WELLS FARGO SECURITIES

Flash Comment

Utilities

Utility & Infrastructure Daily

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Quick thoughts from Wells Fargo Securities, LLC Utility & Infrastructure Team:

Utilities

Essential Utilities (WTRG/Overweight) (Reeder) - We admittedly missed the ruling by Judge Dozor in the Court of Common Pleas of Delaware County last Monday (12/28). In what we consider to be a very positive development, the judge ruled in favor of DELCORA and WTRG on both matters disputed by Delaware County - the validity of the asset purchase agreement as well as the ability to put the proceeds of the $277M sale into a trust to be used to stabilize ratepayers' bills in the years ahead (keep increases to 3% annually so long as the fund is solvent while ensuring WTRG earns its authorized ROE). While Delaware County has indicated an intention to continue to argue its case as part of the pending PaPUC regulatory approval process (has yet to decide whether to appeal Judge Dozor's ruling), we believe the 12/28 ruling clears the way for WTRG to close the DELCORA deal by Q2'21.

We find it unlikely that the PaPUC will be overly sympathetic to Delaware County's contention that the $277M agreed to sales price that was blessed by the prior County Council undervalues the fair market value (FMV) of the system. It is our understanding that DELCORA struck that price during exclusive negotiations with WTRG in '19 perhaps knowing that it might be less than a closer to $400M price tag defensible by PA's FMV legislation. Rather the lower sales price would serve as a balancing act to help keep the subsequent rate increases to DELCORA customers manageable as WTRG recovers the FMV of the initial investment as well as the roughly $700M of capital investments required by 2028 to keep the system viable. Further, we believe the PaPUC's FMV approval process if anything is geared to protect against the opposite – a utility overpaying FMV and then trying to socialize those higher costs across its entire customer base.

We look towards WTRG's 1/11 investor event for additional insights into getting the deal across the finish line as well as the expected longer-term benefits. As we have previously opined, we believe the DELCORA deal represents material long-term value (that is not currently reflected in the share price!) given meaningful capex needs that fall beyond the current 5-year forecast as well as the likely substantial wastewater tuck-in deals that could transpire in the area. In other words, we believe the DELCORA deal should, at a minimum, allow WTRG to continue to target a 5-7% EPS CAGR through the end of the decade.

Infrastructure

Brookfield Infrastructure (BIP/BIPC)(Overweight) & Brookfield Renewable (BEP/BEPC)(Equal Weight) (Reeder) – Brookfield Asset Management (BAM/Not Covered) along with institutional partners made a public offer before the open on 1/4 to acquire the remaining units of one of its publicly traded

Please see page 4 for rating definitions, important disclosures and required analyst certifications.
All estimates/forecasts are as of 01/05/21 unless otherwise stated. 01/05/21 08:12:41 ET

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vehicles, Brookfield Property Partners L.P. (BPY/Not Covered), that it does not already own for $16.50/unit or a roughly 15% premium to the 12/31 close. We touched base with a Brookfield Infrastructure contact to confirm our suspicions – this situation is very much unique to BPY and should not be viewed as a potential read-through to either BEP/BEPC or BIP/BIPC. BAM has expressed frustration with the public valuation of BPY's underlying assets since prior to the onset of the pandemic and the stock's underperformance over the last 10 months, ostensibly related to longer term concerns regarding the health of the commercial real estate market, has only exacerbated that frustration. This contrasts to BEP/BEPC and BIP/BIPC which have been warmly embraced by investors, particularly (1) in the wake of the pandemic, (2) amidst the secular shifts towards renewables and infrastructure investment strategies and (3) following the creation of c-corp share classes in '20. As such, investors should not be thinking a potential take-private offer could be coming from BAM for either Brookfield Infrastructure or Brookfield Renewable absent a meaningful, and what we would consider an unexpected, re-rating down in the respective unit/share prices.

Acronyms:

DELCORA – Delaware County Regional Water Quality Control Authority

PaPUC – Pennsylvania Public Utility Commission

Essential Utilities, Inc. (WTRG)/Overweight
Price as of 1/4/2021: $46.19
FY 20 EPS: $1.58
FY 21 EPS: $1.65
Shares Out.: 245.2 MM
Market Cap.: $11,325.79 MM

Brookfield Infrastructure Partners L.P. (BIP)/Overweight
Price as of 1/4/2021: $49.49
FY 20 FFO/sh: $3.08
FY 21 FFO/sh: $3.50
Shares Out.: 465.0 MM
Market Cap.: $23,012.85 MM

Brookfield Infrastructure Corporation (BIPC)/Overweight
Price as of 1/4/2021: $70.29
FY 20 FFO/sh: $3.08
FY 21 FFO/sh: $3.50
Shares Out.: 465.0 MM
Market Cap.: $32,684.85 MM

Brookfield Renewable Partners LP (BEP)/Equal Weight
Price as of 1/4/2021: $44.26
FY 20 FFO/sh: $1.35
FY 21 FFO/sh: $1.43
Shares Out.: 646.0 MM
Market Cap.: $28,591.96 MM

Brookfield Renewable Corporation (BEPC)/Equal Weight
Price as of 1/4/2021: $57.95
FY 20 FFO/sh: $1.35
FY 21 FFO/sh: $1.43
Shares Out.: 464.0 MM
Market Cap.: $26,888.8 MM

Rating Basis Information:

WTRG Thesis: Our Overweight rating is premised on our belief that WTRG shares do not fully reflect the company's strong fundamentals which include a proven EPS growth strategy, a rate base that is growing at a mid-to-upper single digit CAGR, constructive regulatory treatment (particularly in PA where roughly 70% of earnings are derived and near-term regulatory risk is low as both the water and gas utilities completed rate cases in 2019), an efficient operating model and a solid financial profile. We believe relatively low risk, regulated EPS growth of at least 6% is achievable driven by the timely rate recognition of elevated pipeline infrastructure investment needs for the foreseeable future supplemented by water/wastewater municipal M&A trends.

BIP Thesis: We believe attractive roughly 10% FFO/unit and 8% distribution/unit CAGRs are achievable over the next 5-years driven by a robust capital backlog and a savvy management team that has shown a consistent ability to execute and be good stewards of investor capital. In addition, we are drawn to BIP's diversified business mix – both strategically and geographically – as well as the highly regulated/contracted cash flow profile. We believe the near-term pressures from COVID-19 economic fallout, the strong U.S. dollar, etc. will be offset in the long run by value creating M&A opportunities, some of which may result from pandemic related disruptions in global equity and debt markets.

BIPC Thesis: We believe attractive roughly 10% FFO/unit and 8% distribution/unit CAGRs are achievable over the next 5-years driven by a robust capital backlog and a savvy management team that has shown a consistent ability to execute and be good stewards of investor capital. In addition, we are drawn to BIPC's diversified business mix – both strategically and geographically – as well as the highly regulated/contracted cash flow profile. We believe the near-term pressures from COVID-19 economic fallout, the strong U.S. dollar, etc. will be offset in the long run by value creating M&A opportunities, some of which may result from pandemic related disruptions in global equity and debt markets.

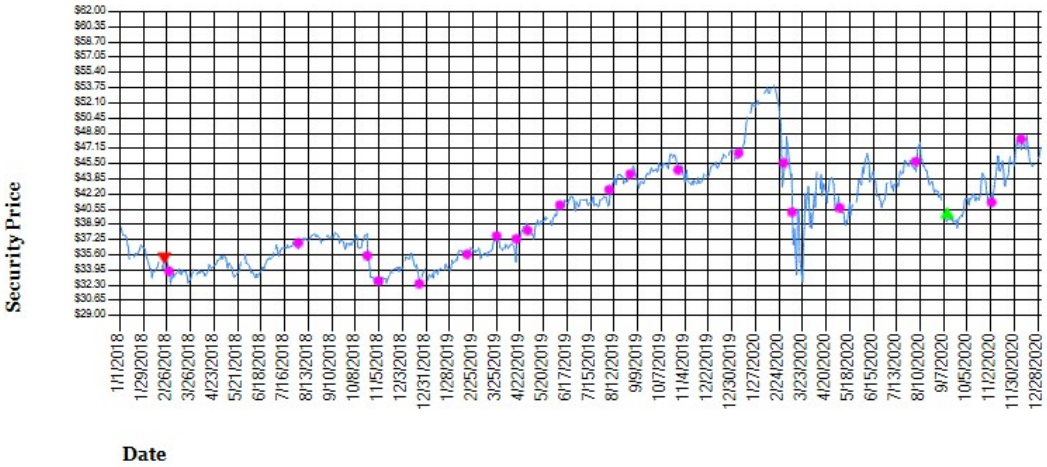
BEP Thesis: We consider BEP – as one of the few sizeable, publicly traded, pure play global renewable companies – to be a compelling way for investors to gain exposure to the decades-long global transformation towards carbon-free electric generation and growing ESG investing mantra. BEP is led by a proven management team with a track record of efficiently deploying (and recycling) capital across the portfolio. BEP's conservative philosophy of amassing a well-diversified global portfolio of predominantly contracted, carbon-free generation assets that are backed by an investment grade balance sheet and healthy cash flows results in a relatively low risk profile versus other renewable asset owners/developers. We believe units of BEP offer investors attractive long-term total return potential comprised of at least 7% FFO/unit growth and a roughly 3% yield with mid-to-upper single digit distribution/unit growth. That said, our Equal Weight rating reflects current valuation considerations.

BEPC Thesis: We consider BEPC – as one of the few sizeable, publicly traded, pure play global renewable companies – to be a compelling way for investors to gain exposure to the decades-long global transformation towards carbon-free electric generation and growing ESG investing mantra. BEPC is led by a proven management team with a track record of efficiently deploying (and recycling) capital across the portfolio. BEPC's conservative philosophy of amassing a well-diversified global portfolio of predominantly contracted, carbon-free generation assets that are backed by an investment grade balance sheet and healthy cash flows results in a relatively low risk profile versus other renewable asset owners/developers. We believe shares of BEPC offer investors attractive long-term total return potential comprised of at least 7% FFO/share growth and a 2.0-2.5% yield with mid-to-upper single digit distribution/share growth. That said, our Equal Weight rating reflects current valuation considerations.

DISCLOSURE APPENDIX

Required Disclosures

Essential Utilities, Inc. (WTRG) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	1/1/2018		Reeder				
	1/1/2018	NA	1	43	NE	NE	38.65
▼●	2/25/2018	35.00	2	37	NE	NE	35.00
●	3/1/2018	34.19	2	36	NE	NE	33.66
●	8/2/2018	36.70	2	38	NE	NE	36.70
●	10/24/2018	35.01	2	37	NE	NE	35.29
●	11/6/2018	32.70	2	35	NE	NE	32.59
●	12/24/2018	33.87	2	34	NE	NE	32.38
●	2/19/2019	35.54	2	36	NE	NE	35.52
●	3/26/2019	37.52	2	39	NE	NE	37.52
●	4/18/2019	36.52	2	38	NE	NE	37.15
●	5/3/2019	37.85	2	39	NE	NE	38.09
●	6/9/2019	40.84	2	42	NE	NE	40.84
●	8/8/2019	42.06	2	44	NE	NE	42.47
●	9/2/2019	44.29	2	47	NE	NE	44.29
●	10/29/2019	44.90	2	46	NE	NE	44.68
●	1/8/2020	46.51	2	48	NE	NE	46.51
●	3/2/2020	43.01	2	45	NE	NE	45.44
●	3/11/2020	44.41	2	48	NE	NE	40.03
●	5/7/2020	40.49	2	42	NE	NE	40.53
●	8/6/2020	45.56	2	45	NE	NE	45.56
▲	9/14/2020	39.35	1	45	NE	NE	39.82
●	11/4/2020	41.19	1	47	NE	NE	41.19
●	12/10/2020	47.70	1	52	NE	NE	48.02

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Source: Wells Fargo Securities, LLC estimates and Reuters data

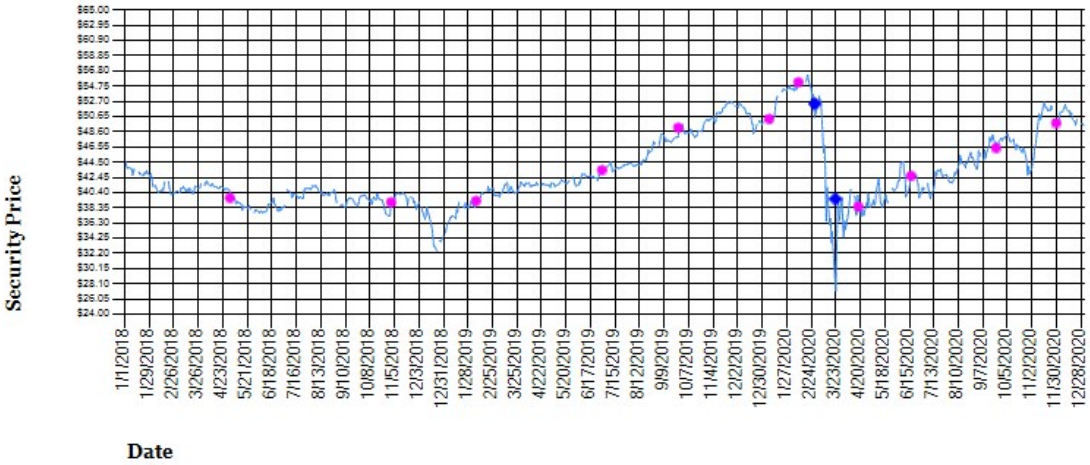
Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- ● Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- ■ Analyst Change
- ❒ Split Adjustment

Rating Code Key

1	Overweight/Buy	SR	Suspended
2	Equal Weight/Hold	NR	Not Rated
3	Underweight/Sell	NE	No Estimate

Brookfield Infrastructure Partners L.P. (BIP) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	1/1/2018		Reeder				
	1/1/2018	NA	1	47	NE	NE	44.64
●	5/2/2018	39.59	1	46	NE	NE	39.57
●	11/2/2018	38.89	1	44	NE	NE	38.83
●	2/7/2019	39.20	1	46	NE	NE	39.15
●	7/1/2019	43.47	1	49	NE	NE	43.32
●	9/27/2019	49.30	1	54	NE	NE	49.05
●	1/8/2020	50.15	1	56	NE	NE	50.15
●	2/11/2020	55.03	1	60	NE	NE	55.05
◆●	3/2/2020	52.10	SR	NE	NE	NE	52.10
◆●	3/26/2020	38.23	1	50	NE	NE	39.22
●	4/20/2020	40.06	1	47	NE	NE	38.29
●	6/19/2020	42.49	1	48	NE	NE	42.46
●	9/23/2020	46.18	1	51	NE	NE	46.14
●	12/1/2020	49.61	1	56	NE	NE	49.61

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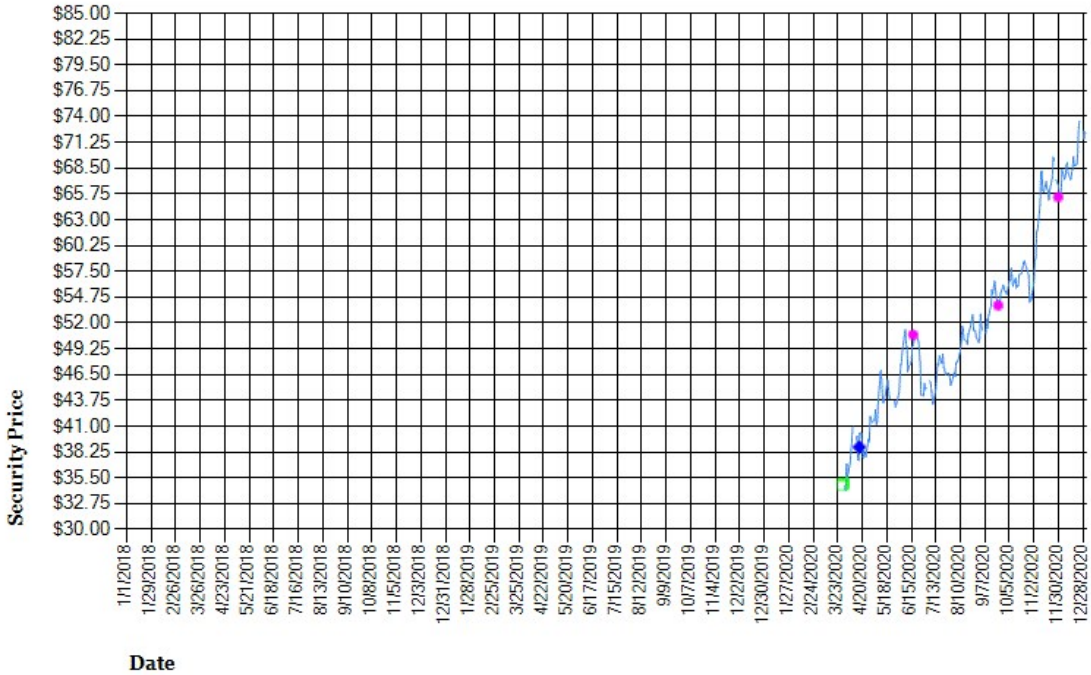
Brookfield Infrastructure Corporation (BIPC) 3-yr. Price Performance



Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
3/31/2020		Listed on NYSE, TSX exchanges				
4/19/2020		Reeder				
4/20/2020	40.27	1	47	NE	NE	38.47
6/19/2020	50.00	1	53	NE	NE	50.59
9/23/2020	53.58	1	57	NE	NE	53.66
12/1/2020	65.18	1	70	NE	NE	65.18

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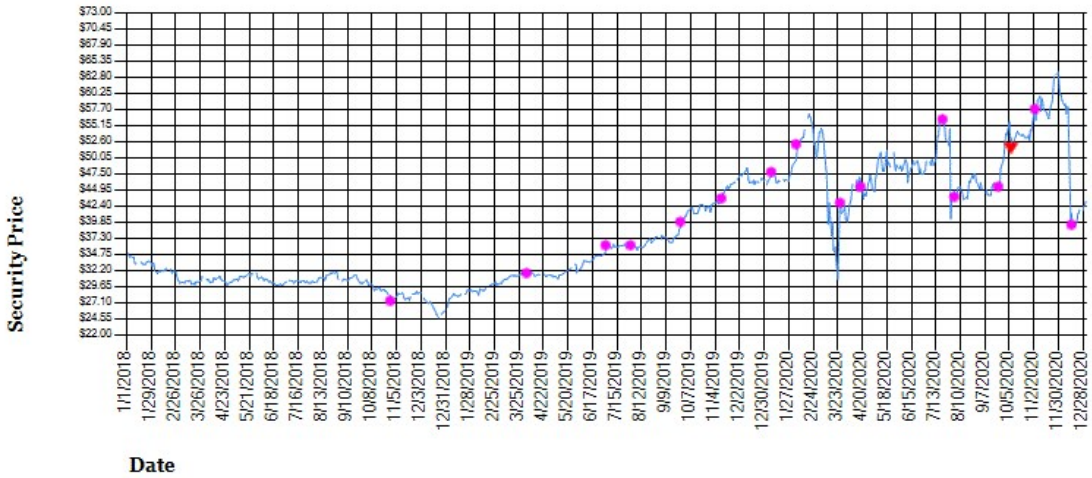
Brookfield Renewable Partners LP (BEP) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
	1/1/2018		Reeder				
	1/1/2018	NA	1	37	NE	NE	34.92
●	10/31/2018	27.48	1	34	NE	NE	27.25
●	4/4/2019	31.46	1	36	NE	NE	31.46
●	7/3/2019	36.03	1	38	NE	NE	35.99
●	7/31/2019	35.91	1	39	NE	NE	35.85
●	9/27/2019	39.24	1	42	NE	NE	39.70
●	11/12/2019	43.39	1	46	NE	NE	43.27
●	1/8/2020	47.44	1	51	NE	NE	47.44
●	2/6/2020	52.20	1	57	NE	NE	52.02
●	3/26/2020	41.54	1	47	NE	NE	42.75
●	4/20/2020	46.95	1	52	NE	NE	45.22
●	7/22/2020	55.90	1	60	NE	NE	55.90
●	8/4/2020	44.81	1	48	NE	NE	43.50
●	9/23/2020	44.95	1	50	NE	NE	45.27
▼●	10/8/2020	53.11	2	53	NE	NE	51.27
●	11/5/2020	55.91	2	55	NE	NE	57.50
●	12/16/2020	41.14	2	40	NE	NE	39.31

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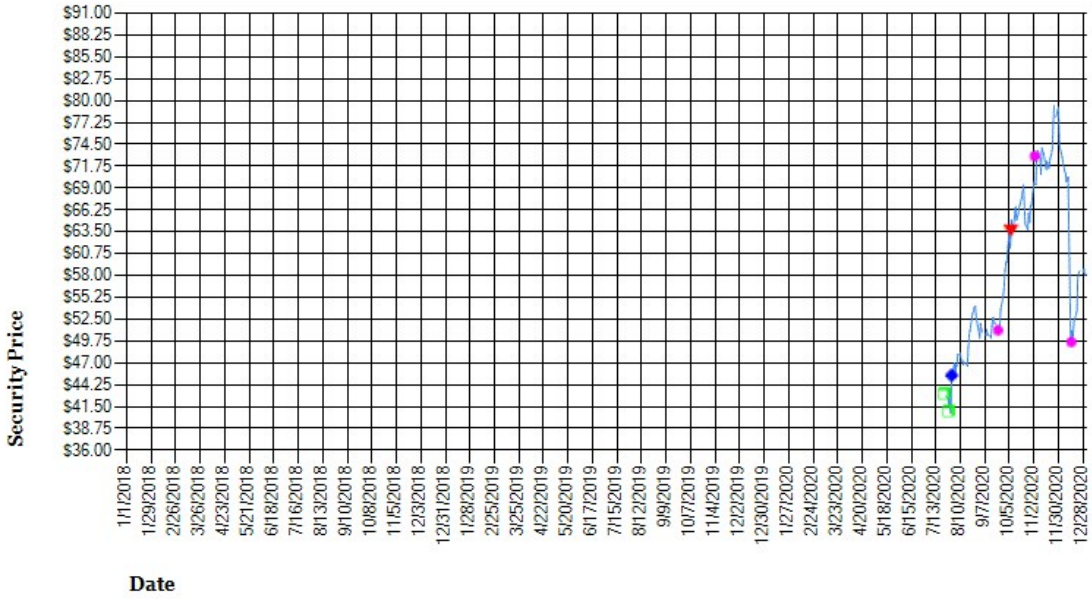
Brookfield Renewable Corporation (BEPC) 3-yr. Price Performance



	Date	Published Price ($)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price ($)
❒	7/24/2020		begins when issued trading				
❒	7/30/2020		beings trading after unit split (1 for 4) from BEP shares				
	8/3/2020		Reeder				
◆	8/4/2020	47.00	1	51	NE	NE	45.17
●	9/23/2020	51.15	1	55	NE	NE	50.91
▼●	10/8/2020	64.98	2	60	NE	NE	63.43
●	11/5/2020	69.42	2	62	NE	NE	72.87
●	12/16/2020	51.06	2	47	NE	NE	49.46

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WTRG: Key risks relate to regulatory, Peoples gas deal integration and M&A strategy execution.
BIP: Key risks, in our view, include prolonged economic fallout from the COVID-19 outbreak, the potential for a strategic misstep, foreign exchange risks, exposure to foreign governments, regulatory/contract risks and capital markets risks.
BIPC: Key risks, in our view, include prolonged economic fallout from the COVID-19 outbreak, the potential for a strategic misstep, foreign exchange risks, exposure to foreign governments, regulatory/contract risks and capital markets risks.
BEP: Key risks, in our view, include prolonged economic fallout from the COVID-19 outbreak, the potential for a strategic misstep, foreign exchange risks, exposure to foreign governments, contract risks and capital markets risks.
BEPC: Key risks, in our view, include prolonged economic fallout from the COVID-19 outbreak, the potential for a strategic misstep, foreign exchange risks, exposure to foreign governments, contract risks and capital markets risks.

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1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY
2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD
3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

VOLATILITY RATING
V=A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: January 5, 2021

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11% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight.	Wells Fargo Securities, LLC has provided investment banking services for 32% of its Underweight-rated companies.

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