 23: DUK SOTP Valuation

Duke Energy Sum of the Parts Valuation
2022E
All figures in $Mn except per share

	Metric	P/E Multiple						Equity Value		
	2022E EPS	Low	Peer	Prem/ Discount	Base	High	-	Low	Base	High
Group Peer Multiple - Electric	-	-	17.9x	-	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Electric	-	-	5.00%	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Electric Utilities			18.8x							
Duke Energy Carolinas	$2.02	17.8x		0.0x	18.8x	19.8x		$36.02	$38.04	$40.07
Duke Energy Progress/Carolinas	$1.18	17.8x		0.0x	18.8x	19.8x		$21.07	$22.26	$23.44
Duke Energy Florida	$1.05	18.8x		1.0x	19.8x	20.8x		$19.80	$20.86	$21.91
Duke Energy Indiana	$0.65	18.8x		1.0x	19.8x	20.8x		$12.13	$12.77	$13.42
Duke Energy Ohio/Kentucky	$0.28	17.8x		0.0x	18.8x	19.8x		$4.98	$5.26	$5.54
Total Electric Utility Value	$5.19							$94.01	$99.19	$104.38
Group Peer Multiple - Gas			17.9x							
Group EPS '18-'22 CAGR - Gas			5.10%							
Gas Utilities	2022E EPS		18.8x							
Duke Energy Piedmont	$0.37	18.8x		1.0x	19.8x	20.8x		$6.88	$7.25	$7.61
Duke Energy Ohio/Kentucky Gas	$0.19	18.8x		1.0x	19.8x	20.8x		$3.53	$3.71	$3.90
Total Gas Utility Value	$0.55							$10.41	$10.96	$11.51
Commercial Segment	2022E EBITDA									
Midstream Infrastructure:							Weight			
ACP	$407	8.0x	9.0x	0.0x	9.0x	10.0x	50%	1,627	1,831	2,034
Add back ACP debt							50%	942	942	942
All Other	$61	8.0x	9.0x	0.0x	9.0x	10.0x		492	553	614
Transmission Segment	$6	8.0x	9.0x	0.0x	9.0x	10.0x		52	58	64
Segment Net Debt	-$5,055							-5,055	-5,055	-5,055
Add back Renewable Debt	$1,088							1,088	1,088	1,088
Renewables Segment NPV @ 8% Discount	$1,291							1,291	1,291	1,291
New Renewables NPV	$471							471	471	471
Net Infrastructure Equity								909	1,181	1,452
Net Infrastructure Equity Per Share								$1.25	$1.53	$1.99
Parent	2022E EPS									
NMC (Saudi Chemical JV)	$0.05	11.8x		-6.0x	12.8x	13.8x		$0.59	$0.64	$0.69
Parent Interest attributed to utility - 50%	-$0.60	20.2x		0.0x	19.2x	18.2x		-$6.08	-$5.78	-$5.48
Parent Debt- 50%	-$21,165							-$13.71	-$13.71	-$13.71
Total Equity Value								-$19.20	-$18.85	-$18.50
Shares Outstanding									772	
Total Equity Value								$86.00	$93.00	$99.00
Current Share Price								$90.10	$90.10	$90.10
NTM Dividend Yield									4.25%	
Total Return									7.47%	

Source: BofA Global Research estimates, company report, Bloomberg

Please see our latest DUK research here:

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Duke Energy: Mitigation measures to offset pressures and hold the line	Julien Dumoulin-Smith	13 April 2020
Duke Energy: North Carolina: Coal ash, ROE risks; Cleaner upsides, Cost & Reform offsets?	Julien Dumoulin-Smith	26 March 2020
Duke Energy: Upgrading to Neutral: Raising the bar with an improved regulated outlook	Julien Dumoulin-Smith	14 February 2020
Duke Energy: Raising the Ratebase & other nuances	Julien Dumoulin-Smith	13 February 2020

DTE Energy

We forecast 1Q20 adjusted EPS of $1.80 vs. $2.05 in 1Q19 and $1.98 consensus. Our estimate is well below last year's result due to this quarter's unique combination of weather, Covid impacts, and reversals of one time items. We expect consensus estimates to be revised substantially lower going into the Q1 print. We stress non-reg continues to garner disproportionate attention relative to its modest implied value after multiple contraction in midstream sector. We see shares as entirely fairly rated vs. peers (earlier shares offered a double-digit total return on utility-only values).The strategic question embedded is just how to view non-regulated when netting parent level debt against these businesses (with their depressed trading multiples/valuations of late). We appreciate that this is principally a consideration of debt allocation (ascribing some of the holdco debt to the utility or not), but with just ~$2/sh out of $100+/sh stock (<2% of total value), we sense overly focused Street on very limited side of biz.

- **Key Drivers:** Primary drivers include weather which is an 8 cent drag from normalizing 2019 results and a further 17 cent drag given heating degree days (HDD) 16% below normal. Q1 2017 saw a weather impact of similar magnitude with corresponding drag of $13m at the electric utility. We likewise assume weather-related drag of 10 cents at the gas utility given that the HDD deviation from normal was -16% in 2020 vs. +5% in 2019. We additionally assume 1 cent drag at both the electric and gas utilities stemming from demand impact of Covid – this impact is expected to be modest given the timing of shut down orders in late March. We continue to incorporate the impact of new electric rates which went into effect in May 2019 along with correspondingly higher D&A and interest expense. While DTE mgmt. has flagged its previous expectation to utilize financial contingency to mitigate impacts of weather on its utility results, we expect a partial offset to weather impact (and none to Covid impact) in Q1 due to timing.

- **Unknown:** Precise weather-related impacts are difficult to estimate although we see Q1 2017 as a comparable period (albeit with fewer storm expenses). Covid-related demand shifts in late March are expected to show an increase in residential load and a larger (in % terms) decrease across both commercial and industrial (C&I). The Energy Trading business is difficult to forecast owing to the opaque nature of its operations – given significant volatility across most asset classes in the quarter there is potential for an above/below normal quarter, although we do not incorporate this into our estimates.

Table 24: DTE Q1 earnings walk

DTE Energy 1Q20 Earnings Walk	EPS
Adjusted EPS 1Q19	$2.05
Utility	($0.16)
Electric	
Weather - return to normal	($0.03)
Weather - 1Q20	($0.07)
2019 GRC - $273mn effective 5/9/2019	$0.29
D&A, Interest, Other expenses	($0.13)
O&M savings vs. last year	$0.04
Sales impact	($0.01)
OID benefit from investment earnings - 17m gain	($0.09)
Gas	
Weather - return to normal	($0.05)
Weather - 1Q20	($0.10)
D&A, Interest, Other expenses	($0.02)
O&M	$0.02
Sales impact	($0.01)
Tax timing true up from Q1 2019	($0.05)

Table 24: DTE Q1 earnings walk

DTE Energy 1Q20 Earnings Walk	EPS
Non-utility business	($0.03)
GSP	$0.02
P&IP	$0.01
ET	$0.00
Corp & Other	($0.06)
Dilution	($0.06)
1Q20E Adjusted EPS	$1.80
1Q20E Consensus	1.98
2020E BofAe EPS	$6.56
2020E Consensus	6.60
2020 Guidance Midpoint	6.61
Shares Outstanding 1Q19	183
Shares Outstanding 1Q20	188

Source: BofA Global Research Estimates, company report, Bloomberg

Milder weather compounding Covid slowdown in Q1

Q1 2020 was substantially warmer in DTE's service territory than normal, with heating degree days (HDDs) 16% below average levels. The last time the service area experienced conditions with the same order of magnitude deviation from normal was Q1 of 2017 when HDDs 14% above normal created a $13m drag at the electric utility. We also assume that the weather-related drag on the gas business was 10 cents in Q1 2020, as compared to a 5 cent benefit in 2019. The effects of milder weather in 2020 are compounded by the fact that 2019's positive weather result of 5 cents gas and 3 cents electric is being reversed. We expect that DTE mgmt. should be able to utilize its financial contingency to offset a significant portion of weather-related impact in 2020 *throughout the course of the year*, though given timing of warmer months in Q1 we expect a partial offset of weather drag in the quarter, with further mitigation likely in Qs 2-4 through management of timing of O&M expenditures being the primary lever. We note that Q2 is typically a shoulder quarter with relatively low weather impact, while Covid-related slowdown is expected to affect demand in the quarter disproportionately – see more below.

Covid impact on load – Q2 seen most affected

DTE's latest disclosures include earnings sensitivity for all customer classes to a 1% swing in demand. As with most public utilities, residential sales provide the highest margin at $15m annual impact, followed by commercial ($6m), industrial ($1m), and other ($2m). These sensitivities assume a flat 1% impact to demand over the course of a full calendar year. Though DTE has not provided March demand impact by customer class, initial commentary from peer utilities suggests a trend of residential growth in the mid-single digits serving as a partial offset to commercial and industrial sales that decline by 10-15%. Assuming that DTE Electric sees a gain of 5% residential demand and a drop of 15% across the other customer classes through the entirety of Q2, we estimate an earnings impact of -$15m, or 1.2% of DTE's 2020 earnings guidance at the midpoint ($1,270m). Note this is an illustrative case and DTE has not provided demand estimates, and actual demand will vary depending on when Covid stay-at-home restrictions are lifted.

Table 25: DTE electric demand impact

Flat 1% annual impact

Customer type	Sensitivity (%)	Annual earnings impact ($m)
Residential	-1.0%	15
Commercial	-1.0%	6
Industrial	-1.0%	1
Other	-1.0%	2
Total		24
2020 guide midpoint		1,270
Decline impact		-1.9%

Q2 demand shock illustrative

Customer type	Sensitivity (%)	Annual earnings impact ($m)
Residential	5.0%	19
Commercial	-15.0%	(23)
Industrial	-15.0%	(4)
Other	-15.0%	(8)
Total		(15)
2020 guide midpoint		1,270
Decline impact		-1.2%

Source: BofA Global Research Estimates, company report, Bloomberg

We note that DTE's utilities entered 2020 well-positioned with mgmt. touting significant financial contingency that would enable the company to "nail it" in both the electric and gas business – in fact the company reiterated 2020 guidance in March as the Covid pandemic shock was spreading. We expect that mild Q1 weather combined with Covid impact will weigh on earned ROEs in 2020, with the impact partially but not completely offset via O&M management by utilizing the financial contingency built up in 2019. We therefore reduce our forecast for earned ROEs in 2020 at both the electric and gas utilities to 9.9% from 10.0%; note that we had previously reduced our authorized and earned ROE forecast at both the electric and gas utilities for 2021+ to reflect risk around authorized ROEs from the persistent low interest rate environment. With our reduced estimates, we still see the electric and gas businesses achieving results near the low end of mgmt.'s reaffirmed guidance range – with a protracted demand impact related to Covid as the most pressing near-term risk.

Table 26: Utility ROEs incrementally lower in 2020 on weather/Covid

ROEs							
Authorized	2018A	2019A	2020E	2021E	2022E	2023E	2024E
DTE Electric	10.0%	10.0%	10.0%	9.9%	9.9%	9.9%	9.9%
DTE Gas	10.0%	10.0%	10.0%	9.9%	9.9%	9.9%	9.9%
Earned							
DTE Electric	9.8%	10.0%	9.9%	9.9%	9.9%	9.9%	9.9%
DTE Gas	9.5%	10.5%	9.8%	9.9%	9.9%	9.9%	9.9%

Source: BofA Global Research Estimates, company report

Table 27: Utilities still expected to hit guidance range in short + long term: we could readily see upside still

Net Income ($Mn)							
Utility segment	2018A	2019A	2020E	2021E	2022E	2023E	2024E
DTE Electric	669	716	761	830	901	951	1,002
Guidance		*703-717*	*759-773*				
Growth	8%	7%	6%	9%	9%	6%	5%
Guidance CAGR '20-'24		*7-8%*					
BofAe CAGR '20-'24		7.1%					
DTE Gas	159	181	188	206	230	251	265
Guidance		*175-183*	*185-193*				
Growth	7%	14%	4%	9%	12%	9%	6%
Guidance CAGR '20-'24		*9.0%*					
BofAe CAGR '20-'24		8.8%					

Source: BofA Global Research Estimates, company report

Electric rate case decision expected by early May

Under Michigan state law, the commission is required to issue a final decision in the pending rate case within 10 months of the filing, by May 8. The commission has not yet indicated whether it may extend the timeline due to the Covid emergency and staff resources likely focused on ensuring that gas and electric service continues uninterrupted. DTE Electric filed a request for a $343m increase premised on a 10.5% ROE and $18.2B rate base. Staff countered with a recommendation for an increase of $195m, a 9.8% ROE, and $18.1B rate base. Recently, the administrative law judge (ALJ) handling the case issued a recommendation for a rate increase of $99.8m based on an ROE of 9.8% and rate base of $17.1B. At issue in the ALJ recommendation which supports the position of intervener the Association of Businesses Advocating Tariff Equity (ABATE) which claims that DTE's prepaid pension asset of ~$800m be excluded from the working capital portion of rate base as DTE did not establish that the pension asset was fully funded by investor capital or that it provides benefits to ratepayers. This is an area where the ALJ disagrees with commission staff, which approved the inclusion of the asset in rate base in the previous rate case (U-20162) but directed DTE to provide additional evidence that the asset should be included in working capital including the source of the funding of the prepaid pension asset in the current filing. DTE's testimony

asserts that the pension asset is 1) reasonable and prudent as it reduces ongoing pension costs and 2) it contributes to an increased deferred tax component in DTE Electric's weighted average cost of capital, reducing overall cost. The ALJ concludes its argument stating that DTE made "no effort whatsoever" to demonstrate that the entirety of the prepaid pension asset was supplied by investors rather than ratepayers.

Below we include a summary of the rate base impact from the ALJ proposal as compared to both DTE's request and commission staff proposal. Staff's recommendation for approved rate base was generally in line with the company's request, which stands to further highlight the degree to which the ALJ recommendation stands out in proposing to exclude the pension asset.

Table 28: Rate base recommendations

DTE projected rate base ($m)

	DTE	ALJ	Delta	Staff
Net plant	16,775	16,514	(261)	
Working capital	1,392	582	(810)	
Total rate base	18,167	17,096	(1,071)	18,120

Source: MPSC docket #U-20561

Based on intervener, staff, and the ALJ's filings, three outcomes are possible with respect to the pension asset:

- **Accept ALJ recommendation without modification.** In the event that the commission were to accept the ALJ/ABATE position, DTE Electric's revenue requirement would be reduced by $56.8m according to company filings.

- **Accept ALJ recommendation with the modification that pension expense be adjusted which results in higher recovery through rates.** DTE's rebuttal filing claims that to exclude the pension asset without considering the impact on expense is unfairly punitive. The company claims that if the pension asset were excluded from rate base, the pension expense should be increased correspondingly (by $58m per DTE calculation) which would subsequently be recovered in rates, resulting in a largely revenue-neutral outcome.

- **Reject ALJ recommendation – status quo outcome.** This option would not affect the treatment of the pension asset on working capital and DTE would continue to recover. Notably this position is supported by commission staff in docketed reply to exceptions.

Midstream: will gas price recovery de-risk prospects post contracts?

We maintain our forecast in DTE's midstream business, seeing ~9% earnings growth through 2024 from the midpoint of 2020 guidance which already bakes in a ~30% increase over 2019, driven mainly by the full-year contribution of the Momentum midstream assets purchased in Q4 of 2019. Post 2020 growth in the segment is driven primarily by the placing in service of a gathering pipeline at Momentum (late 2020 in-service) as well as continued investment in compression and other organic growth initiatives at NEXUS, Link, and other "legacy" midstream assets.

We likewise maintain a balanced view on DTE's exposure to Indigo Natural Resources, its primary counterparty in the Haynesville basin. Indigo maintains relatively low leverage for its sector (~1.0x EBITDA post-transaction). *Critically, we see the potential for gas price appreciation into the future as offsetting our otherwise concerns embedded on volume related concerns in coming years. For now we see volume-related concerns and broader midstream concerns raised by many investors as simply less relevant given where shares are priced.*

The company is largely hedged forward for its projected 2020 production, with some 2021 volumes hedged as well - while commodity price risk exists given ongoing supply-demand imbalance in US basins, we note Indigo mgmt. appears to be prudently hedging its forward exposure amid an uncertain price environment. We note DTE maintains minimum volume commitments (MVCs) with Indigo covering 90% of its expected volume from the Haynesville basin through 2020, with volume growth covering the remaining 10% of company forecast revenue - note forward sales by Indigo suggest performing under the MVCs should be an achievable goal in the near term.

Bottom line: the market has discounted DTE shares to the point where they trade with little implied value in the midstream business. We stress that investor attention here is disproportionate given healthy utility earnings visibility through the forecast despite near term risks.

EPS Estimates

We previously updated our 2020 estimates to reflect lower earned ROEs of 9.9% at the Electric and Gas utilities (10.0% previously). Our new consolidated 2020 estimate of $6.56 is below the midpoint of the $6.47-6.75 range recently reiterated by mgmt. We continue to see the long-term outlook as largely intact, having previously reduced our earned ROE assumption at the Electric and Gas utilities to 9.9% to reflect rate case risk in a low rate environment. Our updated 2020 estimate is several cents below Street though we stress downside to consensus estimates as the effects of Covid become more fully integrated in forecasts. We also highlight that earnings from the Energy Trading business may exhibit more volatility in the short term, though we continue to forecast a growth trajectory in line with previous mgmt. guidance given the opaque nature of the segment.

Table 29: EPS estimates

Earnings Contribution	2018A	2019A	2020E	2021E	2022E	2023E	2024E
DTE Electric	3.70	3.87	3.96	4.28	4.56	4.57	4.80
DTE Gas	0.88	0.98	0.98	1.06	1.17	1.21	1.27
Total utility	4.57	4.85	4.94	5.34	5.73	5.77	6.07
Non-utility segment							
Gas Storage & Pipeline	1.29	1.15	1.46	1.63	1.81	1.84	1.94
Power & Ind. Products	0.90	0.72	0.72	0.79	0.45	0.53	0.63
Energy Trading	0.22	0.16	0.11	0.13	0.15	0.16	0.16
Corp & Eliminations	(0.67)	(0.58)	(0.65)	(0.71)	(0.72)	(0.67)	(0.64)
% of total	*-11%*	*-9%*	*-10%*	*-10%*	*-10%*	*-9%*	*-8%*
Total non-utility	1.73	1.45	1.64	1.85	1.69	1.87	2.09
DTE Consolidated	6.30	6.31	6.56	7.17	7.40	7.63	8.14
Guidance	*0.00*	*6.02-6.38*	*6.47-6.75*				
Prior Estimates		*6.31*	*6.65*	*7.21*	*7.44*	*7.68*	*8.20*
Consensus		6.24	6.60	7.07	7.48	7.82	
			4.0%				
DTE Guidance 6% CAGR ('20-24)			6.61	7.01	7.43	7.87	8.34
Low End				6.94	7.29	7.65	8.03
High End				7.07	7.57	8.10	8.66
BofAe CAGR '20-'24e		5.3%					
Shares outstanding	*181*	*185*	*192*	*194*	*197*	*208*	*209*

Source: BofA Global Research Estimates, company report, Bloomberg

PO to $112; reiterate Neutral

We view risks around DTE's growth story as balanced, given the premium utility growth seen in the forecast period as balanced by less certain midstream outlook, primarily driven by single counterparty exposure at Blue Union. DTE's updated long-term guidance calls for operating EPS growth at a 5-7% CAGR from the midpoint of 2020's initial guidance of $6.61. Our updated forecast results in a 2020-2024 consolidated EPS CAGR of 5.3%, near the midpoint of mgmt's range. We apply peer group multiples of 17.6x for both the electric and gas utilities (previously, 17.9x/17.9x for electric and gas,

respectively), 8.0x midstream EBITDA multiples to the cogen/legacy coke battery and GSP businesses, a lower 6x EBITDA multiple to the Energy Trading business to reflect its lower-quality earnings profile, and an NPV valuation to the RNG development opportunity which yields an implied EBITDA multiple of 6.8x. We also tweak our valuation discount for the Momentum Midstream biz to -2.0x to reflect ongoing risk around producer activity in US shale basins. With these assumptions our resulting $112 PO reflects high single digit upside potential and we remain Neutral.

Table 30: DTE SOTP

DTE Energy Segments	2022E EPS	Premium /(Discount)	Group Multiple	Applied Multiple	Value
Utility					
Group Peer Multiple - Electric			17.6x		
Group EPS '18-'22 CAGR - Electric			5.00%		
DTE Electric (Distribution)	$4.56	1.0x	18.5x	19.5x	$88.92
Group Peer Multiple - Gas			17.6x		
Group EPS '18-'22 CAGR - Gas			5.10%		
DTE Gas	$1.17	1.0x	18.5x	19.5x	$22.73
Utility Equity Value per Share					$111.65
Non-Utility	2022E EBITDA	Premium /(Discount)	Group Multiple	Applied Multiple	
P&I					
Cogen + Legacy Coke Batteries	79	-2.0x	8.0x	6x	$477
NPV of RNG Development	$558		Implied Multiple ---->	6.8x	$558
REF Tax Credit Value (DCF), 2020-2023 @ 6%	198				$198
Energy Trading	44	0.0x	6.0x	6x	$263
Midstream (GSP)	885	-0.7x	9.0x	8x	$7,313
Allocated EBITDA	560	0.0x	9.0x	9x	$5,038
Momentum Midstream	$325	-2.0x	9.0x	7x	$2,275
Holding Company Borrowings					
Consolidated Projected B/S					20,313
(-) DTE Gas / DTE Electric Debt					(11,758)
Net Non-Utility Net Debt					8,554
Non-Utility Equity Value					$254
Shares Outstanding					197
Non-Utility Equity Value per Share					$1.29
	2022E EPS	Premium /(Discount)	Group Multiple	Applied Multiple	
Corp & Other (ex-Interest Expense)	(0.05)	0.0x	19.5x	19.5x	($0.98)
Utility Equity Value per Share					($0.98)
12 Month Price Objective					$112
Implied Consolidated P/E					17.8x
Dividend Yield NTMe					3.9%
Estimated Total Potential Return					9.7%
Shares outstanding by 2022					197

Source: BofA Global Research estimates, company report, Bloomberg

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Title: Subtitle	Primary Author	Date Published
DTE Energy: Still Focused on Nailing It Despite Covid Concerns: Rate Case Risks, Gas Offsets	Julien Dumoulin-Smith	13 April 2020
DTE Energy: Who's Ready to Reaffirm Guide? DTE Does & names new CFO too	Julien Dumoulin-Smith	25 March 2020
DTE Energy: Angling for a utility-only value for one that can 'nail it'?	Julien Dumoulin-Smith	09 March 2020
DTE Energy: Poised to deliver in '20, but earnings quality concerns persist	Julien Dumoulin-Smith	07 February 2020

Edison International (EIX)

EIX shares have underperformed the broader utility index since early March (-4% vs XLU) despite decoupling and other regulatory mechanisms to offset COVID related pressures given still $800mn in pending equity needs. While we see recent moves by mgmt. to allow for delay of equity issuance into 2H, potentially allowing for the broader market to recover we remain focused on the total quantum of equity needs to right-size the balance sheet. The '20 equity addresses mgmt.'s current expectations for wildfire related liabilities and timely recovery of memo accounts ($1.09bn in aggregate); we believe clarity on these outcome remain protracted and uncertain at best. With shares trading at a 30% discount to the group (20% after adjusting for potential for additional dilution), we sense investor optimism that shares can close the gap and re-rate to some extent. Nonetheless, we remain sober on these prospects pending clearer articulation of equity from mgmt. and maintain our Neutral rating.

1Q20 EPS walk

We forecast 1Q20 EPS of $0.81 compared to 1Q19 results of $0.63 and consensus estimates of $0.77.

- **Key drivers**: Positive YoY drivers include increase FERC and CPUC core contribution (+$0.16), lower O&M expenses (+$0.04), energy efficiency benefits, and higher financing and other benefits, including lower D&A (+$0.08).
- **Unknowns**: We highlight uncertainty with O&M expenses as it continues to be somewhat challenging to handicap given the company will defer costs that are over and above the authorized limit; with $0.14 drag of O&M expected in 2020 compared to $0.25 drag in 2019, we expect a positive variance in 1Q20 and highlight that much of the accelerated covered conductor program occurred in 1H19 last year and not necessarily the same cadence this year. Another unknown item is just how much equity of the $800mn in 2020 guidance has been issued to date; we assume none given the state of equity markets with the issuance likely deferred to 2H20.

Table 31: EIX 1Q20 EPS walk

Edison Electric 1Q20 Earnings Walk	EPS
Edison Electric 1Q19 Adjusted EPS	$0.63
SCE	$0.25
FERC ROE & RB Growth	$0.01
CPUC RB Growth and 52% Equity Cap	$0.15
O&M Effect	$0.04
Depreciation	$0.00
Property Taxes	$0.00
Energy Efficiency	$0.02
Wildfire Mitigation Costs	($0.04)
Interest expense for fund contribution	($0.03)
Financial and Other benefits	$0.08
EIX Parent and Other	($0.07)
HoldCo Drag	$0.00
Dilution	($0.07)
1Q20E Adjusted EPS	$0.81
1Q20 Consensus	$0.77
2020 BofA EPS	$4.45
2020 Consensus	$4.48
2020 Guidance	4.32-4.62

Source: BofA Global Research estimates, company report, Bloomberg

Pending equity needs: waiting on more certainty

The recent $800mn term loan that EIX drew down on likely provides flexibility with the timing of EIX's pending equity issuance ($600mn of "new" equity + $200mn on ATM). While the '20 equity addresses mgmt.'s current expectations for wildfire related liabilities, timely recovery of memo accounts ($1.09bn in aggregate), and a clarity on

these outcome remain protracted and uncertain (mgmt.'s confidence remains a tad cryptic). The recent ALJ approval of the capital structure waiver is just one piece to the puzzle to gain more clarity on forward looking equity assumptions.

Capital structure waiver approved by ALJ

The Administrative Law Judge (ALJ) issued a proposed decision (PD) approving the applications of EIX for the waiver of the capital structure. The ALJ recommended: 1) approve the waiver for *two years* or until the CPUC determines cost recovery for '17/18 wildfire events, whichever comes first (we expect some migration to HoldCo debt through this period likely); 2) limit the scope of exclusions to non-cash charges and debt issuance equal to or less than the aggregate net non-cash charges stemming from the '17/18 fires; and, 3) SCE should be required to submit an advice letter stating it has returned to its authorized cap structure or a timeline/plan over which SCE will return 90 days after the CPUC determines cost recovery of '17/18 fires. The ALJ also recommended EIX should notify the CPUC if its equity ratio declines 1% or more from most recent level reported. *We perceive the terms of approval as adding pressure to provide a clear(er) view of equity needs in parallel to Street - albeit with substantial uncertainties may just provide a transition to HoldCo rather than net increase in equity to pay down OpCo debt that waiver would support for two-years.*

For EIX, the approval would represent one of three steps needed to keep $600mn of 2020 equity needs to address wildfire related costs intact. The other criteria include no movement in the wildfire liability of $4.9bn and cost recovery of $1bn in memo accounts (as well as those associated with 2020). We reiterate our uncertainty on total equity needs but see two-year transition as likely tied to a shift in debt rather than further equity (as best we read prior commentary from mgmt), but this remains unclear (as mgmt has specifically qualified equity contemplated thus far is strictly for 'core' purposes for minimal needs on ongoing basis).

Tracking the memo recovery

Mgmt. recently filed its 2019-2019 Fire Memorandum Account (FMA) update, which initiated track 2 of the 2021 General Rate Case (GRC) proceeding. The company is seeking recovery of $509mn of O&M related expenses and $302mn of capital spending. This is considered track 2 of its memo recovery request with a decision not expected until 1Q21 with the GRC. The more near-term item is from the GSRP with a decision expected in April 2020, although again these costs are not similar to the other memo accounts and is more related to capital spending rather than O&M with the latter having a bigger impact on cash flows. The other items pertain to a decision with Wildfire Memorandum Expense Account (WEMA) for higher insurance cost vs. those approved (requesting $505mn in recovery) with a decision expected in Aug. 2020 and the (Catastrophic Event Memorandum Account) CEMA with a decision in March 2021 (for $88mn request).

We stress that this does not include 2020 costs that mgmt. will file at YE w/ a decision in ’22 (potentially growing by $200-300mn incremental). Currently, mgmt. is deferring these costs, although it’s not getting any cash recovery, hence the impacts to credit metrics. We continue to see uncertainty around these items and look for more clarity in the coming months to understand the totality of equity needs as mgmt. has its own internal planning assumptions around recovery.

Bottom line, recovery clarity could still take some time and we continue to see some risks on recovery (whether with the ~$120 mn of recoveries not necessarily tied to precedence or the ~$500Mn of additional insurance expenditures tied to last year that mgmt. did not receive approval for in its last rate case).

Table 32: EIX Wildfire Memorandum Accounts

Memorandum Account	Capital Expenditure	O&M Spent	Total Request	Timeline
Wildfire Mitigation Plan	302	304		PD 1Q21
Fire Hazard Prevention		198		PD 1Q21
Fire Risk Mitigation		8		PD 1Q21
Total 2018-2019 FMA	302	510	500	
Grid Safety And Resiliency Program	419	42	NA	Apr-20
Wildfire Expense Memo Account	-	341	505	PD Aug 2020
Catastrophic Event Memo Account	57	79	88	PD March 2021
Total Other Wildfire-related Memo Accounts	476	462	593	
Grand Total	778	972	1,093	

Source: BofA Global Research estimates, company report

COVID-19 related Impacts

Mgmt. has noted that most its critical work (safety work, wildfire mitigation spend) continues with only 10-20% of work deferred and is thus far not seeing any impacts to its capex budget or permitting. Given minimal impact to capex, decoupling, and ability to delay 2020 equity issuance, we largely see 2020 EPS guidance as intact.

Decoupling limits impact due to any loss of load

EIX has a decoupling mechanism with cost recovered on an annual basis. The regulatory framework requires the California Utilities to recover authorized revenue based on estimated annual demand forecasts approved in regular proceedings before the CPUC. However, actual demand for natural gas and electricity will generally vary from CPUC-approved forecasted demand due to the impacts from weather volatility, energy efficiency programs, rooftop solar and other factors affecting consumption.

Under the General Rate Case (GRC)/California Public Utility Commission (CPUC) jurisdiction, Investor Owned Utilities (IOUs) get recovery of an uncollectible percentage of revenue based on a historical 10-year average of actual uncollectible expense. To the extent that costs are in excess of the uncollectible factor result, there would be an earnings impact. For Federal Energy Regulatory Commission (FERC) rates, the formula rate mechanism could provide for a true-up. We would expect the Emergency Customer Protections Memorandum Account (ECPMA) to track costs related to COVID-19 given the state of emergency in CA.

Managing the upcoming wildfire season will be critical

Communication with local authorities and the state is crucial given the need to focus on investments to harden the grid ahead of the upcoming wildfire season while at the same time procuring generators for its most critical customers. We see prioritization of wildfire mitigation and communication with the market as critical, especially ahead of the upcoming wildfire season. Public Safety Power Shutoffs (PSPS) efforts are likely to continue into the '20 season; and while weather conditions similar to last year would result in fewer shut-offs, mgmt. is going to continue covered conductors in the riskiest areas (1K circuit miles) and re-inspect structures in more than 50% of high-fire risk areas in order to raise the wind threshold and have an overall smaller impact on customers.

ROE concerns abated for now

Given the volatility of Moody's Baa Index and utilities waived the trigger in the '08 financial crisis (to the upside), we could see something similar happen this time around to avoid volatility in customer rates. We stress that the Moody's BAA Utility Bond index has since rebounded, placing rates within the band and abating any near-term risk to potential CPUC authorized ROEs. Meanwhile, we continue to see potential for a FERC ROE settlement regardless of base ROE policy uncertainties.

EPS Estimates

We provide our latest EPS estimates for EIX, tweaking slightly given the current share price that we assume equity is issued at. EPS estimates largely in-line with street, although above consensus in outer years given we net out equity in our SOTP rather than through dilution in EPS (stress consensus estimates are not transparent on amount of equity assumed).

Table 33: EIX EPS

EIX Mini-Model	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Authorized Capital Structure							
Authorized Equity Capital %	48%	48%	52%	52%	52%	52%	52%
Authorized CPUC ROE	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%	10.30%
FERC ROE Build							
FERC Base Rate	9.92%						
CAISO (RTO Participation Adder)	0.50%						
Avg Project Incentive Adder	0.78%						
Assumed Equity Capital %			47%	47%	47%	47%	47%
Authorized FERC ROE Build	11.2%	11.2%	10.3%	10.3%	10.3%	10.3%	10.3%
Ratebase Growth							
Ratebase - Including Adjustments Below (Avg)	28,601	30,913	33,694	36,114	38,062	39,948	42,069
We include mitigation spending in rate base and then net out EPS impact below							
Guidance Low ($Bn) (Ex. ~$1.6Bn of fire risk mitigation from AB 1054)				-	-	-	
Guidance Mid ($Bn) (Ex. ~$1.6Bn of fire risk mitigation from AB 1054)	28,500	30,800	33,400	35,900	38,200	41,000	
Guidance High ($Bn) (Ex. ~$1.6Bn of fire risk mitigation from AB 1054)				-	-	-	
Breakdown:							
CPUC Ratebase (Avg)	22,107	24,038	26,345	28,863	31,410	33,920	36,432
FERC Ratebase (Avg)	6,144	6,875	7,349	7,252	6,652	6,028	5,637
Ratebase Growth	9.4%	8.1%	9.0%	7.2%	5.4%	5.0%	5.3%
% FERC	23%	22%	22%	19%	16%	14%	13%
Shares (Basic)	326	342	377	379	380	382	384
Shares (Diluted)	326	340	370	380	381	383	385
Ratebase-Only EPS	4.37	4.59	4.77	5.00	5.26	5.50	5.78
Additions/Subtractions to Spend							
Storage Upside (Inlcuded in base CaEx			0.00	0.00	0.00	0.00	0.00
Transmission project - pending potential rejection (~$100 Mn capex)			-0.01	-0.01	-0.01	-0.01	-0.01
Wildfire mitigation spend (~$1.6bn excluded from earning ROE)			-0.10	-0.08			
Charge Ready II ($561Mn of Capital)			0.02	0.04	0.06	0.08	0.08
Changes to Capital Structure and ROE Adjustments							
Cost Savings (ex-Debt Cost Savings)	0.00	0.02	0.00	0.00	0.00	0.00	0.00
Debt Cost Savings	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest expense from Wildfire Contribution Debt (~$1.2bn)		0.00	-0.11	-0.11	-0.11	-0.11	-0.11
Energy Efficiency	0.03	0.05	0.04	0.04	0.04	0.04	0.04
AFUDC Benefits		0.24	0.25	0.25	0.25	0.25	0.25
Corp Donations and Executive Comp			-0.14	-0.25	-0.25	-0.25	-0.25
Tax benefits and Other (insurance?)	-0.08						
FERC Recovery	0.02	0.09					
Z Factor Upside (1Q19)		0.04					
Post Tax Adj	0.00						
Parent Drag & Edison Energy				*Breakeven run-rate heading into 2020*			
Edison Energy Group (EEG) --> Can it improve?	-0.04	0.00	0.00	0.00	0.00	0.00	0.00
SoCore Impairment							
Parent and Other	-0.23	-0.33	-0.26	-0.25	-0.25	-0.25	-0.25
Toal Parent & Other Drag (Incl EEG)	-0.27	-0.33	-0.26	-0.25	-0.25	-0.25	-0.25
Total EPS (Basic)	4.14	4.67	4.38	4.63	5.00	5.27	5.54
Total EPS (Diluted)	4.14	4.70	4.46	4.61	4.98	5.25	5.53
Previous estimate		4.70	4.45	4.60	4.97	5.24	5.51
Consensus		4.77	4.44	4.64	4.76	5.11	
Guidance		4.70-4.90	4.32-4.62				

Source: BofA Global Research estimates, company report, Bloomberg

Valuation: $69

We move our PO to $69 (from $61) based on peer multiples of 17.6x (from 16.2x). While we see upside in our SOTP analysis, we still see the total quantum of equity needs as uncertain and dependent on recovery of memo accounts and wildfire liabilities remaining unchanged. We admit disproportionate upside vs. peers even when including additional equity to address balance sheet but unknown around future wildfire exposures keeps us Neutral rated.

Table 34: EIX SOTP Valuation

EIX SOTP							
SCE Components	% SCE	Authorized ROE Reflected	2022E Earnings	2022E EPS	Peer Multiple	Premium/Discount	Value per Share
Group Peer Multiple - Electric					17.6x		
Group EPS '18-'22 CAGR - Electric					5.00%		
CPUC - Core	84%	10.30%	1,682	$4.41	18.5x	-3.0x	$68.28
CPUC/FERC - Further Capital	0%		-9	($0.02)	18.5x	-3.0x	($0.38)
FERC	16%	10.30%	322	$0.84	18.5x	-3.0x	$13.07
Edison Energy			0	0.00	10.0x	0.0x	$0.00
Parent/Other			-96	-0.25	18.5x	-3.0x	($3.88)
Total EPS				$4.98			
Ongoing contribution to Wildfire Fund				$Mn	EPS	Multiple	
NPV of Ongoing Wildfire Contribution ($945mn over 10yrs)				($664)			($1.74)
Total Liabilities				$Mn			
Wildfire Liabilities Assumptions							
Current Charge: 2017 Thomas, Mudslides, Woolsey Fires: Low End of Range				-4,900			
Gross Up Factor			20%	-5,880			
Insurance Receivable				2,000			
Wildfire Liability Incl Insurance Offset				-3,880			
FERC Allocation ~5%			5%	194			
Net Exposure				-3,686			
Post Tax Net Exposure			28%	-2,654			
Equity Issuance in 2020 (reflected in EPS est)				600			
Remaining Exposure				-2,054			
Equity Dilution from wildfire liability funding							
Funding of '17/18 wildfire liabilities							
Liabilities:	Equity Issued	Shares Issued	Shares O/S (pre-dilution)	New Share O/S	Equity Dilution	Equity Value - Prior dilution	Value Per Share
Wildfire Liabilities - Post-tax	*2054*						
Total	2054	34	381	415	9%	$75	
Equity Value							$69
Price Appreciation							11.2%
2020 Yield							4.1%
Total Return							15.29%
Shares- Post Dilution	*415*						

Source: BofA Global Research estimates, company report, Bloomberg

Please see our latest EIX research below:

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Edison International: Can SoCal Recover? The Total Costs Remain the Ambiguity	Julien Dumoulin-Smith	27 March 2020
Edison International: A Veritable Feast of '20 EPS Factors Plus a Splash of FFO/Debt Sobriety	Julien Dumoulin-Smith	28 February 2020
Edison International: Examining the range of equity needs built into expectations	Julien Dumoulin-Smith	31 January 2020
Edison International: Closing the discount as legacy liability uncertainty lingers	Julien Dumoulin-Smith	10 January 2020

Entergy (ETR)

Our 1Q20 EPS estimate of $1.01/sh is slightly below Street estimates at $1.08/sh. Our 2020 estimate of $5.51 was recently updated to below the midpoint of mgmt.'s range of $5.45-5.75. We see the double impact of milder weather in Q1 and potential lost sales from prolonged Covid-related shut in orders as driving downside risk in the near term. We see ETR as well-positioned for managing the difficult operating conditions in 2020 given the opportunity to rely on flexing the O&M lever as highlighted by mgmt. on our recent conference call, as well as significant visibility into industrial project pipeline in its Gulf service territory which remains intact. We continue to see the renewable angle as the principal long-term play as the company looks to replace several GW of aging fossil generation toward the back half of the decade – with the recent 250 MW solar RFP announcement the latest example. Maintain Buy.

ETR 1Q20 Earnings Walk

We forecast 1Q20 adjusted EPS of $1.01 vs. $0.82 in 1Q19 and $1.08 consensus.

- **Key Drivers:** Key positive drivers include the implementation of new rates (+$0.46sh) including ETR AR through the Formula Rate Plan (FRP), ETR LA through the AMI rider and the base rate proceeding, and a full quarter's effect of the SCPS rider and Choctaw in rates at ETR MS. We additionally see weather as being a small uplift though this is driven by normalization of temps vs. 2019 as 2020 HDDs were below normal across the service territory. Negative drivers include higher O&M spend (-$0.05), and higher D&A primarily driven by addition of new generation assets and ongoing investment in transmission and distribution rate base (-$0.14).

- **Unknowns:** Weather is expected to be a small uplift on Q1 results; however magnitude is difficult to estimate. The magnitude by which industrial load growth is affected by Covid related shut downs is a meaningful consideration though we note some latitude to manage this through O&M.

Table 35: ETR 1Q20 earnings walk

Entergy 1Q20 Earnings Walk	EPS
1Q19A	$0.82
Utilities	$0.20
Weather	
Return to normal	$0.12
Quarterly effect	($0.10)
Revenue impact	$0.46
AMI	$0.02
Non-Fuel O&M	($0.05)
Depreciation	($0.14)
Interest Expense and Interest Income	($0.08)
Income tax rate	($0.04)
Parent and Other	$0.03
Pension	($0.01)
Other	$0.04
Dilution	($0.03)
1Q20E Adjusted EPS	$1.01
1Q20 Consensus	1.08
2020 Adjusted EPS	$ 5.51
2020 Consensus	$5.57
2020 Guidance	5.45-5.75

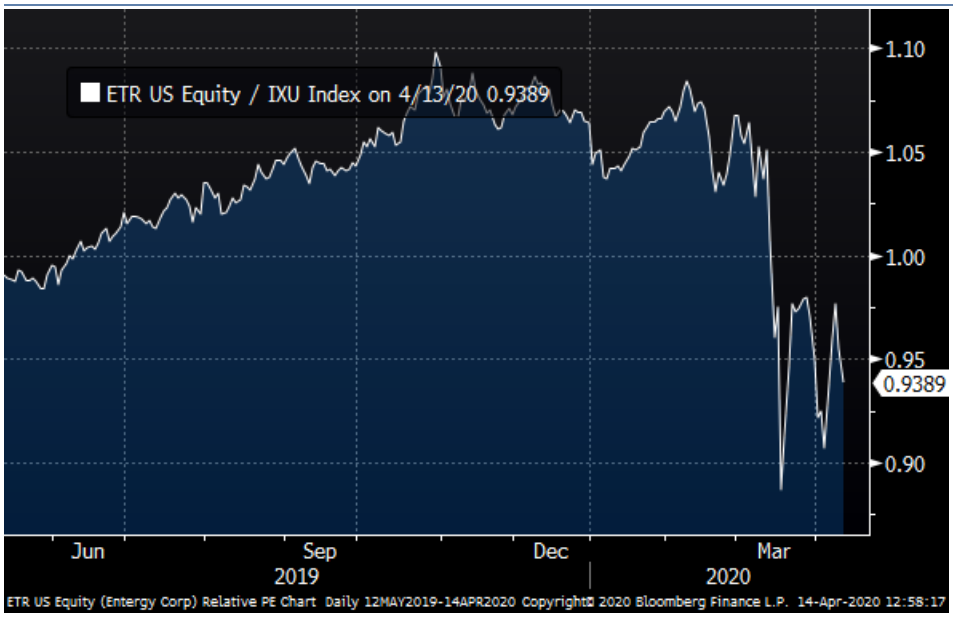
1Q19 shares outstanding	192
1Q20 shares outstanding	200

Source: BofA Global Research Estimates, company report, Bloomberg

What do we think of shares?

Shares of ETR de-rated vs. the peer group at the outset of the Covid crisis and now trade at a relative discount to the group on a forward PE basis – shares remain 1-2x turns below our electric peer group multiple for 2022 EPS since beginning their de-rating in early March. ETR's 2020 forecast included an assumption of 2% growth in weather-adjusted billed sales growth which included +5.5% growth in industrial sales with residential and commercial slightly down – with our previously-lowered estimates, we are assuming a 4-5% decline in industrial sales ($0.08-0.10 EPS impact), similar to that experienced in the 2008-09 recession, with shares continuing to screen cheap with our lower forecast. Mgmt. additionally indicated that no large customers with industrial projects in the pipeline have delayed or otherwise changed plans for new build facilities along the Gulf Coast, a signal that long-term demand growth remains intact despite near term headwinds. We maintain our confidence in ETR's long-term sustained investment profile between its entirely unscrubbed coal portfolio of ~2.2 GW and its largely steam-based gas and oil fleet which totals ~7 GW. We see investment in replacing these aging assets as the driver toward further re-rating with ETR steadily moving down the road of closing legacy nuclear plants and executing on its top quartile ratebase growth among peers and our estimated ~6% EPS CAGR through 2022. The renewable opportunity remains considerable as utility scale solar in its Mississippi and Louisiana territories and potentially wind in Arkansas are poised to replace aging fossil generation in the coming decade, supporting earnings growth over the medium to long term.

Exhibit 2: ETR relative value chart



Source: Bloomberg

Sizing the Covid impact on demand – look to '08

Mgmt.'s most recent comments regarding Covid impact on demand the company does has not seen a meaningful reduction in demand from either Residential, Commercial, or Industrial customers but acknowledges that an impact is expected as the slowdown continues. Given ETR's largely Gulf-region service area, the largest source of its demand is from Industrial customers which account for an estimated 40% of load, followed by Residential (~31%) and Commercial (~29%). Given different characteristics of each load type, mgmt. estimates that margins and corresponding EPS impact from Industrial ($0.02 EPS per 1% change in MWh sold) customers to be lowest among the three groups with Commercial ($0.05) and Residential ($0.09) following.

Table 36: ETR customer classes: we admit more load exposure to industrial, but perceive real residential offset given 9c:2c relative EPS exposure

Customer Class	% of Load	EPS impact
Industrial	40%	0.02
Residential	31%	0.09
Commercial	29%	0.05

Source: BofA Global Research Estimates, company report

During the 2008 crisis, demand from its Industrial customers declined by 4.5% in 2008 and 2009, followed by a rebound where growth averaged ~3% per annum for the decade that followed. While mgmt. expects some as-yet-unquantifiable impact on its Industrial load, thus far the impact has been limited. Mgmt expects the Gulf region to remain resilient during the economic slowdown given access to cheap natural gas feedstock, high-tech nature of industrial operations, and access to inexpensive electricity in its territory.

Managing opex is one of the key levers that mgmt. expects to utilize to offset declining load growth amid a likely slowdown. Flexing spending is a common practice for managing the effects of short term impacts such as above or below-average weather, with the ability to manage spending in the near term to partially mitigate the impact of lower growth. The other key lever being continuous improvement, which results in a more long-term bending of the opex curve – mgmt. points to last year's Q2 result where permanent cost cuts resulted in an increase in headroom for additional capex investment.

Changes in demand are an important driver as ETR has no decoupling in any of the jurisdictions where it operates – LA, AR, TX, MS, and NO. The highest sensitivity to changes in demand is residential sales with $0.09 EPS impact for a 1% change in demand, while the commercial impact of $0.05 and industrial impact of $0.02 are more tempered. While ETR does not have bad debt expense tracking across its jurisdictions, historically it has been able to achieve recovery of outsized bad debt expenses via regulatory assets. Off system sales are generally not a large driver of variability and not expected to be in the current environment. ETR has formula-based ratemaking in all jurisdictions except NO and TX, allowing for more timely recovery than under a traditional rate case structure, another lever that could potentially mitigate lost revenues due to the exogenous Covid shock.

Solar dev: Sunflower approved, 250 MW LA RFP coming

ETR MS' 100 MW Sunflower Solar facility received approval from the state's utility commission in April, clearing the way for the project to go forward. Under ETR's agreement with developer Recurrent Energy, Recurrent will construct the plant with ETR taking over upon completion. Under the proposed recovery mechanism ETR MS will add the $153m project cost to rates contemporaneous with the closing of the transfer from the developer to the utility under ETR MS' existing formula rate plan mechanism. The decision by the utility commission came in under ETR's original estimated time frame of Q2 2020 with expected project completion and transfer date by the end of 2021.

Separately ETR has announced the issuance of a new 250 MW RFP for solar generation in Louisiana. The proposals are to be structured either as build-own-transfer similar to Sunflower or self-build alternatives for up to 250 MW of generation, and/or one or more PPAs for up 100 MW. Projects are required to have a fully executed interconnection agreement with the Midcontinent Independent System Operator (MISO). Optional storage may be included with proposals as well. Draft proposals are due in April and final submissions are due in June with bidder registration to take place in July.

Grand Gulf lease complaint questions recovery

System Energy Resources Inc. (SERI) has been involved in multi-year complaints regarding its ROE and equity component as well as its sale-leaseback renewal. The sale-leaseback renewal docket (EL18-152) received a proposed administrative law judge (ALJ)

decision in April under which the ALJ found that SERI had recovered most of the cost of the original plant under its lease signed in 1988 that ran through 2015 (since renewed), and that there is no need for SERI to continue to recover its annual lease payments of 17m annually since lease renewal in 2015. ETR maintains that the lease transaction was entered prudently and has resulted in significant customer savings over the years, and that recovery should continue under the current lease. We note that the potential impact on near-term earnings would be limited to any reserve taken by SERI in order to account for a potential adverse ruling. While no formal timeframe has been set out for a final ruling by the Federal Energy Regulatory Commission (FERC), past precedent suggests that a final ruling would not be likely until 2021 or later.

EPS estimates

We previously reduced our 2020 estimates reflecting likely near-term impacts from lower industrial demand driven by fallout from the COVID crisis. Similar to the 2008-09 crisis, we adjusted our 2020 estimates to reflect a 4-5% decline in industrial sales (approx. $0.08-0.10 EPS impact per ETR sensitivities), though the key in our view is to what extent mgmt. is able to offset the impacts of lower industrial output with opex reductions. Meanwhile we stress that different from 2008-2009, ongoing industrialization projects do not appear poised to end and its critical to watch how these trend in coming months with regards to '20 industrial sales (there could very well be more of a lag effect stretching into '21 given both 12-month trialing C&I peak demand charges along with the ongoing growth of projects already in construction in petrochem, etc). We remain toward the low end of mgmt's guidance range in 2020 when we expect the most impact from Covid to hit, with a consolidated EPS trajectory within mgmt's long term 5-7% range in the latter years of the forecast period.

Table 37: ETR estimates

EPS by Business							
Subsidiary	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EAI	1.33	1.49	1.61	1.73	1.84	1.93	2.04
ELL	3.51	3.43	3.63	3.96	4.21	4.47	4.75
EMI	0.61	0.71	0.75	0.80	0.85	0.89	0.94
ENOI	0.27	0.23	0.24	0.24	0.24	0.24	0.25
ETI	0.81	0.78	0.91	0.96	1.01	1.08	1.16
SERI	0.50	0.40	0.40	0.41	0.41	0.42	0.43
Other	(0.08)	0.00	(0.00)	0.00	(0.00)	(0.00)	0.00
Utilities	6.95	7.03	7.54	8.08	8.57	9.04	9.57
Parent & Other	(1.55)	(1.53)	(1.58)	(1.69)	(1.69)	(1.70)	(1.72)
Utility Parent & Other (UP&O) - BofAe	5.40	5.51	5.96	6.39	6.88	7.34	7.85
Special Items							
Adjusted UP&O	5.40	5.51	5.96	6.39	6.88	7.34	7.85
Guidance	5.25-5.45	5.45-5.75	5.80-6.10	6.15-6.45			
Midpoint of Guidance	5.35	5.60	5.95	6.30			
CAGR off 2019 Adjusted EPS Guide Mid (5-7% LT Growth)		2.95%	5.52%	6.12%	6.48%	6.53%	6.60%
Competitive Business (EWC)							
Consolidated Estimates	5.40	5.51	5.96	6.39	6.88	7.34	7.85
Prior Consolidated Estimates							
Guidance	5.25-5.45	5.45-5.75	5.80-6.10	6.15-6.45			
Consensus	5.37	5.57	5.87	6.36	6.69		
Dividend	*3.66*	*3.72*	*3.84*	*4.07*	*4.31*	*4.57*	*4.85*
Div Payout 65-75% of UP&O	67.8%	67.5%	64.5%	63.7%	62.7%	62.3%	61.7%
Overall ROE	10.5%	9.6%	9.6%	9.6%	9.5%	9.5%	9.5%

Source: Bank of America estimates, company report, Bloomberg

Valuation: PO $122, maintain Buy

Our PO moves to $122/sh applying our electric utility sum of the parts multiple of 17.6x to each of ETR's utilities and grossing the multiple up for capital appreciation by 5%. We reduce 2.0x valuation premiums at EAI, ELL, EMI and 1.0x premiums at ENOI and ETI to reflect downside risk associated with lost sales. On our estimates, ETR's total return prospects remain compelling at current valuations, particularly as shares have de-rated

vs the peer group of late. Reiterate Buy. *We see ETR as among the most compelling opportunities in our utility coverage given implied concerns on load and Oil & Gas exposure. We emphasize while there could indeed some further load risk, embedded Formula Rate Plans (FRPs) should enable resiliency. These FRP mechanisms are frequently under-appreciated relative to filters screening for decoupling by investors.*

Table 38: ETR SOTP

Entergy: Sum of the Parts Valuation								
Group Peer Multiple - Electric			17.6x					
Group EPS '18-'22 CAGR - Electric			5.00%					
Core Regulated Electric Utilities	*2022E EPS*		*Peer Multiple*				*Equity Value ($/Sh)*	
			18.5x					
		Low	Base	High	*Premium/Discount*	Low	Base	High
Entergy Arkansas (EAI)	$1.73	18.5x	19.5x	20.5x	1.0x	$31.92	$33.65	$35.38
Entergy Louisiana (ELL)	$3.96	18.5x	19.5x	20.5x	1.0x	$73.14	$77.10	$81.05
Entergy Mississippi (EMI)	$0.80	18.5x	19.5x	20.5x	1.0x	$14.72	$15.52	$16.31
Entergy New Orleans (ENOI)	$0.24	17.5x	18.5x	19.5x	0.0x	$4.16	$4.40	$4.64
Entergy Texas (ETI)	$0.96	17.5x	18.5x	19.5x	0.0x	$16.70	$17.66	$18.61
Total Regulated	$7.68	18.3x	19.3x	20.3x		$140.65	$148.32	$156.00
Parent Preferred Income (ELL)	($0.62)		18.5x		0.0x		($11.37)	
Total Utility Value	$7.06	18.3x	19.4x	20.5x		$129.27	$136.95	$144.63
Parent Adjustments	*$Mn*		*Weight*		*Weighted Value ($Mn)*			
HoldCo Senior Notes	1,850		50%		925		($2.24)	
	2022E EPS	Implied Interest Rate	*Weight*	*P/E Multiple*				
HoldCo Interest Expense - 50% Weighting	($0.72)	9.6%	50%	18.5x	0.0x		($6.69)	
Corporate SG&A	($0.35)			18.5x	0.0x		($6.47)	
Total Parent & Other							($15.40)	
Merchant / Nuclear	*Cumulative FCF*		*NPV @ 10%*					
Merchant FCF: NPV Through 2022	$214		$177				$0.86	
Total Merchant							$0.86	
Total Equity Value Per Share						$115.00	$122.00	$130.00
Price Return						13.6%	20.5%	28.4%
NTM DPS							*$3.72*	
Dividend Yield							*3.7%*	
Total Return						17.2%	24.1%	32.0%
Implied Multiple Today							17.0x	
PO Implied Multiple								

Source: BofA Global Research estimates, company report, Bloomberg

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Title: Subtitle	Primary Author	Date Published
Entergy: Just So Many Ways to Win: Why We We're Still So Constructive: Reiterate Buy	Julien Dumoulin-Smith	25 March 2020
Entergy: The next re-rating angle gets a tad closer: reiterate Buy	Julien Dumoulin-Smith	21 February 2020
Entergy: Specifying the opportunity of the aging fleet: reaffirm our Buy thesis	Julien Dumoulin-Smith	03 December 2019

Essential Utilities (WTRG)

We see WTRG's execution on their capital plans as largely intact outside of a modest $30Mn delay related to temporary work stoppage in PA (which will likely be trued up within the calendar year). We would anticipate some further tailwinds from acceleration in muni deals during a recovery period and await looming equity likely later this year to finance the pending DELCORA acquisition. Meanwhile, we further continue to await developments around the catch up component of repairs tax implementation as additional upside to the recently rolled out guidance with a filing this quarter. We reiterate our Neutral rating on shares of WTRG, seeing risk/reward as fairly balanced at the current valuation.

WTRG 1Q20 Earnings Walk

We forecast 1Q20 adjusted EPS of $0.61 compared to 1Q19 adjusted results of $0.28 and consensus of $0.58. We see consensus as not fully appreciating the adjusted numbers reflecting weather-normalized load on the gas business.

- **Key Drivers:** The primary positive drivers y/y are new rates for the legacy water business and gas contribution following the Peoples Gas acquisition offset by higher O&M and dilution.

Table 39: WTRG 1Q20 Walk

WTRG 1Q20 Earnings Walk		EPS
WTRG 1Q19 EPS	$	0.28
Aqua		0.03
Peoples Gas		0.38
Dilution		-0.08
1Q20 BofAe Adjusted EPS	$	0.61
Consensus		$0.58
WTRG Guidance		$1.53-$1.58
2020 Consensus		$1.56
1Q20 Adjusted Shares Outstanding		254
1Q19 Adjusted Shares Outstanding		178

Source: BofA Global Research, Bloomberg

Contemplating the COVID IMPACT

Latest discussions with management have stressed the capital forecast (and recent EPS guidance) as largely intact outside of a $30Mn delay related to a two week work stoppage in PA when 500 contractors were out of work. We stress this as modest amid the $950Mn to be deployed with an expectation for this to be made up by the end of the calendar year, and see no material issues other than some small timing nuances.

While the company does not have decoupling mechanisms in a sizable way (despite PA companies privy to such mechanisms, the mechanism is only utilized in IL), industrial load is only ~3% of the overall mix for the water biz and less than 1% for gas (gas shoulder season should further limit any NT impact). During the recession in 08-09, the company did not see a large reduction on load, but we stress bill collection as more critical to watch given the moratorium on shutoffs this time. Initial discussions thus far haven't indicated any signs of trouble (typical run rate is about 50bp and 200bps for Aqua and Peoples, respectively. With TX already announcing a provision to track COVID-related expenses, we further await any add'l announcements in their ten state jurisdictions given what we expect to be a clear focus for regulators.

The remaining jurisdictions haven't seen an impact outside PA with regulatory or construction delays and muni conversations ongoing, albeit developments remain fluid: while WTRG doesn't have a particularly busy reg agenda, we could see a slight delay in the DELCORA acquisition (seemingly early next year vs. late this year/early next year) but would nonetheless anticipate equity for the transaction to be raised towards the back half of 2020. Latest conversations suggest ~$300Mn. While any infrastructure/federal

stimulus for water remains a wildcard, we see recovery out of COVID as likely another tailwind for industry consolidation.

Contemplating Repairs & LT Prospects

At their Analyst Day in February, mgmt. noted plans to invest $950Mn in 2020 for the year with visibility to ~$2.8Bn through '22, translating to rate base CAGRs of 6-7% for the water biz and 8-10% for gas (This excludes any acquisitions despite what we increasingly view as a bullish landscape for further muni acquisition acceleration – and reflecting DELCORA alone into rate base would already provide another few hundred bps of growth). Overall, we expect enabling legislation & emerging contaminants – in addition to COVID recovery tailwinds – to drive further consolidation prospects for water longer term.

Meanwhile, we await potential upside from any clarity around commission treatment of the Repairs Tax catch up component. Recall the election of tax repair for People's largest Pennsylvania sub, Peoples Natural Gas, which we perceive to be ~90% of the gas business. The company expects the election to directly contribute ~$0.08-$0.12 in 2020 – and we perceive this as a good run rate going forward. We expect the company to file something this quarter around a catch up component, with potential clarity around any construct later in the year (to determine flow through benefit to shareholders which remains less clear cut and excluded from the latest guidance.

EPS Estimates

The exhibit below reflects our current EPS estimates ahead of the upcoming quarter, with NT numbers coming down slightly. We continue to model to the high end of their LT CAGR guidance.

Table 40: EPS Estimates

EPS Estimates	2020E	2021E	2022E
PA	$0.73	$0.80	$0.86
OH	$0.07	$0.07	$0.08
IL	$0.07	$0.08	$0.08
TX	$0.06	$0.07	$0.07
NC	$0.04	$0.04	$0.05
Other States	$0.07	$0.07	$0.08
Water Utility	1.04	1.13	1.21
Peoples Gas	0.62	0.67	0.72
Parent & Other	*-0.10*	*-0.11*	*-0.14*
EPS	1.56	1.69	1.80
YoY Growth	*6%*	*9%*	*6%*
Guidance	1.53-1.58		
Fully Diluted Shares O/S	*254*	*254*	*254*
Previous EPS	*$1.58*	*$1.69*	*$1.80*
CAGR Guidance: 5-7% through '22 off 2019 Adjusted EPS			
Low End: 5%	1.54	1.62	1.70
Midpoint	1.56	1.65	1.75
High End: 7%	1.57	1.68	1.80
Consensus	1.56	1.65	1.79
DPS	0.99	1.06	1.13
Payout Ratio	*63%*	*62%*	*63%*

Source: BofA Global Research, Bloomberg

Valuation

The exhibit below reflects our latest SOTP after applying the current peer multiples to our valuation: 26.3x for water and 17.6x for gas (vs. 28.2x for water and 18.3x for gas previously). Our PO shifts to $47 and we maintain our Neutral rating seeing risk/reward as balanced at the current valuation.

Table 41: WTRG SOTP

Water Utilities	2022E EPS		P/E Multiple				Equity Value		
		Peer	Prem/Disc	Low	Base	High	Low	Base	High
Peer Water P/E		*26.3x*							
Group EPS '18-'22 CAGR		*8.30%*							
1-year forward group Water multiple		28.5x							
Water Utilities									
States	2022E EPS	ROE embedded							
PA	$0.86	10.0%	2.0x	29.5x	30.5x	31.5x	$25	$26	$27
OH	$0.08	9.4%	2.0x	29.5x	30.5x	31.5x	$2	$2	$2
IL	$0.08	9.1%	3.0x	30.5x	31.5x	32.5x	$3	$3	$3
TX	$0.07	10.0%	0.0x	27.5x	28.5x	29.5x	$2	$2	$2
NC	$0.05	9.2%	1.0x	28.5x	29.5x	30.5x	$1	$1	$1
Other (including acquisitions)	$0.08	9.2%	0.0x	27.5x	28.5x	29.5x	$2	$2	$2
Water utilities total (ex-Peoples)	$1.21			*29.3x*	*30.3x*	*31.3x*	$36	$37	$38
Gas Utilities									
Peer Gas P/E		*17.6x*							
Group EPS '18-'22 CAGR		*5.80%*							
Peoples Gas Multiple		18.6x							
	2022E EPS	ROE embedded							
Peoples Gas	$0.72	12.1%	2.0x	19.6x	20.6x	21.6x	$14	$15	$16
HoldCo Debt									
(50% Netting out Debt) @ Aqua Parent			-1165	50%			($582)	($582)	($582)
'(50% P/E multiple on Interest Exp)			4.3%	50%			($537)	($497)	($582)
50/50 Weighted Drag from HoldCo Drag							($1,119)	($1,079)	($1,164)
Fully Diluted Shares Outstanding							*254*	*254*	*254*
PO							$45.00	$47.00	$49.00
Current Price								$43.36	
Dividend Yield								2.3%	
Total Return								10.67%	

Source: BofA Global Research, Bloomberg

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Title: Subtitle	Primary Author	Date Published
Essential Utilities: Peoples Set to Close Imminently, but can the People deliver? Dropping Ests	Julien Dumoulin-Smith	09 March 2020
Aqua America: Overflowing Interest: Downgrading to Neutral	Julien Dumoulin-Smith	21 January 2020
Aqua America: Snorkeling in the Deep End: A Closer Look at the Repairs Tax Benefit	Julien Dumoulin-Smith	21 August 2019
Aqua America: Pool Party continues but waiting on the Gas	Julien Dumoulin-Smith	08 August 2019
Aqua America: Diving In: See Opportunity in a Gas & Water Utility Hybrid	Julien Dumoulin-Smith	15 July 2019

Evergy Inc (EVRG)

EVRG 1Q20 Earnings Walk

We forecast 1Q20 adjusted EPS of $0.40 vs. consensus of $0.49 (we note downside risk to Street estimates as Covid effects become more fully reflected over time) and pro-forma 1Q19 results of $0.44. Our full-year forecast for EVRG of $3.06/sh is updated from $3.15 previously as we expect some Covid-related slowdowns to materialize in reduced demand. We remain concerned on load trends for EVRG but given no '20 guidance, this limits near-term revision risk. Given ongoing strategic questions what will mgmt's ability/comfort with articulating cost cuts be to mitigate this outcome. *Management states they will attempt to cut cost however did not provide any further specifics; mgmt. also said it was also difficult to see load impacts given how much later KS was to implement Covid-related stay-at-home orders suggesting negligible impact on 1Q and even early impacts on 2Q.*

- **Key Drivers:** Weather is expected to be a drag of $0.13/sh as we normalize for the positive effects of 1Q19 (5 cents) and account for milder weather in 1Q20 that reduced the number of Heating Degree Days (HDDs) in EVRG's service area. O&M savings including merger synergies are expected to provide an uplift of 6 cents as the company continues to look for ways to cut costs in order to realize full merger synergies, offset Sibley and Jeffery rulings from 2019, and offset potential Covid-related drag on demand. We additionally see 5 cents of accretion from a lower share count in Q1 2020 following EVRG's share buyback program, but note that as this program has been suspended following the Elliott agreement this effect will abate in future quarters.

- **Unknowns:** Weather was noticeably milder in Q1 2020 than normal, with HDDs 15-16% below normal throughout much of EVRG's service territory. We note that weather impact on utility results is driven not just by the aggregate number of HDDs but also in the timing of deviations from norm (Jan HDDs worth more than March), and as such the precise weather impact is difficult to gauge. The Covid effect will likely be modest in Q1 as shut-in rules in EVRG's service territory were implemented in a staggered approach at the end of the quarter – we estimate 1 cent drag. The additional question looking ahead is to what extent, if any, EVRG is able to offset the effects of reduced demand by commercial and industrial (C&I) customers with further cost cuts in the short term.

Table 42: EVRG Q1 walk: a bit weaker too vs Street on mild weather

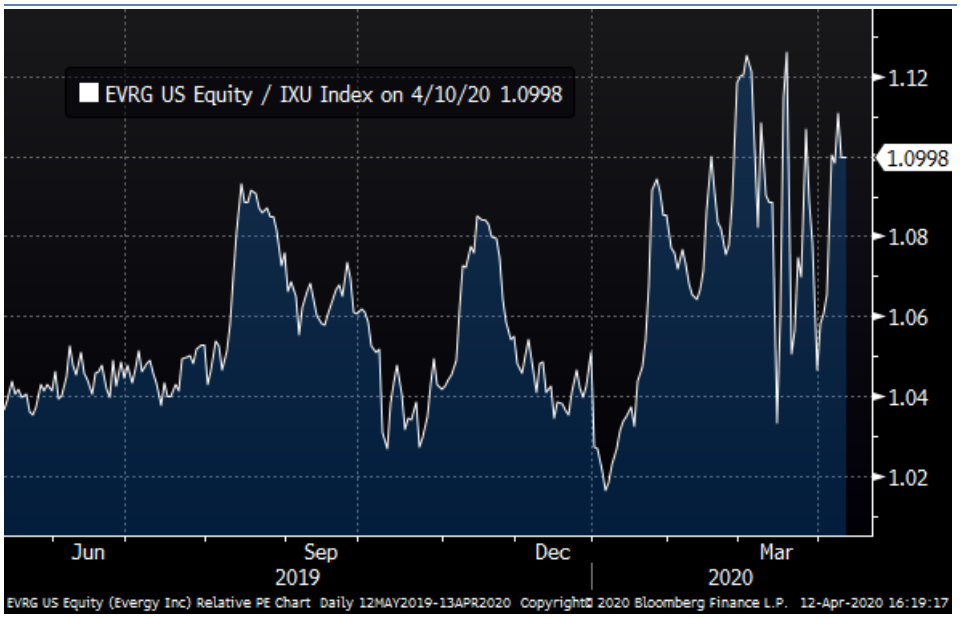
Earnings Walk	Notes	EPS
1Q19 EPS		0.44
Weather normal	Reverse favorable effect in Q1 2019	(0.05)
Weather 1Q20	15-16% HDDs below normal in KS and MO	(0.08)
Other	Effect of COVID on load	(0.01)
1Q20 drivers:		
O&M	Cost savings, includes merger synergies	0.06
D&A expense		(0.01)
Interest expense		(0.01)
COLI	Based on 2020 guidance	0.02
Accretion		0.05
1Q20E BofAe EPS		$0.40
1Q20 Consensus		$0.49
2020E BofAe EPS		$3.06
2020 Consensus		$3.11
1Q19 Share count		253
1Q20 Share count		227

Source: BofA Global Research Estimates, company report, Bloomberg

Shares reflect Covid, but strategic angle is still there

Shares of EVRG have bounced back amid substantial volatility in mid March. We note shares have outperformed the peer group since our upgrade to Buy following EVRG's Q1 results and announcement of agreement with Elliott: Evergy, Inc: Upgrade to Buy on activist engagement, cost controls, capex, & strategic angles too 03 March 2020.

Exhibit 3: EVRG relative chart



Source: Bloomberg

- **We see some short-term impact stemming from Covid.** Both the KS and MO utilities have bad debt recovery imputed in their current rates based on historical test years - recall that EVRG's rate stay outs are until 2022 and 2023 in Missouri and Kansas, respectively. The utilities do not have trackers for recovery of bad debt expense in between rate cases. Likewise the EVRG utilities do not have decoupling in either KS or MO although they have some energy efficiency mechanisms such as Missouri Energy Efficiency Investment Act (MEEIA). Off system sales are generally not a significant driver historically - the last major impact from wholesale pricing was related to the polar vortex in 2014. Estimated EPS impact from a 1% swing in demand is $0.10 ($0.05 from residential, $0.04 from commercial, $0.01 from industrial), *among the highest EPS sensitivity across our coverage universe making shares more at risk of Covid related demand destruction. That said early indications from OG&E of a very modest load impact appear to de-risk EVRG shares, and also notable is the lack of '20 EPS guidance range, forcing more of a long-term focus rather than near-term impacts of Covid in '20 (different vs peers). The real question is to what extent management can source yet further cost cuts during its stay out to offset more ongoing pressures from lower Covid-related load. We also continue to assume recovery of bad debt expenses, a consistent assumption across most jurisdictions, just could be a while before cash recovery is enabled.*
- **Cost-cutting already a big part of the strategy.** The key short-term question for EVRG (and most utilities that are not decoupled) is to what extent mgmt. can flex O&M controls to mitigate the impact of lost sales stemming from shut-in orders. EVRG has been implementing merger synergies from its last transaction and had already included an incremental ~$30m in its 2020 forecast from continuing realization of these savings – for example combining all back office systems across all utilities under one customer management system. In addition, 2019 rulings in the Jeffrey and Sibley matters put additional pressure on mgmt. to realize *further cost cuts* in order to preserve ROEs at the Kansas and Missouri utilities, respectively. To what extent mgmt. can wring out additional cuts to offset mild Q1 weather and lost

sales remains the key question – we lowered out 2020 ests. by 9 cents across the consolidated franchise to account for this additional pressure on ROEs.

Strategic review: timeline and accretion scenario

EVRG's Strategic Review & Operations Committee (SROC) created in EVRG's agreement with Elliott outlines specific dates by which proposals must be submitted, voted on, and presented publicly. Two of the four members of the SROC are the new directors selected by Elliott - industry vets Paul Keglevic and Kirk Andrews - giving the activist manager even representation with incumbent directors. Unsurprisingly, given intense focus by utility mgmt. teams and state utility regulators (not limited to EVRG) on maintaining ongoing service amid the Covid emergency, the SROC issued an updated time frame pushing back its most significant deliverables further into the year. We view the revised timeframe below as merely reflecting the practical realities of evaluating a complex transaction amid work-from-home restrictions and market volatility and remain constructive on the overall direction of the review.

- **SROC recommendation to Board due Jul 30.** The original timeline called for the committee to present to the Board its recommendation of a transaction or standalone strategy by May 30 – note that the specific recommendation will also determine the level of public disclosure, as we detailed previously.
- **Board announcement by August 17.** Previously June 17, giving the Board the same number of days to evaluate as under the previous timeframe.
- **Modified standalone plan by Oct 14 if selected.** Originally the deadline was Sep 4, so the time frame for a presentation of a potential standalone plan has been pushed back by six weeks. We continue to view this as the less likely option given specific wording of the SROC agreement and note that logistics around presenting such a plan may require rethinking in the wake of Covid.

Analyzing accretion from a potential NEE deal: running the math

Below we provide an alternative version of our previous illustrative accretion/dilution analysis on NEE's prospective acquisition of EVRG. For this scenario, we assume no debt addition at parent level, essentially keeping the FFO/Debt unchanged at NEE. The scenario yields $0.15 or 1.5% accretion ex-synergies for 2021E; we view synergies as necessary to sustain accretion through longer-term. We anticipate some degree of financial re-leveraging of NEE nonetheless with upwards of 3%+ accretion to NEE in this instance.

Table 43: Illustrative accretion - NEE acquisition of EVRG

	2020E	2021E	2022E	2023E	2024E
Legacy NEE					
Pre-Transaction NEE Net Income ($Mn)	4,500	4,847	5,402	5,722	5,972
Pre-Transaction NEE Shares Out. (Mn)	491.0	491.0	493.3	500.0	505.0
Pre-Transaction NEE EPS	$9.16	$9.87	$10.95	$11.44	$11.83
Consensus	$9.06	$9.85	$10.62	$11.24	$11.87
EVRG					
Pre-Transaction EVRG Net Income ($Mn)	715	746	774	790	797
Combined Entity					
Combined Net Income ($Mn)	5,214	5,593	6,176	6,512	6,769
Incremental Interest Expense (Tax-Adjusted at 21%)	0	0	0	0	0
Synergies ($Mn)	0	0	0	0	0
Pro Forma Net Income ($Mn)	5,214	5,593	6,176	6,512	6,769
Incremental NEE Shares Issued for Santee (Mn)	67.1	67.1	67.1	67.1	67.1
Pro-Forma NEE Shares Out. (Mn)	558.1	558.1	560.3	567.1	572.1
Pro-Forma EPS	$9.34	$10.02	$11.02	$11.48	$11.83

Table 43: Illustrative accretion - NEE acquisition of EVRG

	2020E	2021E	2022E	2023E	2024E
Accretion (Dilution)	$0.18	$0.15	$0.07	$0.04	$0.01
Accretion (Dilution)	2.0%	1.5%	0.6%	0.3%	0.1%

Source: BofA Global Research Estimates, company report, Bloomberg

Estimates

Our estimates reflect near-term 9 cents consolidated earnings drag related to Covid in 2020, as we see limited oppty for mitigation of lost sales given EVRG's lack of a decoupling mechanism and ongoing efforts to cut costs across the franchise already underway given merger synergies and Sibley/Jeffrey offset requirements. Our estimates are below Street in 2020 though we perceive downside here as consensus forecasts are updated to more fully reflect Covid impacts. We expect Covid to not be a driver of downside risks past 2020 and our estimates in future years remain largely unchanged as we see EVRG as largely able to achieve authorized ROEs in this period.

Table 44: EVRG estimates

Evergy, Inc. Dashboard							
EPS Estimates by Subsidiary	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Evergy Metro	$0.76	$1.06	$1.07	$1.13	$1.17	$1.20	$1.22
Evergy Missouri West	$0.35	$0.37	$0.44	$0.47	$0.49	$0.51	$0.52
Kansas Central	$1.58	$1.43	$1.67	$1.78	$1.87	$1.90	$1.91
Parent/Other	($0.19)	($0.08)	($0.11)	($0.11)	($0.13)	($0.14)	($0.14)
GAAP EPS	$2.50	$2.79	$3.06	$3.27	$3.40	$3.47	$3.50
Y/Y EPS Growth %		*11.6%*	*9.7%*	*6.8%*	*3.9%*	*2.0%*	*0.9%*
Prior estimates	$2.50	$2.89	$3.15	$3.29	$3.42	$3.48	$3.52
Consensus (BBG)		$2.92	$3.11	$3.23	$3.39	$3.58	nm
DPS	$1.84	$1.95	$2.07	$2.19	$2.30	$2.42	$2.54
Dividend Payout (60-70%)	73.5%	69.8%	67.5%	67.0%	67.7%	69.7%	72.5%

Source: BofA Global Research Estimates, company report, Bloomberg

Valuation

We updated our PO to $69 reflecting an updated electric utility peer group multiple of 17.6x (17.9x previously). Our valuation is largely unaffected by the near-term drag on our estimates related to milder weather and Covid as both are expected to normalize by 2022. Shares have re-rated vs the peer group since our upgrade to Buy though we still perceive upside to the current share price amid ongoing strategic review.

We perceive many investors as cautious into 1Q updates given exposure to Covid despite backdrop around strategic actions possible.

Table 45: EVRG SOTP

Evergy Sum-of-the-Parts Valuation	2022E EPS	P/E Multiple					Equity Value/Sh		
		Low	Peer	Prem/ Discount	Base	High	Low	Base	High
		-	-	-	-	-	-	-	-
Group Peer Multiple - Electric		-	17.6x	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Electric		-	5.00%	-	-	-	-	-	-
		-	-	-	-	-	-	-	-
		-	18.5x	-	-	-	-	-	-
		-		-	-	-	-	-	-
Evergy Metro	$1.17	19.5x		2.00x	20.5x	21.5x	$22.72	$23.88	$25.05
Evergy Missouri West	$0.49	19.5x		2.00x	20.5x	21.5x	$9.58	$10.07	$10.57
Evergy Kansas Central	$1.87	19.5x		2.00x	20.5x	21.5x	$36.42	$38.29	$40.16
Parent & Other	-$0.13	19.5x		2.00x	20.5x	21.5x	-$2.54	-$2.67	-$2.80
EVRG consolidated '22 EPS	$3.40				*20.6x*		$66.00	$70.00	$73.00
	After-tax amount $m		$/sh	Probability					
Deferral of Sibley return + D&A	23		-$0.10	50%			-$2.04	-$1.02	$0.00
Shares outstanding (Average 2022)	227								
Shares outstanding (Y/E 2022)	227								
EVRG Price Objective							$64.00	$69.00	$73.00
EVRG Current Share Price								$60.98	
Implied Return								13.15%	
EVRG Standalone NTM Dividend Yield								3.59%	
Total Return								16.75%	

Source: BofA Global Research Estimates, company report, Bloomberg

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BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Evergy, Inc: The Covid Risks & Prelim Possible NEE Accretion Stats: Reiterate Buy	Julien Dumoulin-Smith	13 April 2020
Evergy, Inc: Timeline & just why is the Elliott deal so constructive?	Julien Dumoulin-Smith	10 March 2020
Evergy, Inc: Upgrade to Buy on activist engagement, cost controls, capex, & strategic angles too	Julien Dumoulin-Smith	03 March 2020
Evergy, Inc: Cost Cutting, PPAs, and Kansas Prospects: Where to focus?	Julien Dumoulin-Smith	14 February 2020

Eversource (ES)

We point to Eversource as one of the more protected names from COVID given its mostly decoupled status and capex upside around grid mod and AMI (incl. EV infra/storage spend) in CT and MA. We expect the call to be relatively muted as many updates are coming later this year. Offshore wind awaits BOEM's (the Bureau of Ocean Energy Mgmt's) cumulative impact study before ES can comment on the timeline of its first project (the small South Fork project to commission in 2022 – before others). Further, approval for AMI / grid mod upside remain protracted with CT's filing potentially being looked at this July, still indicating that the earliest spend could be implemented is '21. Finally, we note that the Columbia Gas of Massachusetts is expected to close in 3Q, with filings expected (including the key one with Mass Department of Public Utilities) in the next month or so. We continue to expect ES maintains its 5-7% LT EPS growth CAGR, estimating that the CAGR remains towards the mid-point even when factoring in upside capex opportunities and the meaningful EPS uplift into '24 associated with offshore wind. We maintain our Underperform rating on shares given pricey nature relative to peers; seeing limited near-term upside capex catalysts ahead. As for the quarter, we expect a $1.02/sh – the same as Consensus.

1Q20 ES EPS Walk

Below we forecast a $1.02/sh quarter for 1Q20, the same as Consensus. This is compared to a $0.97/sh 1Q19 EPS.

- **Drivers**: We find about +12c YoY for the quarter thanks to rate case increases that increased at the beginning of this year (e.g. CLP, NSTAR & WMECO Phase II rates) or were effective over the last year (e.g. interim rate increase for PSNH July 2019).
- **Other**: Adding up the pieces of parent, D&A, interest, property taxes, and other, we find about a -4c hurt this quarter. We highlight that O&M is flat YoY, which indicates the company could 'bend the curve' and save more if needed depending on COVID impacts.
- **Wildcard**: We factor in -2c of weather to reflect PSNH – the only subsidiary not decoupled. Note that weather was very mild in 1Q, but PSNH represents only 6% of ratebase.

Table 46: ES 1Q20 EPS Walk

ES Energy Earnings Walk	EPS
Adjusted EPS 1Q19	$0.97
Utility	
Weather	
Return to normal	$0.00
Current quarter: Really mild, only PSNH not decoupled	($0.02)
Transmission & Distribution	
Ratebase transmission earnings	$0.03
NSTAR Electric & WMECO rates Phase II Jan 1, 2020	$0.02
Aquarion contribution	$0.00
CLP Phase II rates effective May 1, 2019	$0.02
Loss of generation	$0.00
Yankee Gas rates effective Jan 1, 2020	$0.02
Interim rate increase PSNH effective July 1, 2019	$0.03
Other	
Parent, D&A, Interest, Property taxes, Other expenses	($0.04)
O&M	$0.00
Parent	$0.00
One-time: Merger recovery in 4Q18	$0.00
One-time: Loss of NPT AFUDC Earnings	($0.01)
Dilution	($0.00)
1Q20E Adjusted EPS	$1.02
1Q20 BofA Model	$1.02
1Q20E Consensus	$1.02

Table 46: ES 1Q20 EPS Walk

ES Energy Earnings Walk	EPS
2020E BofA EPS	$3.65
2020E Consensus	$3.64
2020 Guidance	3.40-3.50
Shares Outstanding 1Q19	318
Shares Outstanding 1Q20	331

Source: BofA Global Research estimates, company report, Bloomberg

Key points for 1Q

- **COVID**: ES has full revenue decoupling for all of its utilities with the exception of PSNH, which is currently in a pending ratecase. As such, ES revenues are decoupled from load reduction impact at the rest of its utility subsidiaries aside from PSNH. Decoupling base lines rise with base rate increases as well. ES has a bad debt expense rider but only for medical and low-income customers. We see this as common amongst names that do have trackers (typically usually at the gas subs or at specific customer classes).

- **Financing activity strong in 1Q**: We expect ES to discuss its financing over the last few months, including $350mn of parent notes in Jan, $400mn of NSTAR Electric green bonds in March, and closing out the forward by the end of March.

- **Capex upside**: While ES provided a five-year capex roll-forward through 2020 on the last call, the company still has upside spend related to grid mod in CT and NH, AMI in MA and CT ($1bn), and natural gas distribution spend in MA (perhaps related to the NiSource subsidiary acquisition). We still await a more firm timeline associated with these opportunities as they aren't factored into guidance yet. We focus moreso on AMI in CT given activity is starting to pick up on the opportunity that could result in a proceeding starting this July.

- **Offshore wind**: The South Fork project is the first and smallest at (just 90MW + a 40MW upgrade) of ES's offshore wind projects expected to come online with a commissioning date of 2022. We point out that ES is still awaiting a cumulative impact study coming from BOEM, which could impact its online date. We point out that given ES plans to monetize the investment tax credit (ITC), we see less pressure for the project to *have* to commission within a four-year build window to qualify for the credit (it could instead prove continuous efforts towards completion). The more concerning issue would be re-negotiating the power purchase agreement (PPA) with Long Island. We stay tuned here, but we expect ES to wait to provide clarity around South Fork once BOEM's cumulative impact study timeline is certain.

- **NSTAR Gas rate case**: On Nov 8, ES subsidiary, NSTAR Gas filed its expected gas rate request with the MA DPU for a $38mn rate increase at a 10.45% ROE and 54.85% equity ratio. The filing includes a proposed performance based rate (PBR) mechanism including inflation and a 1.3% adder and would support a meaningful 5-year rate stayout. The filing includes a long-term plan to fund safety and reliability improvements following the Merrimack Valley incident with NI subsidiary Columbia Gas, which we expect to support express incremental distribution capex likely to be reflected in the 4Q capex update. Proposed rates would be effective Oct 1st 2020.

- **PSNH**: We also look for updates on the Public Service of New Hampshire (PSNH) rate case (Docket DE 19-057). Recall, the NH PUC Staff recommended a $24.4mn rate increase at a 8.5% ROE, 50% equity ratio, ~$1.15Bn year-end ratebase, denial of proposed multi-year rate plan, and proposal for a Grid Transformation and Enablement Program (GTEP). ES originally requested a $69.3mn increase in permanent rates at a 10.4% ROE, 54.85% equity layer, and ~$1.215Bn ratebase. The NH PUC has already approved a $28mn interim rate increase for PSNH, slightly

lower than the $33mn requested by ES, effective Aug 1st (benefiting 2H19 earnings). A final PUC decision is expected May 20, 2020 barring a settlement.

Estimates

We largely leave estimates untouched owing to Eversource's resilient decoupling mechanisms in all subsidiaries outside PSNH.

Table 47: ES EPS Estimates

EPS by Business	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	2024E
CL&P	1.03	1.17	1.19	1.30	1.32	1.37	1.42	1.44	1.46
PSNH	0.41	0.43	0.36	0.38	0.43	0.45	0.46	0.48	0.51
WMECO + NSTAR	1.10	1.17	1.20	1.39	1.39	1.52	1.65	1.81	1.92
NSTAR Gas	0.10	0.10	0.13	0.12	0.15	0.20	0.23	0.26	0.30
Yankee Gas	0.14	0.12	0.18	0.18	0.19	0.21	0.23	0.24	0.25
Parent (ex-ITCs/Offshore/Aquarion/etc)	0.15	0.11	0.10	0.07	0.06	0.04	0.02	(0.01)	(0.03)
Offshore Wind (PPA NI)								0.02	0.14
Offshore Wind (ITCs)								0.02	0.11
Aquarion			0.10	0.10	0.11	0.11	0.12	0.13	0.15
Consolidated	2.96	3.11	3.25	3.45	3.65	3.90	4.14	4.40	4.81
Guidance			3.20-3.30	3.40-3.50	3.60-3.70				
Consensus		3.12	3.28	3.45	3.64	3.89	4.13	4.38	4.84
Mgmt EPS CAGR: 5-7% off 2018A	2.98	3.11	3.25	3.45	3.65	3.87	4.10	4.35	4.61
Low End				3.41	3.58	3.76	3.95	4.15	4.36
High End				3.48	3.72	3.98	4.26	4.56	4.88
Core Utility EPS (excl. Offshore)	2.96	3.11	3.25	3.45	3.65	3.90	4.14	4.36	4.56
BofAe Utility CAGR '19-'XXE								6.0%	5.7%
BofAe CAGR '19-'24E				6.9%					

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

We MtM the peer multiple to 17.6x and increase premiums to 2x for CL&P, WMECO & NSTAR to reflect decoupling mechanisms (vs 1x for PSNH),1x for gas names, and 3x for Aquarion. Even so, this results in only an $83/sh PO and we reiterate our Underperform rating.

Table 48: ES SOTP Valuation

2022E SotP Analysis - BofAe

All figures in USD millions except per share

Regulated Utilities	2022E NI	EPS	P/E Multiple					Equity Value	
			Peer	Prem/ Discount	Base	Bull	Bear	Base	Bull
Relative Utility Group P/E Multiple									
Group Peer Multiple - Electric			17.6x						
Group EPS '18-'22 CAGR - Electric			5.00%						
Electric Utilities			18.5x						
CL&P	$483	$1.42	18.5x	2.0x	20.5x	21.5x	$27.71	$29.13	$30.55
PSNH	$155	$0.46	18.5x	1.0x	19.5x	20.5x	$8.42	$8.88	$9.33
WMECO & NSTAR Electric	$561	$1.65	18.5x	2.0x	20.5x	21.5x	$32.18	$33.83	$35.48
Group Peer Multiple - Gas			17.6x						
Group EPS '18-'22 CAGR - Gas			5.10%						
Gas Utilities			18.5x						
NSTAR Gas	$79	$0.23	18.5x	1.0x	19.5x	20.5x	$4.32	$4.56	$4.79
Yankee Gas	$78	$0.23	18.5x	1.0x	19.5x	20.5x	$4.24	$4.47	$4.70
Other Segments									
Aquarion - Water Utility	$42	$0.12	18.5x	3.0x	21.5x	22.5x	$2.54	$2.66	$2.79
						NPV			
Add NPV of 1.7GW Offshore Wind						$518	$1.52	$1.52	$1.52
@ 6% Operating Discount Rate @ 50% Ownership w/ 8% Construction Risk Discount Rate									
Parent - Small Investments, etc	$6	$0.02	18.5x	0.0x	18.5x	20.5x	$0.35	$0.35	$0.38
HoldCo Debt Adjustments (50/50 Weighted to P/E and netting out debt)									
Add: Parent Interest Expense @ 50%	$69	$0.20	18.5x	1.0x	19.5x	0.0x	$1.97	$1.97	$1.97
Parent Debt @ 50%	$3,200							-$4.71	
Total	$1,406	$4.14					$78.53	$82.65	$86.80
Shares outstanding (projected avg)								*340*	
Total Equity Value Per Share							$79.00	$83.00	$87.00
Price as of close 04/20/2020								91.56	
FY20 Dividend								2.27	
Dividend Yield								2.5%	
Total Return Projected								-6.9%	

Source: BofA Global Research estimates, company report, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Eversource Energy: Raising to the midpoint of range; can the offshore clouds part?	Julien Dumoulin-Smith	21 February 2020
Eversource Energy: Fairly muted 4Q update ahead, near-term capex revisions limited; Underperform	Julien Dumoulin-Smith	09 January 2020
Eversource Energy: Focus on CT AMI and grid mod as timeline in focus: Underperform	Julien Dumoulin-Smith	07 November 2019
Eversource Energy: Sunrise-ing on offshore wind: Latest NY contract details released	Julien Dumoulin-Smith	24 October 2019

FirstEnergy (FE)

We reiterate our Buy rating on FE (following our recent upgrade here) with a quiet first quarter call approaching. We expect to see the Street focus on New Jersey given it's the only regulatory rate case the company is in right now (note we see a strength in the stay-out trend in other subs). Here, interim rates already took effect, but a ruling on its 10.8% ROE request is outstanding. We note the company is somewhat shielded from COVID impacts given it recently was awarded decoupling in Ohio making it a third less sensitive to load than before; also important to note is the low portion of revenue industrial sales contribute (7%) and that just 10% of industrial revenue is volumetric-based Further, FE recovers uncollectible expenses in OH / NJ through a rider and in PA / WV / MD through base rates. As for other updates, we continue to look for commentary around extension of the Electric Security Plan (ESP) given the commission removed the requirement for rate case filing in '24; note it still may be too early on this front, though. Finally, we continue to see the company steadily moving forward with its $3bn per year of capex trajectory. We forecast a 1Q20 estimate of $0.62/sh – just 1c lower than Consensus.

1Q20 EPS Walk

Below, we present our EPS forecast for 1Q20. We are roughly in line with Consensus (BofA $0.62/sh vs. Consensus of $0.63/sh). This stems from a $0.67/sh 1Q19.

- **Drivers**: Drivers for the quarter include -4c from mild weather in 1Q20 (not as impactful as peers noting decoupling in Ohio), +4c from Ohio decoupling true up, -6c from Ohio DMR stopping.
- **Other**: We expect flat distribution sales growth, and some impact from Maryland rates and other states' riders.
- **Wildcard**: We highlight COVID impacts are a wildcard, as well as the full extent of weather.

Table 49: FE 1Q20 EPS Walk

FirstEnergy 1Q20 Earnings Walk	EPS
1Q19E Adjusted EPS	0.67
Regulated Distribution	-0.04
Weather Vs normal in 1Q19	0.00
Weather Vs normal in 1Q20	-0.04
OH decoupling	0.04
Distribution sales growth	0.00
MD: $13mn annual impact	0.01
Riders: Including Ohio Grid Mod and PA DSIC	0.02
OH: DCR Rider June 1st 2019 (+$22Mn YoY)	0.01
OH: DMR (stopped recognizing earnings benefit)	-0.06
FE Tomorrow	0.00
O&M: Pension & OPEB	0.01
D&A and taxes	-0.02
Debt maturities	0.00
4Q 2018 we had higher O&M	0.00
Regulated Transmission	0.01
Revenues (net of D&A and taxes): higher ratebase	0.01
Parent and Other	-0.02
Tax rate benefit	-0.02
1Q20E Adjusted EPS	0.62
1Q20E BofAe EPS	0.62
1Q20 Consensus	0.63
1Q Guidance	0.60-0.70
2020 BofAe EPS	2.50
2020 Consensus	2.49
2020 Guidance	2.40-2.60

Source: BofA Global Research estimates, company report, Bloomberg

Items to track

COVID: Decoupling in Ohio makes less sensitive; PA is the real focus

The company's (new) decoupling in Ohio for 2020 makes FE 1/3rd less sensitive to loan than it was beforehand; decoupling or weather normalization is not present in other jurisdictions but FE does have energy efficiency riders (incl. demand response) except in WV. For a -1% decline in load, retail is impacted by -$0.02/sh, commercial by -$0.006/sh, and industrial by -$0.005/sh. Further, FE derives most (i.e. 65%) of its revenue from residential (meaning just 28% from commercial and 7% from industrial). Finally, for industrial customers, only 10% of revenue is volumetric-based while the rest is fixed. As for bad debt, FE recovers uncollectible expenses in OH / NJ through a rider and in PA / WV / MD through base rates. Finally, there's no risk around off-system sales / wholesale revenues given WV is only jurisdiction w/ generation and FE has an ENEC rider there (reconciled annually).

Pennsylvania is what to watch

While Pennsylvania has attracted limited attention this remains *our* focus at present among the numerous Covid exposures given its lack of any contemplated base rate cases and lack of decoupling. That said, margin remains biased towards resi mix, but still an underlying risk on earned ROE trends. We've already moderated our ROEs a bit in this state albeit still assume healthy returns overall in our last EPS est update.

New Jersey: The only rate case activity this year so far

FE filed a JCP&L transmission and distribution rate cases, with formula rates having gone into effect January 1st (subject to refund); a FERC decision on these transmission rates is anticipated in 1H20. The value of the formula rate would be for future years (i.e. there is a minimal anticipated impact on 2020). There is concern given the 10.8% filed but recent models indicating FERC base rates could fall within 8-10% depending on when data is selected.

Also important to note is that FE has a limited regulatory calendar compared to other utilities; this limits risk of downward shifts in authorized ROEs that other names are likely to face this year due to lower Treasuries (leading regulators to suspect lower costs of capital to build infrastructure). Limiting authorized ROE revision risk is increasingly a key theme in the sector after our latest conference and we perceive FirstEnergy as among the quietest large-cap companies from a regulatory perspective through its entire forecast period. While this limits upside capex and further positive revisions, we view its steady EPS growth as enabling its current outlook.

Ohio: Doubt legislation for '20 but perhaps in the future

While we doubt it's possible to pass in 2020 given COVID's situation, we expect the next legislative session to at least consider bills similar to proposed HB 247, 246, and 13. These could provide key investment opportunities (particularly for neighbor AEP) around industrial customers, broadband, and utility-regulator relations, although FE has not shared how exactly this could impact EPS growth for the company. These could also indicate a potential ESP (electric security plan) resolution that extends the current plan from '24 to '30.

Capex likely to be consistent

We continue to anticipate that FE will look to largely stay around the $3bn/ yr capex range in the years to come. We sense regulatory recovery and stable cash flows, balance sheet considerations drive this spend (and as such see less of a risk from Covid) beyond the operational challenges that may exist this year in executing.

Credit discussions with S&P

While FE has more holdco leverage than peers, we anticipate that FE may consider starting to discuss its credit metrics with rating agencies soon, with potential positive news to come from S&P on its FE outlook considering the agency lowered its FFO/debt

threshold to 12%. Note Moody's upgrade threshold is 14% and our reconciliation is mid-12%'s. Recall that issuing $2bn of equity equates to roughly only a 1% increase in FFO/debt, and that the company plans for incremental equity '22 (after which mgmt. has noted could be up to $600mn/yr). With its FES business disposition resolved, we perceive few angles to meaningfully shift its balance sheet outlook.

Estimates

We keep estimates largely the same given decoupling as well as our expectation that there is a more modest pace of consistent growth given ratebase is driven largely outside of any meaningful rate cases.

Table 50: FE EPS Estimates

EPS	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Ohio Utilities	0.50	1.03	1.23	0.92	0.82	0.85	0.86	0.88	0.91	0.95
Ohio Edison (Inc PennPower)	0.35	0.59	0.64	0.50	0.48	0.50	0.52	0.53	0.56	0.58
CEI	0.09	0.27	0.39	0.26	0.20	0.20	0.20	0.21	0.21	0.21
TE	0.06	0.17	0.20	0.15	0.14	0.14	0.14	0.14	0.15	0.15
West Virginia										
MonPower	0.15	0.16	0.25	0.21	0.21	0.22	0.23	0.23	0.23	0.23
Maryland										
Potomac	0.14	0.10	0.10	0.10	0.12	0.14	0.16	0.18	0.19	0.21
New Jersey										
JCP&L	0.19	0.26	0.32	0.32	0.33	0.35	0.35	0.37	0.38	0.41
Pennsylvania	0.73	0.76	0.93	0.92	0.93	0.94	0.94	0.95	0.99	1.02
PennPower (already included in OE)	0.05	0.07	0.07	0.08	0.08	0.08	0.08	0.08	0.08	0.09
Penelec	0.21	0.22	0.32	0.29	0.30	0.31	0.31	0.31	0.32	0.33
WPP	0.27	0.25	0.23	0.24	0.24	0.23	0.23	0.24	0.25	0.26
MetEd	0.21	0.22	0.31	0.31	0.32	0.33	0.32	0.32	0.33	0.34
Regulated Utilities (Inc Transmission)	*1.66*	*2.23*	*2.75*	*2.40*	*2.34*	*2.43*	*2.46*	*2.52*	*2.62*	*2.73*
Regulated Distribution	-0.55	2.32	2.31	2.26	2.16	2.23	2.23	2.26	2.33	2.41
Guidance	2.60-2.70	2.27-2.31	2.34-2.40 w/ adj	2.20-2.26	2.13-2.27					
FET	0.45	0.62	0.58	0.66	0.69	0.74	0.81	0.87	0.94	1.00
Intrastate	0.28	0.13	0.21	0.16	0.18	0.20	0.22	0.26	0.29	0.32
Transmission	0.73	0.83	0.74	0.83	0.87	0.94	1.03	1.13	1.22	1.32
Guidance		.82-.84	.74-.76	.83-.84	.85-.89					
Competitive Energy Svcs.	0.60	0.46	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Guidance		0.42-0.46								
Corporate (reduced by pref)	-0.55	-0.53	-0.56	-0.51	-0.55	-0.55	-0.56	-0.54	-0.53	-0.52
Guidance		-0.51	(.58)-(.56)	(.53)-(.50)	(.58)-(.56)					
Eliminations		0.16	0.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Consolidated EPS	2.61	3.07	2.59	2.58	2.50	2.61	2.71	2.86	3.03	3.19
Previous EPS		3.07	2.59	2.58	2.48	2.61	2.69	2.86	3.02	3.17
Guidance		3.00-3.10	2.50-2.60	2.50-2.60	2.40-2.60					
Consensus EPS		3.05	2.54	2.53	2.49	2.64	2.77	3.03		
EPS CAGR off 2.15 (2018)					7.93%	6.72%	5.95%	5.84%	5.87%	5.79%
EPS CAGR off 2.43 ('19 2.55 Midpt less 0.12 DMR)					3.06%	3.70%	3.69%	4.12%	4.49%	4.63%
Y/Y Growth					-2.77%	4.34%	3.67%	5.41%	6.02%	5.31%
EPS CAGR off 2020						4.34%	4.00%	4.47%	4.85%	4.95%
EPS CAGR off 2021							3.67%	4.53%	5.03%	5.10%
Ex CES EPS	2.02	2.61	2.59	2.58	2.50	2.61	2.71	2.86	3.03	3.19
YoY Growth Rate Excl CEC EPS				0%	-3%	4%	4%	5%	6%	5%
Guidance: 5-7% CAGR '18 thru '23										
Bottom - 5%			2.15	2.26	2.37	2.49	2.61	2.74	2.88	3.03
Top - 7%				2.30	2.46	2.63	2.82	3.02	3.23	3.45
Shares	429	444	538	539	541	541	547	559	570	581

Source: BofA Global Research estimates, company report, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
FirstEnergy: A Reformulated Company: Upgrade to Buy on de-risked strictly regulated profile	Julien Dumoulin-Smith	10 March 2020
FirstEnergy: Holding firm on Neutral after good 4Q	Julien Dumoulin-Smith	10 February 2020
FirstEnergy: Extending the EPS CAGR to '23 at 5-7%: We're right there already too	Julien Dumoulin-Smith	08 November 2019
FirstEnergy: Making sense of 2020 guidance & ratebase comp, shifting down est's slightly	Julien Dumoulin-Smith	05 November 2019

Pinnacle West (PNW)

We expect Q1 Operating EPS of $0.15/sh as compared to $0.16/sh Street estimates. Q1 is as seasonally slow quarter for PNW as its Arizona service territory generates most of its electric demand in the warmer months, particularly Q3. We expect that Covid reduced demand slightly at the end of the quarter as shut down orders spread in the state though the greater impact is likely to come in Q2 or later. They key lever for PNW to offset lost earnings from commercial and industrial customers is control of O&M - in fact mgmt's 2020 guidance already incorporates O&M savings into the forecast and it remains to be seen whether costs can be flexed even more to offset lost revenues. We flag additional possible risk of the rate case slipping further into 2021 as the commission's attention is likely occupied with service reliability issues during the health emergency. We further note that PNW had increased its bad debt expense target for 2020 given last year's disconnect moratorium, suggesting it may be better able to withstand an increase in delinquent accounts than peers – though note the likelihood of regulatory action to address increases in bad debt expense.

1Q20 Walk

We forecast 1Q20 adjusted EPS of $0.15 vs. $0.16 in 1Q19 and $0.16 consensus.

- **Key Drivers:** Weather will be a slight negative driver as 6 cents of benefit from Q1 2019 is normalized and an additional 4 cent uplift from slightly colder than normal conditions in the most recent quarter. We expect $0.03/sh in savings from ongoing O&M initiatives and highlight that the degree to which mgmt. can flex short term costs will drive the ability to offset lost sales (1 cent impact in Q1). We expect higher D&A driven by growing rate base to be an 11 cent drag.

- **Unknowns:** Weather is difficult to estimate given Q1 months have different weightings toward cooling and heating degree days, with January heating playing the biggest role.

Table 51: PNW Q1 walk

PNW 1Q20 Earnings Walk	EPS
1Q19 Adjusted EPS	$0.16
Weather return to normal	($0.06)
Weather effect vs norm	$0.04
Sales volume effect	($0.01)
Gross margin	$0.12
O&M	$0.03
D&A	($0.11)
Property tax deferral	($0.01)
Interest Expense	($0.01)
TEAM	$0.00
Other Opex	$0.00
Dilution	($0.00)
1Q20E Adjusted EPS	$0.15
1Q20 Consensus	$0.16
2020E Adjusted EPS	$4.83
2020 Consensus	$4.82
2020 Guidance	4.75-4.95

1Q19 Shares Outstanding	113
1Q20 Shares Outstanding	113

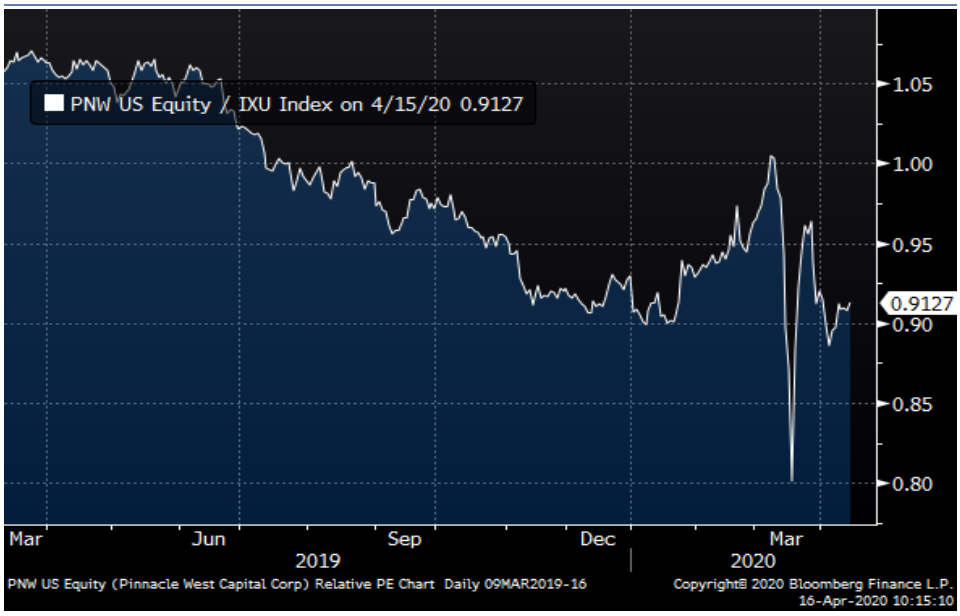
Source: BofA Global Research Estimates, company report, Bloomberg

Stock trading dynamics

Shares of PNW have de-rated slightly following the late March Covid-driven market volatility, and now trade at a relative 2-year PE to the IXU Index near the lows achieved at the end of Q4. PNW's service territory remains largely weighted toward residential

customers at over 50% of total demand, which should insulate its revenues somewhat from an expected decline in sales from commercial and industrial (C&I) customers – note that PNW has single-digit exposure to industrials with the balance being commercial exposure. The primary Covid-related risk on the regulatory front is further delay of the ongoing Arizona Public Service (APS) rate case, with the Arizona Corporation Commission (ACC) already pushing the proposed time frame of the rate case into 2021 (75-day delay) with possibility of additional delays depending on the duration of Covid shut down orders. Electoral concerns make the situation potentially more opaque given potential for turnover at the commission following Nov elections.

Exhibit 4: PNW shares relative value vs. IXU



Source: Bloomberg

Quantifying the impact of Covid shutdowns

APS does not have a separate bad debt expense recovery mechanism in its rates with expense rolled into customer rates based on a historical test year. While APS does not have traditional decoupling, it utilizes the Lost Fixed Cost Recovery (LCFR) mechanism that recovers lost fixed costs related to EE and Distributed Generation. The company estimates a 16-20 cent EPS impact from a 1% reduction in load, with the effect weighted toward residential customers who make up 51% of total load.

PNW proactively released March demand numbers indicating that through the 12th of the month residential sales were flat y/y while commercial and industrial (C&I) grew by 2-3%. For the remainder of the month as the Covid situation unfolded residential sales increased 7% y/y while C&I declined by 12-13%. PNW's annualized EPS sensitivities to a 1% move in demand for resi/comm/industrial are $0.09/$0.07/$0.01. Given PNW's disclosures, we estimate that Q1 EPS impact from Covid-related demand shifts was -$0.01, as an increase in higher-margin residential load mostly offset the larger declines in C&I.

Table 52: March EPS impact – resi mutes the C&I impacts to a large extent– are they the first of many to indicate this substantial offset in sales trends?

	EPS impact per 1% chg in annual sales	% of total load	Mar 1-12 change y/y	Mar 1-12 impact	Mar 13-31 change y/y	Mar 13-31 impact	March cumulative
Residential	0.09	51%	0%	-	7%	0.031	0.031
Commercial	0.07	38%	2-3%	0.006	(12)-(13)%	(0.043)	(0.037)
Industrial	0.01	11%	2-3%	0.001	(12)-(13)%	(0.006)	(0.005)
Total	0.16-0.20	100%	2-3%	0.007	(5)-(6)%	(0.018)	(0.012)

Source: BofA Global Research Estimates, company report

We acknowledge the limits of this disclosure given that it is only for the month of March with only half the month impacted by Covid, while demand in Jan-Feb was likely unaffected by the virus. PNW additionally included a disclosure of a potential $0.06 EPS impact if residential demand were to grow by 6% and commercial and industrial were to each decline by 10% - we note that since these are y/y comparisons they take into account the growth in residential load linked to air conditioning in the warmer Q2 months. PNW additionally disclosed that its pension plan hedges 100% of its interest rate exposure via Treasury futures, suggesting its plan's funding gap has declined YTD by less than the 11% estimated by our mtm analysis (and likely rebounded since our report with the broader market).

Rate case developments and top issues

The ACC issued a procedural order on March 18 that pushed back the timeframe of the pending rate case. By pushing out key milestones including staff and intervener testimony (originally scheduled for May, now due in August) the commission essentially assured that the case will not reach a resolution in 2020. While this assures that at a minimum commission Chair Bob Burns will not rule on the case as he is termed out at the end of the year, there remains uncertainty about the makeup of the commission in 2021 given 3 Republican-held seats are up for election, and the potential impact this would have on the outcome of the case. Below we present the updated rate case timeline while noting that the updated timeline was issued in mid-March as the Covid situation was still unfolding, and there remains the possibility of further delays.

Table 53: APS rate case amended timeline

Event / Item Due	Original	Updated
Application	10/31/2019	
Deadline for Motions to Intervene	2/11/2020	
Staff & Intervenor Testimony w/o Rate Schedules	5/20/2020	8/3/2020
Staff & Intervenor Testimony w/ Rate Schedules	5/27/2020	8/10/2020
APS Rebuttal Testimony	6/18/2020	9/1/2020
Prehearing Conference	7/13/2020	9/26/2020
Hearing Begins	7/17/2020	9/30/2020
Hearing Ends (30 day)	8/31/2020	11/11/2020
Transcripts Filed	9/11/2020	tbd
Briefs Due w/ Final Schedules	9/16/2020	tbd
Response Briefs Due	9/25/2020	tbd
Recommended Opinion and Order	11/25/2020	tbd
Exception Period Ends	12/16/2020	tbd
Open Meeting	12/17/2020	tbd
Deadline for Final Decision (AZ rule)	2/21/2021	tbd

Source: BofA Global Research estimates, ACC

Rate cases unlikely to be settled, potentially decided by different commissions

Both FTS and PNW have electric rate cases pending in front of the ACC. Stakeholders see potential for settlement as unlikely in either rate case given prior ACC utility staff statements, despite the heavy workload placed on staff of late with multiple rate cases pending. Given timing of each case, with FTS having been filed several months prior to PNW, it is increasingly likely that the commission that decides the FTS case will be different by at least one member from the one that decides PNW - recall that 3 of 5 seats are up for election this year including the one held by Chair Burns who is termed out. Bottom line: while Covid-related shutdowns are placing additional strain on an already-overburdened utility staff at the commission, we see a fully litigated path as the most likely resolution for APS's case.

Four Corners scrubbers remain key issue

The scrubbers installed at Four Corners are a meaningful portion of the total revenue ask of $73m - relative to the $184m total revenue increase requested. The recovery of the scrubbers was included in the last PNW rate case and the utility received a favorable administrative law judge (ALJ) recommendation to receive a step-up in rates mid-year in 2018. With the step-up having not been brought forward by the ACC the item now represents a significant discrete ask as part of the current case. Other notable items are

renewable generation / rooftop solar as well as rate making issues including a formula rate proposal and a pilot subscription rate program.

Renewables in focus with new resource filing in June

PNW capex outlook relies heavily on investment in renewable generation, accelerating spend in the near term such that the plan sees rate base growing by ~8% through 2022 vs. a long-term goal of 6-7%. Recall the recent announcement of a 2050 decarbonization goal with intermediate 2030 goal of 65% clean energy by 2030 with 45% renewables. The clean gen plan calls for the addition of 850 MW of battery storage as well as 100 MW of solar generation by 2025 - note storage technology has been developing rapidly with several qualified developers capable of delivering utility-scale solutions today. The storage plan will include a mix of standalone facilities as well as batteries added to existing PNW solar assets. PNW intends to file its new Integrated Resource Plan (IRP) in June, its first since the announcement of the ambitious new green generation goals. Given the focus around its decarbonization agenda we would expect the IRP to include an updated timeline for retiring of coal plants in line with the long-term plans laid out earlier in Q1 along with further renewable generation options.

The APS' recent approval of the 500-kV Ten West Link transmission project from California to APS' Delaney Substation located 60 miles outside of Phoenix should also boost the opportunity for renewable development and procurement. As the proposed line will cross from Arizona into California, it will allow APS to procure excess renewable energy from California during peak generation times. Further, the project has already reported 5,000 MW of interconnection requests from Arizona-based renewable developers which could further boost renewable development. Recall that under a recent ACC ruling, APS and other state utilities are required to sign contracts of 18 years or longer with operators of Qualified Facilities (QFs) under the Public Utility Regulatory Policies Act (PURPA) – APS had initially proposed a 2 year minimum contract tenor but the commission increased it to 18 in its final decision last December.

Lost fixed cost rate finalized

APS received a decision in its most recent Lost Fixed Cost Recovery (LCFR) mechanism filing related to lost energy sales revenues from customers related to energy efficiency initiatives, principally those utilizing distributed generation. The new rate will be $0.372/kW per month for customers on a demand rate and $0.00125/kWh per month for customers on an energy-only rate, with an estimated revenue recovery of $26.6m in 2020, down from $36.2m in 2019. Recall the LCFR is an annual filing under which APS seeks to recover fixed costs related to revenues lost by customers who are electing for distributed generation.

EPS estimates

We tweak our 2020 estimates lower to account for the likelihood of lost revenues due to Covid shutdown orders in place. Our new consolidated estimate of $4.78 is toward the low end of mgmt.'t guidance range and reflects essentially flat EPS growth y/y. We are slightly below Street consensus for 2020 on our updated estimates though we perceive downside to consensus forecasts as Covid-related lost revenues are factored in. As the ACC has not yet flagged a *further* deterioration in the rate case time frame, we do not adjust our estimates for 2021+ which currently assume the existing rate case schedule with a fully litigated resolution in mid-Q1.

Table 54: PNW estimates

PNW EPS Estimates	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
EPS From Continuing Operations	$4.55	$4.71	$4.95	$4.96	$5.32	$5.39	$5.79	$6.32	$6.34
Net Income (Loss) Attributable to Noncontrolling Interests	$0.17	$0.17	$0.17	$0.17	$0.17	$0.17	$0.17	$0.17	$0.17
Income From Discontinued Operations	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Accounting Changes/Non Operating Adjustments	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Linked to model - EPS	$4.37	$4.54	$4.77	$4.78	$5.15	$5.23	$5.62	$6.15	$6.18
APS - EPS From Continuing Operations	$4.66	$5.24	$5.19	$5.20	$5.58	$5.72	$6.16	$6.69	$6.72
Parent - EPS From Continuing Operations	($0.11)	($0.53)	($0.24)	($0.24)	($0.26)	($0.33)	($0.37)	($0.38)	($0.38)
Net Income (Loss) Attributable to Noncontrolling Interests	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)	($0.17)
EPS From Cont Ops Attributable to Common Shareholders	$4.37	$4.54	$4.77	$4.78	$5.15	$5.23	$5.62	$6.15	$6.18

Table 54: PNW estimates

PNW EPS Estimates	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E
Previous Estimates	*$4.37*	*$4.54*	*$4.77*	*$4.83*	*$5.14*	*$5.24*	*$5.63*	*$6.16*	*$6.19*
Guidance	4.15-4.30	4.35-4.55	4.75-4.95	4.75-4.95					
Consensus	$4.27	$4.48	$4.70	$4.82	$5.10	$5.34			
Delta vs Consensus			$0.07	($0.04)	$0.05	($0.12)			
EPS CAGR off 2019A				0.3%	3.9%	3.1%	4.2%	5.2%	4.4%
Street CAGR			3.5%	3.1%	4.0%	4.2%			

Source: BofA Global Research Estimates, company report, Bloomberg

Valuation: PO to $84, maintain Neutral

We maintain our Neutral rating on PNW as we see the current share price as adequately reflecting near-term risks around rate case outcomes, including the uncertain rate case recovery of SCR step up associated with Four Corners along with recovery related to Ocotillo. We reduce the valuation discount applied to PNW's peer group electric utility multiple of 17.6x to -2.5x from -1.5x in order to more adequately reflect ongoing rate case risk – with an uncertain timeline potentially pushing the implementation of new rates further out and lingering uncertainty around the outcome of commission elections in the fall. We reiterate our Neutral rating.

Table 55: PNW SOTP

Price Objective $84	
PNW Valuation: P/E Based on 2022E EPS	
Price Objective	
2022E EPS	$5.23
Group Peer Multiple - Electric	17.6x
Group EPS '18-'22 CAGR - Electric	5.00%
P/E Multiple - Utility Average	18.5x
Premium	-2.5x
Price Objective	$84
2020E Dividend	$3.16
Dividend Yield	4.0%
Total Return (%)	9.1%

Source: BofA Global Research Estimates, company report, Bloomberg

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Title: Subtitle	Primary Author	Date Published
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Pinnacle West: Framing the wide Street EPS miss & more to come: Downgrade to Neutral, $90 PO	Julien Dumoulin-Smith	08 November 2019
Pinnacle West: Disconnect Meeting: Few Revelations, Maintain Buy	Julien Dumoulin-Smith	05 September 2019

PPL Corporation (PPL)

We remain Neutral rated on shares of PPL into the quarter. While shares have meaningfully underperformed this year, FX remains volatile with current forwards already at the low end of mgmt.'s (recently lowered) assumptions and we see load degradation as particularly concerning for the company. While the UK is decoupled, volumes are only trued up on a two year basis while US utilities are fully exposed outside of some fixed billing components (sensitivities suggest a 1% change in load is a penny impact in each jurisdiction). *We remain focused on the KY footprint as to sales impacts, particularly as a rate case this year seems unlikely given the latest ROE backdrop. Bottom line, we ultimately see risk/reward as balanced at the current valuation.*

PPL 1Q20 Earnings Walk

We forecast 1Q20 adjusted EPS of $0.73 compared to $0.70 1Q19 & $0.72 consensus.

- **Key Drivers:** We expect gross margin growth across the portfolio and currency tailwinds y/y given hedging position in the UK partially offset by dilution and higher expenses.

Table 56: 1Q20 Walk

PPL 1Q20 Earnings Walk	EPS
1Q19 EPS	$0.70
WPD	$0.02
Kentucky	$0.02
PPL PA	$0.01
Corp & Other	($0.02)
1Q20 BofAe Adjusted EPS	$0.73
1Q20 Consensus	$0.72
BofAe 2020E EPS	$2.50
2020 Consensus	$2.47
2020 Guidance	$2.40-2.60
1Q19 Shares outstanding	730
1Q20 Shares outstanding	756

Source: BofA Global Research, Bloomberg

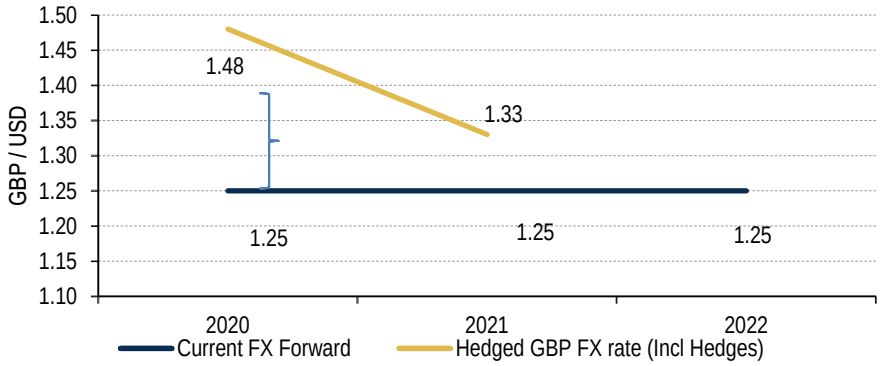
Contemplating COVID Implications

We see PPL as particularly exposed to load degradation amid the ongoing COVID pandemic. While the UK is decoupled, volumes are only trued-up on a two-year basis. While the US has some demand components, we note no decoupling in PA or KY and remain focused on the KY footprint specifically, particularly as any near term rate relief seems less likely on the margin given the latest rate paradigm. For domestic utilities, a 1% change in load is a penny impact in each jurisdiction and the company has some off system sales exposure but no bad debt expense trackers.

FX Outlook: Forwards Imply Low End of Revised Guide

Mgmt lowered expectations with its latest update given current FX rates and forecasts. While the company is 90% hedged for 2020 at an average rate of $1.48, it is only 5% hedged in 2021 at $1.33 and completely exposed in outer years. We note that on an open basis, every 1c in the exchange rate equates to about $0.01/sh of EPS for the company.

Chart 8: Budgeted vs. FX Forwards



Source: BofA Global Research, Bloomberg

WPD RIIO-ED2 Mini Model: OFGEM Prospects

The exhibit below reflects our latest UK mini model for the WPD (Western Power Distribution) business. Recall that Ofgem formally kicked off its RIIO-ED2 process in August 2019 with the publishing of an open letter consultation. A framework was laid out in Mid-December setting the blueprint, confirming the expectation that most design features would follow the earlier RIIO-2 reviews for Transmission and Gas Distribution (being finalised in 2020): a 5 year duration, retaining debt cost indexation, strengthening output incentives, and a move from RPI to CPI inflation indexation (which could ultimately help cash flows). Additional specifics and final decisions for ED (Electric Distribution) will start to shake out over the next couple of years (RIIO-ED1 price control is set to end at the end of March '23).

We therefore expect investors to continue to look for potential read-throughs as Ofgem works through the gas/transmission specific methodology – albeit likely with some delays given the on-going crisis. Developments thus far on the ED2 process have principally reflected those of its earlier counterpart including lower base returns and potentially a similar level to those proposed for transmission and gas. We continue to assume a -3% drop in ROEs under new rates, which we view as a sober set of assumptions *(anywhere in the low 5% to even 7% range on nominal basis appears reasonable in our view given lack of clarity on process).*

We ultimately expect nuances between ED2 and the gas/transmission framework given different risk profiles. However, we see a clear desire from Ofgem to maintain incentives and give the best performing companies an ability to overearn, particularly as distribution networks will be a key enabler of the net-zero carbon target. Any developments out of the COVID crisis will also be critical in terms of nuances around their thought process for UK utilities longer term.

Table 57: RIIO Mini Model

PPL WPD RIIO TABLE	2020E	2021E	2022E	2023E
Nominal RAV (WPD Financials) £Mn	7,996	8,415	8,917	9,449
Equity ratio	35%	35%	35%	35%
Current Allowed ROE	6.40%	6.40%	6.40%	6.40%
ROE Cut	0.00%	0.00%	0.00%	-2.25%
Adjusted ROE	6.40%	6.40%	6.40%	4.15%
UK Net Income (£Mn)	179	189	200	137
US Net Income ($Mn)	261	236	250	172
Hedge Price ($/£)	1.48	1.33	1.33	1.33
% Hedge	90%	5%	0%	0%
Hedge Value	$37.08	$0.75	$0.00	$0.00
Inflation				
Implied RAV Inflation	5.10%	5.24%	5.96%	5.96%
US Net Income Adjusted for Hedges	261	236	250	172

Table 57: RIIO Mini Model

PPL WPD RIIO TABLE	2020E	2021E	2022E	2023E
Depreciation/Pension	729	691	631	611
US GAAP vs UK Reporting	729	691	631	611
Incentives (USD)	2020	2021	2022	2023
Fast Track Award	32	28	28	29
Performance	114	98	106	125
Total Incentives	146	125	134	154
*Implied ROE (Incentives + UK NI / Nominal RAV * 35%)*	*9.26%*	*9.12%*	*9.14%*	*7.13%*
Earned ROE vs. Base ROE (+/-300bps in RIIO)	*2.9%*	*2.7%*	*2.7%*	*3.0%*
Less HoldCo Int	-68	-68	-68	-68
Adjusted US Net Income ($Mn)	1,068	985	946	868
Adjusted EPS	$1.41	$1.30	$1.24	$1.13

Source: BofA Global Research, Bloomberg

EPS Estimates

The table below reflects our latest EPS estimates after reflecting the latest currency forwards and on-going developments, and we continue to stress limited growth ahead given pension headwinds and questions around longer term UK returns, particularly without meaningful FX improvement.

Table 58: PPL Estimates

PPL EPS Estimates	2020E	2021E	2022E	2023E
Regulated Utilities				
International Regulated	$1.41	$1.30	$1.24	$1.13
Pennsylvania Regulated	$0.63	$0.66	$0.69	$0.72
Kentucky Regulated	$0.59	$0.65	$0.69	$0.72
Domestic Utilities	*$1.22*	*$1.31*	*$1.38*	*$1.45*
Parent/Other	($0.13)	($0.13)	($0.12)	($0.12)
Consolidated EPS	$2.50	$2.47	$2.50	$2.46
Prior Estimates	*$2.51*	*$2.48*	*$2.59*	*$2.59*
Consolidated Growth CAGR off 2018 ($2.30 midpoint)	4.31%	2.44%	2.07%	1.39%
Consensus	$2.47	$2.46	$2.56	$2.80
Guidance	$2.40-2.60	$2.40-2.60		
DPS	1.66	1.68	1.69	1.71
DPS Growth (%)	*0.61%*	*1.00%*	*1.00%*	*1.00%*
DPS Payout	66.34%	67.82%	67.84%	69.42%
FFO (CFO pre-W/C) / Total Debt	15.11%	15.18%	15.33%	15.29%

Source: BofA Global Research, Bloomberg

Valuation:

The table below reflects our latest valuation. As shown, we apply the latest peer multiple of 17.6x (vs. 20.6x previously) to our utility estimates for both PPL Electric and PPL Kentucky. We use a 30% premium to RAV for the UK business. Our price objective ultimately shifts to $29. We remain Neutral rated on shares seeing risk/reward as balanced.

Table 59: PPL SOTP

PPL Sum-of-the-Parts							Equity Value		
	EPS	Lower	Peer	Prem/ Disc.	Base	High	Low	Base	High
RAV Approach	C2021 RAV								
WPD RAV	11,058	0.8x	1.0x	0.30x	1.3x	1.8x	$8,846	$14,375	$19,904
Less: WPD leverage (80% Gearing)							($8,846)	($8,846)	($8,846)
							$0	$5,529	$11,058
UK Equity Value							$0	$5,529	$11,058
Implied Valuation / Share							*0.00*	*7.25*	*14.50*
Domestic: Regulated Utilities			2022 P/E Multiples						
Group Peer Multiple - Electric			17.6x						
Group EPS '18-'22 CAGR - Electric			5.00%						
	-	Base Multiple	18.5x						
PPL Electric Utilities	$0.69	17.5x		0.0x	18.5x	19.5x	$9,179	$9,705	$10,230
PPL Kentucky (KU/LG&A)	$0.69	17.5x		0.0x	18.5x	19.5x	$9,218	$9,746	$10,273
Parent/Int Expense	($0.12)	17.5x		0.0x	18.5x	19.5x	($1,661)	($1,757)	($1,852)
			50% Weighting						
PPL Cap Funding Debt	4,530		2,265				-2,265	-2,265	-2,265
Parent Interest Expense (Tax effected @ 21%)	145		73				1,270	1,342	1,415
--> Add back 50% of EPS drag above							-995	-923	-850
PPL Equity Value ($/Sh) Unrounded							$20.64	$29.24	$37.84
Shares Outstanding	2022E EPS						763	763	763
Total PPL Equity Value Per Share	$2.50						$21.00	$29.00	$38.00
Implied P/E							8.4x	11.6x	15.2x
Total Return Calculation									
Current Stock Price								$25.70	
Price Objective								$29.00	
Upside/Downside (%)								12.86%	
Dividend								$1.66	
Dividend Yield								6.46%	
Total Return								19.32%	

Source: BofA Global Research, Bloomberg

See below for our previous research on PPL:

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
PPL Corporation: Have shares round-tripped from their European tryst?	Julien Dumoulin-Smith	18 February 2020
PPL Corporation: Mum on M&A but US prospects need to be back in focus to add to deal confidence	Julien Dumoulin-Smith	06 November 2019
PPL Corporation: Upgrading to Neutral as Ofgem reaffirms the same, known, downside again	Julien Dumoulin-Smith	07 August 2019
PPL Corporation: Solving for 2021: UK overshadows the value proposition	Julien Dumoulin-Smith	19 February 2019

WEC Energy (WEC)

We expect WEC to hit the low end of its guidance range for the quarter despite the weather headwind given ability to flex O&M down as we expect demand impact from Covid to be limited in Q1 and largely weighted toward Q2. WEC is able to utilize its fuel recovery mechanism as a means of partially offsetting lower demand which had been forecast by the company to decline by ~1% in 2020. Accordingly, we maintain our Underperform rating.

WEC 1Q20 Earnings Walk

We forecast 1Q20 adjusted EPS of $1.32 compared to 1Q19 results of $1.33, consensus estimates of $1.33, and guidance of $1.32-1.34.

- **Key Drivers:** Positive YoY drivers include infrastructure investments from the Upstream, Bishop Hill, and Coyote Ridge wind farms (+$0.01), sales growth at the gas utility (+$0.01), reduced O&M expenses (+$0.01). Offsetting results includes the impact of weather which is estimated at 7 cents including a 2 cent drag from normalizing the impact of 1Q19 and incorporating the impact of 2020 milder weather which is estimated at 12% warmer than normal and 16% warmer than 2019.

- **Unknowns**: While Heating Degree Days (HDDs) were 16% above the prior year's level in WI, the exact magnitude of the benefit is difficult to estimate. Recall, WEC is decoupled in IL and at MN gas. Another unknown is the extent to which load growth was affected by Covid-related slowdowns as shut-in orders were generally implemented at the end of the quarter.

Table 60: WEC 1Q20 walk

WEC 1Q20 Earnings Walk	EPS
1Q19 Adjusted EPS	$1.33
Weather - 1Q19 normalized	($0.02)
Weather - 2Q20	($0.05)
Utility sales growth	
Electric	$0.01
Gas	$0.01
Rate Relief	$0.00
Fuel Recovery Mechanisms	$0.02
Interest Expense - re-financing	$0.00
D&A	($0.01)
O&M	$0.01
Storm expense	$0.00
ATC	$0.02
Infrastructure	$0.01
Dilution	($0.00)
1Q20 Adjusted EPS	$1.32
1Q20 Consensus	$1.33
1Q20 Guidance	$1.32-1.34
2019 BofASe	$3.72
2019 Consensus	$3.73
2020 Guidance	$3.71 -$3.75
Share Count	
1Q19	317
1Q20	317

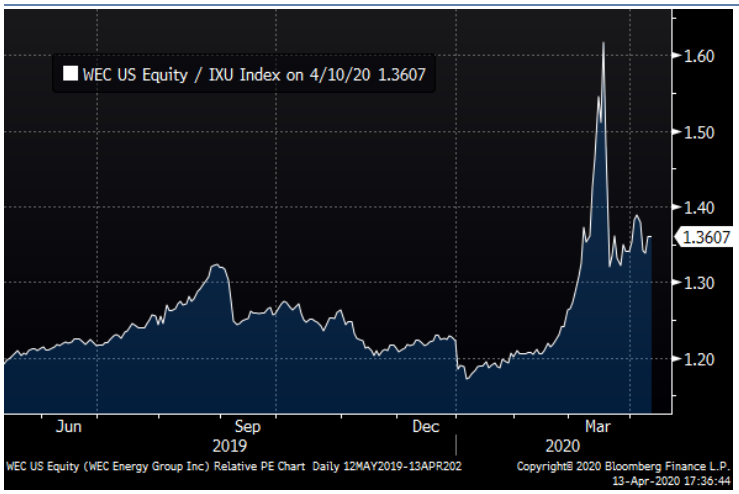
Source: BofA Global Research Estimates, company report, Bloomberg

Stock trading implications

Shares of WEC have performed well vs. the peer group of late reflecting the company's defensive nature amid significant market volatility and investor concerns about the effects on demand from Covid-related shut downs. After re-rating for much of the month of March, WEC trades at roughly 22x forward earnings ('22), a meaningful premium vs. our electric utility peer multiple of ~17x. While shares have consistently traded at a premium to the peer group since 2019, WEC now trades at over 1.3x

premium to the IXU on a 2 year forward PE relative basis, the highest such level in the past 12 months with the exception of the extreme market volatility seen in March. Accordingly we remain Underperform on shares of WEC as the shares remain priced richly relative to the peer group.

Exhibit 5: WEC relative PE chart



Source: Bloomberg

Partial decoupling and a debt tracker to mitigate impact

Most of WEC's jurisdictions do not have a bad debt rider with the exception of IL Gas. Additionally Wisconsin Gas and Wisconsin Electric have bad debt escrow accounting mechanisms. WEC's Illinois Gas and Minnesota Gas businesses have decoupling while the other jurisdictions of Michigan and Wisconsin do not - at both the electric and gas utilities. WEC's electric utilities do not have material exposure to losses from wholesale volumes and accordingly off-system sales are not expected to be a significant source of downside risk. In terms of margin breakdown, 62% of total margin comes from the Electric business with the balance coming from Gas. Residential is relatively heavily weighted among electric demand at 47%, with industrial accounting for 17% and commercial for the balance. 2020 EPS is expected to be impacted by approximately 2-3 cents from a 1% decline in demand and by 0.5 cents from a 1% decline in industrial sales, according to the company. We also highlight that pension funding is less of an issue for WEC than for many utility peers, as the company was fully funded in its *qualified* defined benefit plans at the end of 2019 and over 90% funded on a GAAP basis across all of its pension plans.

Commission latest: new appointee, addressing Covid

Back in March, Wisconsin Governor Tony Evers appointed Tyler Huebner to fill the seat vacated by the retirement of Mike Huebsch on the three-person Public Service Commission of Wisconsin (PSCW). Huebner has been the Executive Director of RENEW Wisconsin since 2013, where he led the organization's efforts to expand and promote the use of renewable energy in the state. He will serve out the remainder of Huebsch's term that expires on Mar 1, 2021. Huebner joins PSCW chair Rebecca Valcq as an appointee of Democrat Gov. Evers, while the third commissioner (Ellen Nowak) was appointed by Republican Scott Walker. We expect that the PSCW will continue to (and perhaps accelerate) its support for renewables investment in the state following this appointment. We expect incumbent utilities WEC and LNT to benefit from increased support for renewables and potentially an increased push for accelerated coal retirements - WEC's Columbia, South Oak Creek, and Weston units being potential candidates. As with other jurisdictions, the issue of undepreciated plant remains a hurdle for possible accelerated retirement, particularly given recent investment in scrubber technology at Columbia.

The PSCW was one of the first utility commissions in the US to act in response to Covid shut downs, suspending late fees and power disconnections for affected customers across the state on Mar 24 and opening a docket to evaluate recovery by utilities of extraordinary expenses incurred in an effort to keep power on for all customers during the declared health emergency. The PSC is working with utilities to identify specific expenses and foregone revenues that have been and are expected to be incurred due to the Covid emergency and is evaluating methods for recovery. Though it remains early days we see this as a constructive and proactive move by the PSC which should at least partially offset WEC's lack of bad debt trackers in Wisconsin.

EPS estimates

We update our 2020 EPS estimate for WEC to reflect headwinds from both lost demand resulting from Covid as well as mild Q1 weather, though the latter point may abate later in the year particularly if warm weather persists into the cooling season and residential load may be boosted by extended stay-in orders. Accordingly we reduce our 2020 estimate to $3.72 from $3.75, toward the low end of mgmt.'s $3.71-3.75 guidance range. Estimates are slightly below Street consensus in 2020-21 and a penny ahead in 2022. The degree to which mgmt. can flex O&M spending in order to offset the effects of Covid related shutdowns remains a key question as stay at home orders persist through Q2 and potentially longer.

Table 61: WEC estimates

WEC EPS Estimates	2018A	2019A	2020E	2021E	2022E	2023E	2024E
WI Electric	$1.13	$1.15	$1.25	$1.27	$1.31	$1.35	$1.38
WPS	$0.55	$0.59	$0.56	$0.59	$0.64	$0.68	$0.71
WI Gas	$0.24	$0.26	$0.39	$0.48	$0.58	$0.67	$0.75
Peoples Gas	$0.42	$0.50	$0.44	$0.49	$0.55	$0.60	$0.65
North Shore Gas	$0.05	$0.05	$0.05	$0.05	$0.06	$0.06	$0.06
ATC	$0.36	$0.39	$0.42	$0.44	$0.47	$0.49	$0.51
We Power (PTF) + Non utility infrastructure	$0.70	$0.76	$0.84	$0.89	$0.92	$0.95	$0.99
MERC/MGU	$0.14	$0.15	$0.13	$0.14	$0.15	$0.15	$0.16
Parent & Int Expense	(0.23)	(0.24)	(0.36)	(0.38)	(0.40)	(0.41)	(0.42)
BofA Estimate	$3.34	$3.60	$3.72	$3.97	$4.27	$4.53	$4.78
Company Guidance			$3.71 -$3.75				
Prior Estimates		*$3.60*	*$3.75*	*$4.00*	*$4.30*	*$4.56*	*$4.81*
BofA CAGR (off 2019 estimate of $3.50)			*6.15%*	*6.50%*	*6.86%*	*6.68%*	*6.43%*
Consensus	$3.33	$3.53	$3.73	$3.99	$4.26	$4.57	
Consensus CAGR			*6.6%*	*6.8%*	*6.8%*	*6.9%*	
Mgmt. Guidance 5-7% off $3.50 in 2019							
Low		$3.48	$3.71	$3.86	$4.05	$4.25	$4.47
Mid		$3.50	$3.73	$3.93	$4.17	$4.42	$4.69
High		$3.52	$3.75	$4.01	$4.29	$4.59	$4.91

Source: BofA Global Research Estimates, company report, Bloomberg

Valuation

We move our PO to $85 after refreshing for updated peer group electric (17.6x) and gas (17.6x) multiples and continue to stress very limited upside with shares trading above our valuation. We update our relative peer group premium for the Wisconsin electric utilities to 3.0x from 2.0x given positive regulatory backdrop in the state including prospects for bad debt recovery and decoupling. We also reduce the premium applied to We Power (PTF) from 2.0x to 1.0x. Bottom line, WEC shares continue to trade at a premium valuation and despite accounting for Wisconsin's positive regulatory backdrop in our SOTP the shares remain expensive, and accordingly we maintain our Underperform rating on WEC.

Table 62: WEC SOTP

Regulated Utilities	2022E EPS	2022E Net Income	P/E Multiple					Equity Value		
			Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric			-	17.6x	-	-	- -	-	-	-
Group EPS '18-'22 CAGR - Electric			-	5.00%	-	-	- -	-	-	-
			-	-	-	-	- -	-	-	-
Group Peer Multiple - Gas			-	17.6x	-	-	- -	-	-	-
Group EPS '18-'22 CAGR - Gas			-	5.10%	-	-	- -	-	-	-
			-	-	-	-	- -	-	-	-
Applied Multiple			-	Electric 18.5x	-	-	- -	-	-	-
			-	Gas 18.5x	-	-	- -	-	-	-
										-
WI Electric	$1.31	416	20.5x		3.0x	21.5x	22.5x	$8,528	$8,944	$9,361
WPS	$0.64	202	20.5x		3.0x	21.5x	22.5x	$4,141	$4,343	$4,545
WI Gas	$0.58	184	18.0x		0.5x	19.0x	20.0x	$3,306	$3,489	$3,673
Peoples Gas	$0.55	173	18.0x		0.5x	19.0x	20.0x	$3,120	$3,293	$3,466
North Shore Gas	$0.06	18	18.0x		0.5x	19.0x	20.0x	$317	$335	$352
ATC	$0.47	148	19.5x		2.0x	20.5x	21.5x	$2,876	$3,023	$3,171
We Power (PTF)	$0.61	193	18.5x		1.0x	19.5x	20.5x	$3,569	$3,762	$3,955
MERC/MGU	$0.15	46	18.0x		0.5x	19.0x	20.0x	$835	$882	$928
Parent & Int Expense	-$0.40	(126)	17.5x		0.0x	18.5x	19.5x	($2,201)	($2,327)	($2,453)
Total Implied Utilities	$3.96	1,254				20.5x		$24,490	$25,744	$26,998
Non Utility Energy Infrastructure	$0.31	98	15.5x		-2.0x	16.5x	17.5x	$1,521	$1,619	$1,717
Implied Valuation Multiple					19.9x					
HoldCo Debt Adjustment										
Add Back: 50% of Interest Expense	$0.11	35	19.5x		0.0x	20.5x	21.5x	$679	$713	$748
Subtract: HoldCo Debt (Net out 50%)	2,200	(1,100)						($1,100)	($1,100)	($1,100)
Total Equity Value								$25,589	$26,976	$28,364
Valuation								$81.00	$85.00	$90.00
Shares Outstanding										317
Rounded 12 Month Target Price										
Stock Price									$97.59	
Upside/Downside									-12.9%	
NTM Div Yield									2.5%	
Total Return									-10.4%	

Source: BofA Global Research Estimates, company report, Bloomberg

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BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
WEC Energy Group Inc: Watch the Cost Trajectory; Accelerating Infra Piece: but this is the debate	Julien Dumoulin-Smith	03 February 2020
WEC Energy Group Inc: Rolling out an ever higher capex plan	Julien Dumoulin-Smith	08 November 2019
WEC Energy Group Inc: Settlement terms more constructive than expected	Julien Dumoulin-Smith	26 August 2019

Xcel Energy (XEL)

After resolving much of the regulatory calendar from filing rate cases in 2019 (even recently announcing a settlement w/o details in TX), XEL is still working to file in 2020 in many states and exploring ability to push off some of the rate cases. We see two states of focus here: MN (using 2015 legislation that allows XEL to recover advanced grid spend through the transmission rider) and CO (depending on in the advanced grid initiative can be recovered via rider). Both depend on regulators, and we saw value in XEL being able to stay out of MN's last year. XEL isn't as exposed to COVID demand impacts as other names given its decoupling mechanisms in CO & MN (accounts for 45% of retail electric sales) and given its impact in prior events (i.e. '08 crisis and low oil prices of '16). Finally, we note our ests reflect XEL now selling Mankato to keep the utility fully regulated (we see viewed positively); while we had factored in 4c/yr for the non-reg asset before the sale, XEL was only expecting 1-2c/yr in early years. With our expectation of LT earnings squarely in the 5-7% trajectory, good FFO/debt metrics, and a consistent earnings growth story, we expect the name to be strong during recovery. Finally, given orig O&M '20 guidance, we expect there's room for savings that counterbalance some impacts from COVID & mild winter overall. As for 1Q, we forecast $0.53/sh vs. $0.62/sh likely un-updated Consensus. Reiterate Neutral.

1Q20 Walk

We expect a $0.53/sh 1Q20 estimate, versus a Consensus of $0.62/sh and a prior year's 1Q19 est of $0.61/sh. We expect Consensus has not been adjusted for weak weather and COVID impacts on demand.

- **Drivers**: With a number of rate cases filed in 2019, XEL has new rates starting in 2020 for MN, CO, NM, and TX (although some taking effect later this year). Impacting 1Q include Minnesota's interim sales true up and nuclear decommissioning (Jan 1, 2020), Colorado's electric rates (Feb 25, 2020), and last year's $4.5mn SPS incremental rate increase (March 11, 2019); these contribute to +5c for the walk. The capital rider revenue and AFUDC contribute another +3c.

- **Other**: We evenly distribute XEL's annual '20 guide between quarters for interest expense, O&M, and property taxes (-5c). We only include -5c of D&A as this will likely be a little more back-end loaded. Finally, we expect -2c of demand impact from COVID since most businesses were shut down for the last 2 weeks in March and some folks were working from home for the last 3 weeks.

- **Wildcard**: We expect XEL to be negatively impacted by the wild winter, likely a few pennies worth (1-3c); note 45% of the electric sales (in CO & MN) are decoupled.

Table 63: XEL 1Q20 Walk

Xcel Energy 1Q20 Earnings Walk	EPS
Ongoing EPS 1Q19	$0.61
Weather	
Return to normal	($0.03)
Current quarter	($0.02)
Rate Changes	
NSPM Minnesota Electric Interim sales true up & Nuke decommissioning ($122mn, Jan 2020)	$0.04
PSCo Colorado Electric rates ($35mn, Feb 25 2020)	$0.01
SPS New Mexico Electric rates ($31mn, 2Q20)	$0.00
SPS Texas Electric rates (requested $136mn, 3Q20)	$0.00
SPS Electric rates ($4.5mn March 2019)	$0.00
Capital rider revenue	$0.02
AFUDC	$0.01
Other	
Interest Expense increase	($0.02)
Increase in D&A expense	($0.05)
O&M (1-2% increase)	($0.01)

Table 63: XEL 1Q20 Walk

Xcel Energy 1Q20 Earnings Walk	EPS
Property taxes	($0.01)
COVID 1Q demand impact (-) and leap year pick-up (+)	($0.01)
Dilution (settled)	($0.00)
1Q20E Adjusted EPS	$0.53
1Q20E BofA Estimate	0.53
1Q20 Consensus	0.62
2020E BofA EPS	$2.72
2020 Consensus	2.76
2020 Guidance	2.73-2.83
Shares Outstanding 1Q19	516
Shares Outstanding 2Q20	525
Tax rate	25%

Source: BofA Global Research estimates, company report, Bloomberg

Key 1Q20 Topics

- **O&M**: XEL's original 2020 guidance includes a 1-2% O&M increase; we could see the company look to bend the curve if it needs from COVID impacts. We see this as a key differentiating strength compared to peers.

- **2019 Rate cases**: XEL is resolving many of its rate cases, having a settlement in principal for its TX case (we expect somewhat slowed down from working remote); we expect cap structure avoids concerns peers recently saw since XEL is integrated in TX and interveners all proposed 51% layers or higher. CO gas just received a schedule from an administrative law judge (would allow rates to be implemented in Nov) and NM is waiting for the commission to decide on the settlement.

- **2020 Rate cases**: As for next cases to be filed, we look for commentary on whether XEL can pursue transmission trackers to recovery other expenses in MN (given 2015 legislation allowed XEL to recover advanced grid spend) and CO (perhaps recovering the advanced grid initiative through a rider). We see rate case stayouts as a key strategy in avoiding ROE risk, and have confidence in XEL's ability. If filed, timelines would be later this summer for CO and in Nov for MN.

- **Mankato sold**: After purchasing Mankato as a non-regulated instead of regulated (which was accretive 3-4c vs 1-2c in the near-term, respectively), mgmt. absorbed feedback on being fully regulated and viewed a purchase as resulting in a better valuation for the company. We removed from our estimates any more PPA buyouts we thus expect to be regulated or not pursued.

- **COVID**: XEL has decoupling mechanisms in both Minnesota (fully) and Colorado (partially) representing 45% of retail electric sales: In MN, sales are trued-up for all electric classes, and in CO, decoupling is for resi and SC&I non-demand classes. XEL doesn't have bad debt recovery but we would expect the company to request deferred accounting if expenses significantly increase. As for looking at historic responses, we note that in 2016 when oil prices were in the $30 range, SPS YTD 2016 sales through 2Q16 declined by 1.1% (resi declined 3.2% and C&I only 0.6%). Meanwhile during the '08/09 crisis, XEL saw weather-adjusted sales down 1.8%. Finally in terms of sensitivity, we highlight the company anticipates a 100bps change in electric equates to a $25mn pre-tax impact (if the full change in sales was for C&I, the impact would be less but it's not separately broken out); we calculate this to be a 3-4c impact using a 21% tax rate.

Estimates

Our estimates remove the non-regulatory Mankato asset (given its sale in '20) and reflect our expectation that lower demand from COVID, mild winter, and oil price are somewhat balanced by more cost cutting. We await O&M announcements on the call.

Table 64: XEL EPS estimates

Subsidiary	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E
Northern States Power Minnesota (NSPM)	0.96	1.01	0.96	1.05	1.11	1.29	1.44	1.53	1.63
Southwestern Public Service (SPS)	0.30	0.30	0.42	0.51	0.59	0.60	0.60	0.61	0.62
Public Service Colorado (PSCo)	0.91	0.94	1.08	1.11	1.06	1.05	1.07	1.14	1.19
Northern States Power Wisconsin (NSPW)	0.14	0.16	0.19	0.15	0.16	0.18	0.20	0.21	0.23
Parent (Excl Mankato)	(0.10)	(0.12)	(0.18)	(0.17)	(0.15)	(0.17)	(0.19)	(0.21)	(0.22)
Consolidated	2.21	2.29	2.47	2.64	2.76	2.94	3.12	3.28	3.44
EPS Growth (%)			*8%*	*7%*	*4%*	*7%*	*6%*	*5%*	*5%*
Prior Estimates			*2.47*	*2.64*	*2.83*	*2.99*	*3.14*	*3.31*	*3.46*
Guidance (Excl Mankato)	2.17-2.22	2.25-2.35	2.45-2.49	2.60-2.65	2.73-2.83				
Consensus			2.46	2.62	2.76	2.96	3.14	3.31	#N/A N/A
Mgmt EPS CAGR: 5-7% off 2018 base ($2.43)	2.21	2.29	2.47	2.60	2.78	2.95	3.12	3.31	3.51
		low	*2.43*	*2.55*	*2.73*	*2.87*	*3.01*	*3.16*	*3.32*
		high	*2.43*	*2.65*	*2.83*	*3.03*	*3.24*	*3.47*	*3.71*
BofAe CAGR '18-'23e (off $2.43)	6.2%								
BofAe CAGR '18-'24e (off $2.43)	5.9%								
Target FFO/Debt			17%	18%	17%	17%	17%		
BofAe FFO/Debt		22%	19%	19%	17%	18%	17%	17%	

Consolidating				2.64	2.76	2.94	3.12	3.28	3.44
Guidance				2.60	2.78				
Difference				*0.04*	*(0.02)*				

Source: BofA Global Research estimates, company report, Bloomberg

Valuation

We MtM the peer multiple (now 17.6x) and derive a $66/sh PO with the same 3x premium awarded for the quality mgmt., decoupling, and opportunity for more O&M. Reiterate Neutral.

Table 65: XEL SOTP Valuation

Regulated Utilities	2022E Net Income	EPS	P/E Multiple					Equity Value		
			Bear	Peer	Prem/ Discount	Base	Bull	Bear	Base	Bull
Group Peer Multiple - Electric				17.6x						-
Group EPS '18-'22 CAGR - Electric				5.00%						-
										-
Relative Utility Group P/E Multiple				18.5x						
Northern States Power Minnesota (NSPM)	$773	$1.44	20.5x	18.5x	3.0x	21.5x	22.5x	$29.49	$30.93	$32.37
Southwestern Public Service (SPS)	$325	$0.60	20.5x	18.5x	3.0x	21.5x	22.5x	$12.38	$12.98	$13.58
Northern States Power Wisconsin (NSPW)	$106	$0.20	20.5x	18.5x	3.0x	21.5x	22.5x	$4.04	$4.24	$4.43
Public Service Colorado (PSCo)	$575	$1.07	20.5x	18.5x	3.0x	21.5x	24.5x	$21.93	$23.00	$26.21
Total/Average Utility Earnings (excl Mankato)	$1,779	$3.31			3.0x					
Parent/Unallocated (excl Mankato)	-$103	-$0.19	20.5x	18.5x	3.0x	21.5x	22.5x	-$3.93	-$4.13	-$4.32
		NPV								
Add NPV of Mankato Non-Ratebase Acquisition		$308						$0.57	$0.57	$0.57
Add back 50% of HoldCo interest	$74	$0.14	20.5x	18.5x	3.0x	21.5x	22.5x	$2.80	$2.94	$3.08
Less: 50% of HoldCo Debt	-$2,524							-$4.70	-$4.70	-$4.70
Total	$1,675	$3.12						$62.57	$65.83	$71.23
Shares Outstanding (2022e)									*537*	
Total Equity Value Per Share								$63.00	$66.00	$71.00
Price as of close 04/20/20									$67.15	
Dividend FY20									1.72	
Dividend Yield									2.6%	
Total Potential Return Projected								-4%	1%	8%

Source: BofA Global Research estimates, company report, Bloomberg

Table 66: BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Xcel Energy Inc: Upgrade to Neutral: Rate Case Risks Poised to be Resolved	Julien Dumoulin-Smith	31 January 2020
Xcel Energy Inc: Rate case clarity in time for more in 2020	Julien Dumoulin-Smith	09 January 2020
Xcel Energy Inc: Rolling in Mankato as a Contracted Plant; Waiting on Deals in Key States	Julien Dumoulin-Smith	25 October 2019

Source: BofA Global Research

Table 67: Stocks Mentioned

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LNT	LNT US	Alliant Energy Corp	US$ 49.99	A-1-7
AEE	AEE US	Ameren Corp	US$ 73.24	A-1-7
AEP	AEP US	American Elec Power	US$ 82.91	A-1-7
AWK	AWK US	American Water	US$ 126.46	A-3-7
ED	ED US	Consolidated Edison	US$ 85.47	A-2-7
DTE	DTE US	DTE Energy	US$ 100.76	A-2-7
DUK	DUK US	Duke Energy	US$ 86.65	A-2-7
EIX	EIX US	Edison Intl	US$ 60.01	B-2-8
ETR	ETR US	Entergy Corp.	US$ 96.45	A-1-7
WTRG	WTRG US	Essential Utilities	US$ 42.24	A-2-7
EVRG	EVRG US	Evergy	US$ 59.12	A-1-7
ES	ES US	Eversource Energy	US$ 87.77	A-3-7
FE	FE US	FirstEnergy	US$ 44.49	A-1-7
PNW	PNW US	Pinnacle West Capit	US$ 76.60	A-2-7
PPL	PPL US	PPL Corp.	US$ 25.25	B-2-8
WEC	WEC US	WEC Energy Group Inc	US$ 95.88	A-3-7
XEL	XEL US	Xcel Energy	US$ 64.35	A-2-7

Source: BofA Global Research, Bloomberg

Price objective basis & risk

Alliant Energy Corporation (LNT)

Our $56 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 17.6x 2022E P/E. While our PO is on a 1 year basis we note the 2022 P/E multiple reflects a discount back to 2019. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.

We apply a 2.0x P/E premium on IPL as we see the ratecase overhang being resolved. We apply a 3.0x P/E premium on Eastern Wisconsin Electric Company reflecting 1) low risk investment nature of the state, 2) above average ROEs, 3) higher than average growth runway for investments, and 4) bad debt deferral. At ATC, we reflect a 2.0 x P/E premium on LNT's 16% share in the transmission company. Growth expectations for this segment are high, paired with above average ROEs that we believe face less downward pressure vs. regulated state distribution ROEs. We apply an in line multiple at the parent to account for the blend of numerous businesses some which benefit from long term stable PPAs via intercompany generation.

Risks to our price objective are: 1) adverse rate case outcomes, 2) further equity dilution beyond our estimates, 3) interest rate risk, 4) natural disasters, and 5) lower allowed ROE's

Ameren Corporation (AEE)

Our $85 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2022E ratebase weighted peer multiple of 17.6x for electric. We apply a 3.0x premium to peers at AEE Missouri to account for the improving

prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable. We apply a 3.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. The overall business is expected to grow at a more meaningful clip than that of peers - we see a 10% EPS CAGR at IL 2020-2024. At ATXI, we apply a 0x premium to peers to reflect the latest potential step down in FERC ROEs. At the Parent, we assume an in line multiple given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

The upside (downside) risks to our price objective are the utilities earning their allowed returns or better (worse), a significant increase (decrease) in 30-year U.S. Treasury bond yields, and positive (adverse) regulatory outcomes that could impact mgmt's ability to earn its allowed return

American Electric Power (AEP)

Our price objective of $93 is based on SOTP analysis. We ascribe a peer forward P/E multiple (17.6x) with a 0x premium for its transmission-only Utilities segments as well as Kentucky Power, a 1x premium for its T&D utilities, and a 0x premium for regulated utilities. We ascribe limited value to the nascent renewables business & SRE Renewables deal ($0.03/sh), based on a in-line peer P/E multiple given uncertainty. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. We assume 100% likelihood of the North Central wind project and assign it a 0x premium under the reg utes as well.

Downside risks to our price objective are 1) regulatory outcomes are less favorable than expected, which could result in reduced ROE, 2) large capital intensive are subject to delays or cost overruns, which can change the return profile, 3) natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk, 4) utilities are subject to interest rate risk to fund their business, which affects cost of capital, 5) commodity risk affects the generation business margins and indirectly affects the regulated business as a pass through cost, 6) consumer advocates are focused on bill inflation, which can affect regulatory outcomes, 7) non-regulated businesses are inherently more risky and subject to execution risk and commodity variation.

American Water Works (AWK)

Our PO for American Water Works is $133. We apply the sector average 26.3x P/E multiple to American Waters 2022E earnings based on the water peer multiple and a 8.3% group EPS CAGR for '18-'22E. We think this multiple is justified as in our view AWK largely drives the peer multiple as the largest publicly traded water utility. We ascribe a 3x premium for NJ, PA, and IL, and a -3x discount to the military biz. Meanwhile, we ascribe a 12x multiple to the non-regulated Retail biz. Also a -1x P/E for Cali utility. no prem/discount for 'Other' segment with smaller state exposures.

Risks to the downside are increase in market interest rates, potential impact of tax reform on utilities, operational errors, changes in valuation levels for water utilities. Risks to the upside are accelerating muni acquisitions, multiple expansion, and constructive legislation in regulatory jurisdictions.

Consolidated Edison (ED)

Our $93 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples (17.6x/17.6x for electric/gas respectively) with a 1.0x premium to reflect defensive nature of the stock. We note that both electric and gas peer P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We applied inline peer regulated multiple at CECONY despite its rate certainty for conservatism as our higher capex expectations are reflected in our EPS outlook. We apply a discounted PE for infrastructure projects given the lack

of clarity around the capital structure. We further apply an EV/EBITDA approach on 2022E EBITDA to the CEB business using a 10.0x multiple for both the legacy portfolio and the renewables portfolio seeing it as having higher quality returns.

Downside risks: ED, like all utility stocks, is also sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to recontract storage, adverse regulatory outcomes, a deteriorating regulatory environment, or unforeseen disasters such as the Harlem gas explosion, the SRE transaction not being completed. Customer inflation is also a downside risk. PCG related counterparty exposure is among the nearest exposures to watch.

DTE Energy (DTE)

We value DTE Energy at $112 using a SOTP approach.
We value the utility segment on a 2022E forward P/E multiple basis and the non-utility seg. on a 2022E forward EV/EBITDA mult. basis. For the utility segment we apply a 1x premium to our both reg. electric and gas utility peer mult. of 17.6x. Both electric and gas peer P/E mult. are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We subtract out Corp & Other expense excl. interest rate. For GSP we use a midstream peer group multiple of 9x, with a -0.5x discount for Momentum. P&I, we apply a 8x EV/EBITDA mult, despite the lower equality of these earnings and opaque disclosures, as mgmt has been able to execute on new project origination. We value the reduced emissions fuel (REF) tax credits separately using a DCF methodology at 6%
discount rate.
Upside risks to our PO are capex expansions, higher authorized ROEs, and strong performance in the ET segment. Downside risks are interest rate hikes, execution risk on organic growth initiatives at the nonregulated business, and less favorable regulatory environment.

Duke Energy (DUK)

Our $93 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2022E P/E multiples. We apply a 1.0x multiple premium to Duke's operations in Florida to reflect more favorable regulatory environments. We apply an in-line multiple to the Carolinas given risk ahead. We value the other regulated electric utilities and the gas utilities at peer group multiples of 17.9x 2022E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2022E EV/EBITDA basis. We use a 11.0x multiple for midstream and transmission segment, although we assume a 50% weighting for ACP given risks to completion. We add the net present value of renewable segment using an 8% discount rate. We subtract out the impact of commercial debt, and add back for the renewable debt.

Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, ACP ahead of schedule, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, ACP delays. Macro risks: Increases in interest rates and decreases in equity market valuations.

Edison International (EIX)

Our $69 PO is based on SOTP, applying a 3x disc to the FERC and CPUC jurisdictional subsidiaries, and the parent/other segment 17.6x on 2022E (grossed up by 5% to reflect capital appreciation across the sector). The disc reflects CA ongoing wildfire risk despite the improved construct through AB1054. We apply 10x 2022E P/E to the Edison Energy segment to reflect uncertainty in the nascent biz. We net out ongoing contribution to the fund on an NPV basis. Lastly, we assume equity financing to fund '17/18 wildfire claims.

Downside risks: 1) Regulatory outcomes less favorable than expected. 2) Natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk. 3) Interest rate risk. 4) Non-reg businesses are inherently more risky and subject to both execution risk and commodity variation. 5) CA has specific risks given the differentiated regulatory regime. 6) CA wildfires.
Upside risks: rate case outcome above what's embedded in companies' guidance and BofA estimates, lower interest rates, more constructive regulatory / legislative outcomes to address wildfire risk

Entergy (ETR)
Our $122 PO is SOTP based. We assign P/E multiples (peer multiple of 17.6x) for 2022E on most segments, in line with peer multiples (and grossed up by 5% to reflect capital appreciation across the group) due to similar growth, and strip out 50% of the holdco senior notes. The Merchant business is also added as a DCF (10% discount rate, no terminal value). Both electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector.

Downside risks: 1) Regulatory outcomes or earned ROE's could worsen, 2) Rate making mechanisms could change in the future, 3) Failure to get trackers or ROE adjustment mechanisms could hurt realized ROE, 4) weather can affect operations and earnings, 5) Interest rate risk affects cost of capital, 6) Consumer advocates or utility staff may focus more on issues that challenge the company ROE, 7) ETR has had safety issues in the past, which have affected regulatory relationships and company liabilities, 8) Exit from the competitive business could present unforeseen challenges.

Essential Utilities (WTRG)
Our price objective is $47 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. We apply a 2.0x premium to Peoples Gas given the organic growth opportunities.We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

Risks to the upside include upward revisions to street estimates and further accretion from implementation of the Repairs Tax Benefit.

Evergy, Inc (EVRG)
Our $69 price objective for EVRG shares is based on sum of the parts valuation, applying an in-line utility peer 2022E P/E of 17.6x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We further apply a +2.0x turn discount across all jurisdictions based on our perception of improving regulatory relationships and possibility of further stakeholder engagement.

Downside risks to our price objective are adverse regulatory outcomes in rate cases, higher interest rate environments, adverse and unexpected risks associated with operating a nuclear facility, the possibility that the strategic review committee does not result in a transaction recommendation and that a modified standalone plan disappoints in rate base and earnings growth when presented later in 2020.

Upside risks to our price objective are favorable regulatory outcomes in rate cases, lower interest rate environments, higher than anticipated O&M benefits and merger synergies, ability to recover capital tied to retired coal plant.

Eversource Energy (ES)
Our sum of the parts based price objective of $83 uses P/E multiples on 2022E earnings. For electric utilities, we attribute a 2x premium NSTAR and 1x for CL&P, reflecting future potential positive revisions to capex and earnings, while maintaining an in line multiple of 17.6x P/E for PSNH. For gas, we apply an in-line to the peer 17.6x multiple, given recently compressed spread relative to electric peers. Both electric and gas peer

P/E multiples are grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We value Aquarion at a 22.6x multiple to reflect the premium water utilities are currently trading at. We reflect ES' 50% ownership in Revolution and South Fork offshore wind sites on NPV basis. We take out 50% of parent debt, and 50% of interest to accurately reflect parent leverage.

Upside risks to our price objective are additional capex announcements on the T&D side, as well as success in offshore wind RFPs or other larger projects such as Northern Pass.

Downside risks are reduction in authorized ROEs, inability to meet earned ROE expectations, as well as failure to receive permitting on incremental capex opportunities

FirstEnergy (FE)

Our PO of $47 is based on a SOTP: Multiples are driven by relative P/E premiums/discounts to the 2022 regulated peer multiple of 18.5x. Electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. For NJ, we apply an in line multiple to account for slightly higher ROEs vs. the national average and a generally constructive commission. In PA, we apply a -1x disc to reflect O&G royalties (albeit limited). In OH, we apply a -4x P/E discount multiple and a -2x discount to others. We argue this accounts for overearning risk. Finally, we apply a 0x P/E premium to peers 2022E multiple to the Transmission business given some limited ability to invest and FERC ROE difficulties. We removed impact of DMR payments. We subtract out the holding co debt given the high parent lev. We net out potential liabilities from a potential FES bankruptcy by assuming all known 'extra' potential liabilities.

Downside risks: 1) Reg outcomes may improve/deteriorate, 2) legislative solutions may materialize for challenged parts of biz or FE could lose/fail to gain legislative support in key states, 3) int rates positively/negatively affect cost of cap, 4) reg staff or cons advocates may focus on issues beneficial/detrimental to ROEs, 5) exit from comp power biz may or may not have substantive liabilities accrued to equity holders.

Pinnacle West (PNW)

Our price objective of $84 is based on a peer utility 2022E P/E multiple of 17.6x with a -2.5x discount to account for PNW's risk around its pending rate case as well as headline risk related to disconnect policy review. Electric and gas peer P/E mult is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We ascribe an in-line premium despite clear renewable capex backdrop given ongoing regulatory risk associated with the company's upcoming rate filing and 2020 election risk.

Upside risks: 1) Regulatory relationships/outcomes could improve, including changes at the elected commission 2) load growth in territory above expectations 3) Riders and capital trackers could help achieve ROE 4) positive weather helps earnings 5) interest rate risk changes cost of capital - lower rates could improve 6) Consumer advocates or utility staff could become focused on issues that improve ROE

Downside risks: 1) Regulatory relationships/outcomes could decline, including changes at the elected commission 2) load growth in territory below expectations 3) Riders and capital trackers could hurt ROE 4) negative weather hurts earnings 5) interest rate risk changes cost of capital - higher rates could worsen 6) Consumer advocates or utility staff could become focused on issues that hurt ROE 7) Solar advocates in the state have engaged in public confrontations with the utility, which could change public relations in the future.

PPL Corporation (PPL)

Our $29 price objective is based on a sum of the parts methodology applying respective premium/discounts to the 2022E peer group multiple of 17.6x. Electric peer P/E multiple is grossed up by 5% to reflect capital appreciation across the sector. We apply a 1.3x

RAV multiple in our base case for our Western Power Distribution (WPD) RAV approach, seeing the higher ROEs relative to other distribution networks commanding a premium valuation.

Downside risk to our price objective is exposure to FX rates. Since the UK segment represents a significant portion of PPL's earnings, a Federal Reserve decision to raise interest rates could produce a fall in the GBP/USD currency rate that would adversely affect our estimates and valuation for PPL. Also, like all utility stocks, PPL has historically underperformed if bond yields rise. Upside risks are a rising $/pound (GBP) price, positive regulatory outcomes, and decreasing treasury yields.

WEC Energy Group Inc (WEC)
Our $85 PO is based on a 2022E SoTP analysis, based on the large cap electric group multiple of 17.6x and the gas regulated multiple of 17.6x. Both electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector.

We apply a 3.0x premium to WEC's electric subs to compensate for surety in earnings growth for the next two years following the Commissions affirmation of the recent settlement on above average ROE's of 10%+. We apply a 0.5x premium to the gas utilities, including Peoples Gas and North Shore Gas with the Gas System Modernization Program (GSMP) and capex forecasts de-risked following the ICC order. We ascribe a 2x premium vs. the group at ATC to account for the steady nature of earnings growth as well as above average ROE's that are set at a federal level by FERC. We give Power the Future (PTF) a 2.0x premium multiple given the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. For the HoldCo adjustment to debt, we net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest expense.

Upside Risks to achieving our price objective include 1) stronger than expected execution 2) accelerating capital opportunities and 3) favorable ratecase outcomes

Xcel Energy Inc (XEL)
Our PO is $66. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary.

We use 2022E forward P/E multiples to derive a value for the different business segments, including the parent segment. We use on a peer multiple of 17.6x . Electric peer P/E multiple is then grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We apply a 2x premium to subsidiaries. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We include Mankato as a non-reg asset in our SOTP. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Downside risks are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, interest rate risk, execution delays, and weather anomalies.

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 American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Richard Ciciarelli, CFA
	South Jersey Industries	SJI	SJI US	Richard Ciciarelli, CFA
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	50.35%	Buy	51	70.83%
Hold	38	26.57%	Hold	28	73.68%
Sell	33	23.08%	Sell	24	72.73%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2020)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1602	52.15%	Buy	1005	62.73%
Hold	713	23.21%	Hold	463	64.94%
Sell	757	24.64%	Sell	382	50.46%

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

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

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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