US Electric Utilities & IPPs

The 18 Key Themes for 2018

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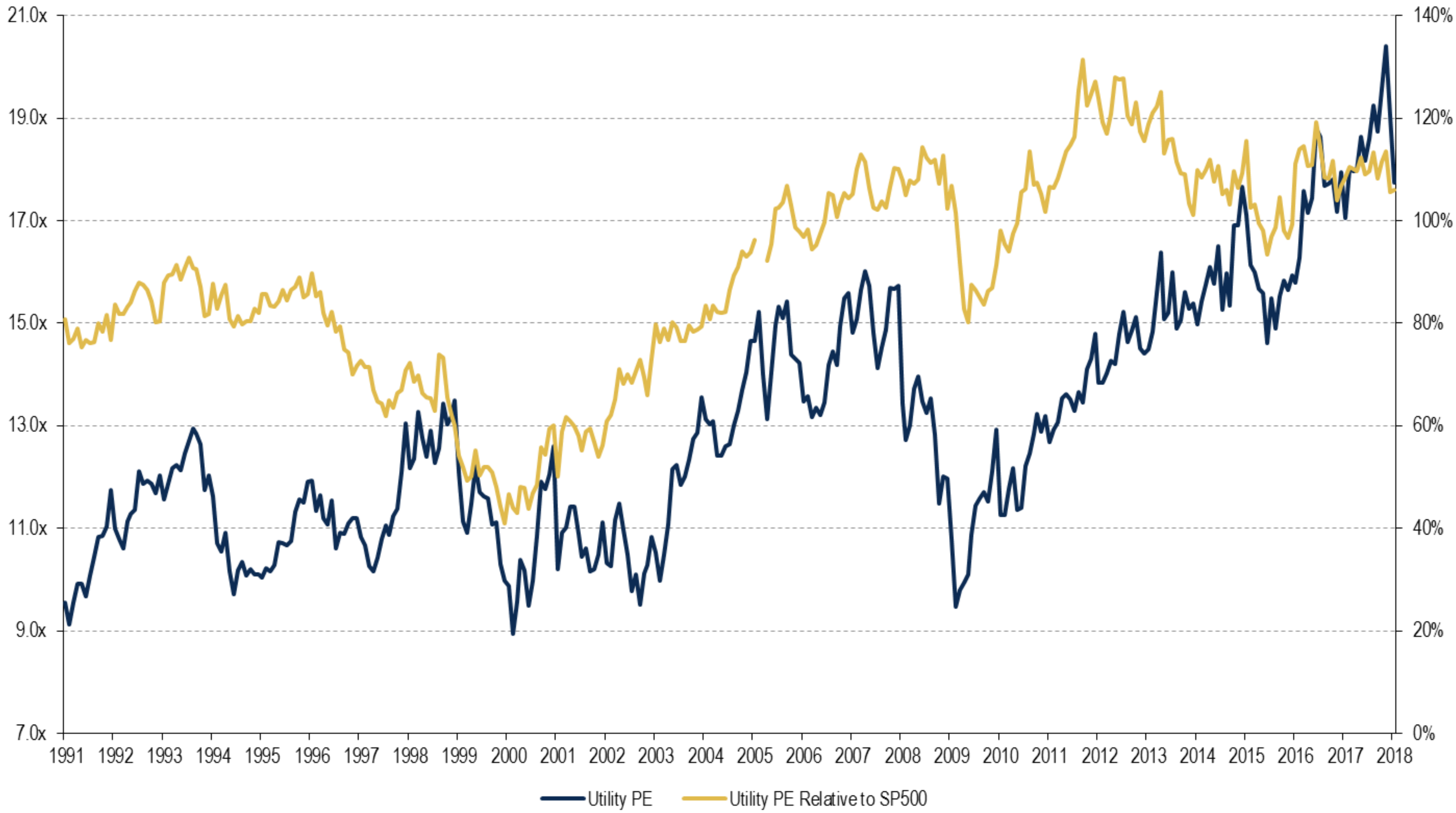
Refer to important disclosures on page 39-44. Price Objective Basis/Risk on page 34. Analyst Certification on page 37.

Macro Valuation Summary

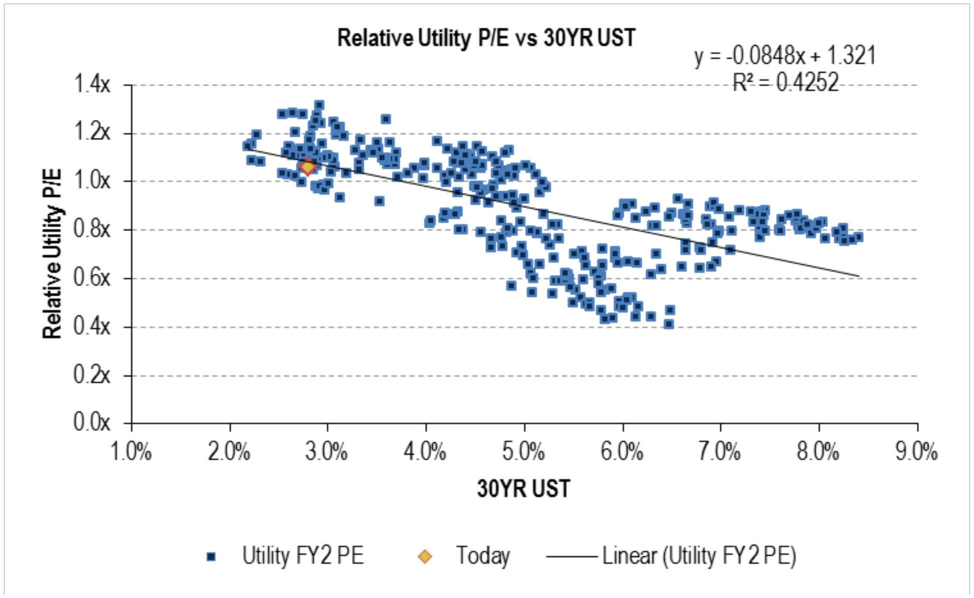
Utility FY2 PEs vs. S&P 500

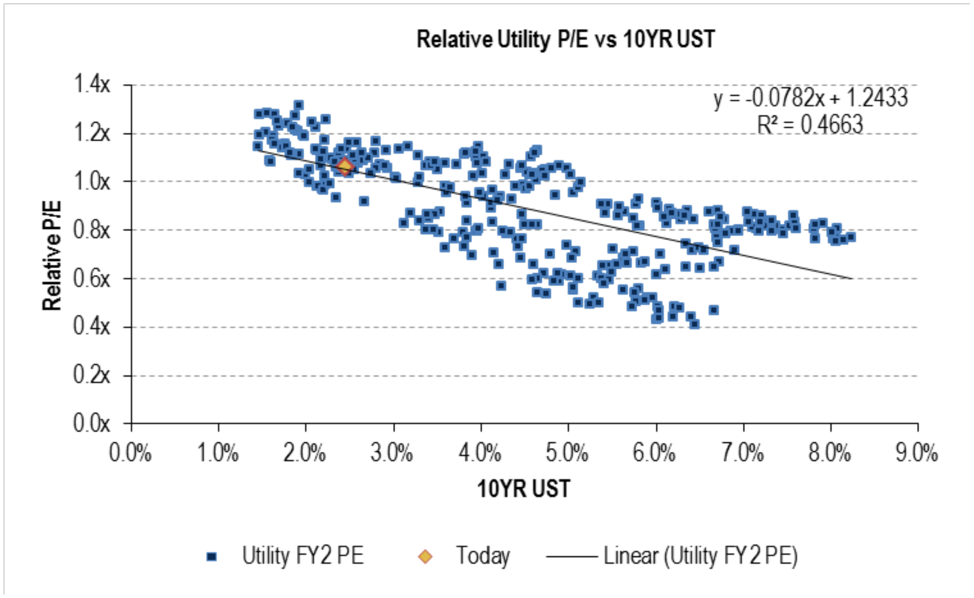


Source: Bloomberg

Relative Utes PEs vs. Interest Rates – Looking fairly valued

- Valuation for sector, when adjusted for the relative position of the S&P remains largely inline with historical norms despite meaningful re-rating throughout 2017.





Source: Bloomberg

Top Sector Calls

American Electric Power (AEP) – BUY

- Among best positioned utilities for the long term
  - Best in class EPS growth for a large-cap utility with limited holding company debt
  - Diligent management has resulted in among the best positioned utilities for the long-term.
- We anticipate management's grid-focused strategy on transmission to persist, with execution on renewables boding well.
- We emphasize our continued confidence in the wider Wind Catcher wind and transmission project
  - Street estimates and expectations continuing to sizably discount the project viability.
  - We believe at least a portion (wind or transmission) will materialize and could still be owned by AEP under build and transfer.

Entergy Corp (ETR) – BUY

- We expect 2018 to prove the turnaround for shares as recent de-risking of its core utilities resulting in a likely meaningful upward revision in earned ROEs
  - Could push estimates toward the higher end of its EPS guidance range if not *higher*.

- Clarity pending on final resolution on the fate of its nuclear portfolio still forthcoming in 2018, we believe settling the potential size of liabilities to rid itself of much of the portfolio could cause shares to re-rate

- Shares have been dragged down of late principally on ill-conceived screens on exposure to tax reform,
  - We are seemingly less concerned seeing the $0.10-0.15/sh impact expected by much of the Street.

Xcel Energy Inc. (XEL) – BUY

- Strong opportunities and relatively conservative management guidance provide upside to top end of overall EPS guidance range
- We see clear delineation for EPS and rate base growth at the high end of current guidance.
- Progress on Southwestern Public Service (SPS) wind projects, most recently with a favorable settlement in New Mexico and Texas despite doubts, we see concerns largely abated.
- Upside scenario from the Colorado Clean Energy Plan seems to be moving along well; this remains future source of incremental project announcements
- While declining wind equipment prices may seem like a headwind, we see plenty of opportunity to backfill any capex declines with 4Q results and beyond
    - Management has shifted significant distribution spending in to outer years to make space for new wind projects.

Exelon Corp. (EXC) – BUY

Bank of America Merrill Lynch

- Expect shares to benefit particularly in 1H
  - Meaningful estimate revisions of tax reform
  - Positive revisions to largely regulated capex should reset EPS higher along with potential for positive trend on earned ROE expectations for acquired POM subs
  - dividend growth will be accelerated with 4Q results as well
  - legislation in NJ as soon as this coming week bodes well for EPS revisions too
- Fundamentals for Power widely remain a lingering concern, but company is de-risking via both contracts and portfolio sales; expect more to come with latest updates on SOP & balance sheet geography providing good update on 4Q
- Retail remains the backdrop – and we expect the willingness to apply yet higher multiples to companies like NRG could yet migrate to Exelon.
- Expect a particularly potent 1Q between utility, power, and corporate tax tailwinds.

Consolidated Edison (ED) – BUY

- We see a skew towards positive earnings revision vs the Street with no Buy ratings on shares either boding constructively as well
- A potential to pivot toward more meaningful growth into 2018 and 2019 on the back of the latest midstream and renewable investments
- Ability to earn its ROE on a stepped up equity base equal to maximized authorized level (eg : More authorized net income at the core ConEd Utility in NYC)).
- Given management's ability to historically earn (and beat) its ROE and the latest changes in the NY PSC composition, we believe this is no longer the discount once thought.
- We believe investors fail to appreciate longevity of investment into the 2020's in light of meaningful, concentrated retirements in NYC metro area given new air regs & Indian Point nuclear retirement.
- We add to our conviction on shares here given the underappreciated longevity of conservatism by management.

Eversource Energy (ES) – Underperform

- We see shares as principally pressured from an increasingly risky project prospect for its key Northern Pass transmission line
  - Additional costs from undergrounding the project through NH could yet stymie success.
- With 7% EPS at risk without the project, this could be a meaningful setback for shares should it fail to be awarded the project
- Market is seeking utilities with confidence in longer-duration of capex investment profile
  - consecutive years of capex revisions to scramble to fill delays in projects leave us less confident despite its nominally higher EPS growth aspiration of 5-7% versus peers.

DTE Energy Co. (DTE) – Underperform

- Applying a (1x) premium to peers for both utilities and ascribing an inline EV/EBITDA for the midstream business, we *still* see shares as pricey.

- We see the latest updates at EEI as reconfirming our concerns around achieving stated midstream targets
  - A doubling down on the Nexus project is now firmly embedded in the base plan
  - This leaves us concerned of the need to replace these earnings with acquisitions to hit consolidated earnings targets.

Pattern Energy Group (PEGI) – Underperform

Bank of America Merrill Lynch

- We see the core of our concerns around the YieldCo sector as manifesting itself in shares of Pattern Energy
- Management has cornered itself strategically into a position with a 100% dividend payout ratio as well as substantial 5x Net Debt/EBITDA.
- The question remains whether the use of non-amortizing debt as a strategic approach to addressing its high payout ratio will assuage concerns?

18 Themes for 2018

Theme #1: Further dealmaking more difficult

- Expect a slowing of dealmaking across the sector as companies focus on deleveraging and organic growth prospects, specifically amongst large cap regulated utilities
- Canadian deal making faces challenges previous deals were predicated on low domestic interest rates and high leverage
  - EMA and FTS have stated they will focus on deleveraging after hitting their leverage targets
- Tax Reform only further disincentivizes LBO type deals with deductibility cap
- Removal of bonus depreciation allows ratebase CAGR’s to be front end loaded

Theme #2: Poised to delever

- Utilities likely to work towards more manageable FFO/Debt metrics with less of a tax runway than previously anticipated (no bonus depreciation) negatively affecting FFO

- Tax reform broadly brings down total cash flow given the limited existing cash taxes

- Applicability of NOLs and minimums on cash taxes remains a key consideration

Theme #3: Ratebase is going higher

Bank of America Merrill Lynch

- Expect utilities to offer up better earnings growth rates with 4Q results now that bonus depreciation has gone away, particularly on near-years

- Look for companies to seek regulatory accounting to net out immediate refunds involved in rates

- Deferred taxes in rate structures opens the question for equity or debt replacement allowing for a potential positive

- Companies with stronger balance sheets could seek customer refunds on a more accelerated schedule – initial datapoints suggest a 20-40 year refund period

Theme #4: Filtering back the tax benefits

- We as well as many across the Street continue to largely assume immediate refunds back to customers of tax reduction without even *any* transient benefits to earned ROEs for those in stayouts, etc.

- Some utilities may be reluctant to directly refund back to customers before ensuring they earn at least their authorized returns

- Some companies have alluded to a potential refund via ROE sharing bands

- Delaying the refund to smooth out bills another novel angle to limit aggregate bill impacts – ETR could prove a beneficiary here in particular.

Theme #5: Finding new tax equity

Bank of America Merrill Lynch

- We expect utilities to *return* to owning stakes in solar projects principally to absorb tax attributes in future as bonus depreciation tailwinds roll off
- Core cash tax appeal of investments given premium returns vs. lower perceived quality of earnings due to one-time benefits of solar ITCs will remain a debate
  - Could this displace in part BEAT-related tax equity capacity concerns of the financial sector?
- Less concerned on impacts of the big tax equity players, particularly NEE; we look for SO to continue to pursue pivot towards tax equity with 4Q financial plan rollout

Theme #6: Sale of renewable assets

- Following the latest relative peak in renewable valuations we expect companies to pursue asset sales of their portfolios given the limited EPS contributions

- Companies to watch include D, SO, SRE and EXC. SO has already discussed this trend with SRE likely the next candidate ahead of the a $6.1Bn equity need

- EXC recently opted to monetize the bulk of the equity value of its contracted renewables business through a debt deal rather than monetizing down its equity interest over time

- Peers could following this strategy of selling down *slices of the business* over time in an effort to trigger the recapture window

Theme #7: Selling utility subsidiaries too

Bank of America Merrill Lynch

- Following SO's accretive sale to SJI, we see prospects for others to follow. AEP has indicated a desire at times to evaluate a sale of its Kentucky Power business

- Selling utility HoldCo businesses could address de-leveraging with relative multiples allowing for meaningful equity returns

Theme #8: Water Diversification continues

- Companies could continue to diversify into water utilities via organic efforts as well as smaller platform acquisitions – ES a leader here

- Water trends mirrors efforts by pure regulated electric utilities to expand into gas as seen in recent years

- Relative valuation makes it more difficult to see consolidation outright with water P/Es already trading 50% higher than that of electric utilities

- Municipal ratebasing programs are very hard to scale up despite the attractiveness of acquiring at 1.0x ratebase asset multiples. We see bulk of consolidation as tied towards big premiums for *existing* private platforms.

Theme #9: Stationary storage as a tag-along

Bank of America Merrill Lynch

- Investors anticipate storage project deployment for some time – 2018 could be a true turning point with recent data showing costs below $300/kW-hour (utility scale)

- We believe most bids into renewable request for proposals (RFPs) in 2018 will be paired with storage options

- Given saturation issues in Southwest and California offering a storage complement may become a requirement

- NextEra Energy Resources will include a storage option in all of its upcoming bids from now on

Theme #10: Solar shines brightly as costs cave further

Bank of America Merrill Lynch

- "commence construction" language could de facto extend the Solar investment tax credit (ITC). Remains the *most* important renewable datapoint under new administration; will be viewed as a 'technical' update?
  - Would add further years of latitude to construction schedules
- If 4 years were added to construction schedules (as it was for wind) this would be a significant driver of *future* demand; could see a two-year extension consistent with *original* guidance for wind industry
- There is further potential to include storage products in the commence construction language
  - Could create incentives to size solar installs to batteries as stationary storage becomes principal motivator for niche of installs
- On the solar side, recent data points suggest $800-900/kw on the utility side for 2019
  - Following cost inflation in 2017, we would expect this to reverse again

Theme #11: The FERC to address authorized ROEs

- The Federal Energy Regulatory Commission is poised to finally address transmission authorized ROEs
- Likely will lower ROE to low-to-mid 10% range with ‘base’ slightly above distribution average at 9.7%
- Could drive negative revisions for companies exposed to generic regional ROE in the Midwest ISO (MISO) and New England (ISO-NE)
- While FERC 1000 is largely irrelevant, the success of NextEra recently suggests potential for further transmission wins via the Clean Line Energy stake
- We see the efforts around the FERC NOPR as being largley limited to energy price formation implementation – largely in PJM (somewhat reflected already)
- We don’t *necessarily* expect meaningful review of capacity markets

Theme #12: Wind gets even bigger

Bank of America Merrill Lynch

- Mega wind projects should get approval this year into the final year of 100% PTC in 2020
  - XEL and AEP’s efforts for 1GW and 2GW+ proposals are indicative
- We see capex reductions into 4Q results on wind spend. Watch NEE/AGR for updates and we note more cautious for companies like LNT where negative revisions reduce ratebase
- Prospects for wind pricing decline still could reach 10-20% on top of 30% in 2017
- Key unknown is how 80% and 60% PTC will play out in 2020 – look for updates with 4Q

Theme #13: Offshore wind goes critical

- The upcoming Massachusetts RFP is set to select the max 800MW form factor for offshore wind
- The larger question is what the return on Equity will be given limited participants
    - We note NEE has emphasized risk profile is outside of risk tolerances
- Declining Cost curve is important to watch. Prices are well south of 100 Euros/MWh in Europe
- Transmission impediments across the Northeast and New England bode well for offshore efforts
- New York and New Jersey are key to watch, with North Carolina up next

Theme #14: LNG get going again

- We expect a return to *contracting* with new parties for long-term offtake of LNG from US facilities
- Our focus is on China in light of the MOU with Cheniere Energy
- This remains among Chiniere's top efforts in 2018 to convert this arrangement into a firm offtake at Corpus Christy Train. We could see others follow as well.

Theme #15: IPPs become retailers

Bank of America Merrill Lynch

- Expect the distinct decline in focus on power fundamentals for the IPPs to continue to decline; redefining business as ‘Gentailers’ rather than really IPPs.

- 2018 could be a turning point for IPP and power business model to shift toward *income* and a true return of capital – returning FCF to shareholders

- Theoretical dividend yield (assuming 50% payout ratio) could be quite competitive
    - We do *not* see dividend yields in the high single digits akin to YieldCos however , given need for flexibility, but still competitive vs Utilities in mid-single digit range

- We also look to moderate expectations around any meaningful re-rating of sector. Execution will still be the most important

- We still see an increasing focus on retail trends from NRG/VST/EXC

Theme #16: Power markets peaking

- Resurgence in power prices across regions will likely reach pinnacle in 2018
- PJM and ERCOT are both poised to peak out, albeit not necessarily meaningfully turn over
- PJM should see upside from energy price formation *through 2018*
  - First, the DOE NOPR, secondly, the potential for thermal coal prices to peak in 2018
- New England more cautious. Capacity compensation shifts should bode poorly for pricing
  - Question is *how much capacity would retire* under reduced compensation framework
- New England and New York power markets likely driven by gas basis shifts from shale gas

Theme #17: Coal retirements will still come?

- We expect continued coal plant retirement announcements
  - There is still a sizeable chunk of operating capacity that failed to clear PJM capacity auction in 2019/2020
- While the First Energy Solutions (FES) portfolio has been in focus for PJM, we do *not* expect a filing to lead to immediate retirements
  - Davis Besse and Sammis have risks to continued operations
- We see regulated utilities announcing incremental coal plant retirements or accelerations, particularly given wind pricing declines
- Shifts in air quality targets are too late for many plants; only a few states with meaningful remaining air quality targets left in Western US
- **Pending litigation on the Clean Power plan is taking longer than anticipated.**
  - A failure from the Trump admin to re-promulgate a *revised* clean power plan is stoking early fears of a decision left to future admins

Theme #18: Could load get going?

- Continued economic backdrop and modest improvements in forecasted load make *real* demand growth a prospect

- While EV growth remains a relatively small potential impact, the focus on manufacturing could drive continued load growth

- ETR and FE could be principal beneficiaries.

- Decoupling for PEG is still a potential in latest case as pursuing energy efficiency projects remains a key strategic goal for NJ – and hence for PEG to be aligned with other interest groups.
  - We expect other utilities to continue to pivot towards decoupling whether gas *or* electric

Ratings and Prices for companies mentioned

Stocks mentioned

BofAML Ticker	Bloomberg ticker	Company name	Price	Rating
AES	AES US	AES	US$ 10.72	B-1-7
AEP	AEP US	American Elec Power	US$ 69.57	A-1-7
ED	ED US	Consolidated Edison	US$ 80.96	B-1-7
DTE	DTE US	DTE Energy	US$ 104.37	B-3-7
ETR	ETR US	Entergy Corp.	US$ 79.09	B-1-7
ES	ES US	Eversource Energy	US$ 61.21	B-3-7
EXC	EXC US	Exelon Corp	US$ 37.99	B-1-7
PEGI	PEGI US	Pattern Energy	US$ 21.48	B-3-7
XEL	XEL US	Xcel Energy	US$ 46.11	B-1-7

Source: BofA Merrill Lynch Global Research

Price Objective Basis and Risk

AES (AES)

Our price objective is $13.00 and is based on a sum of the parts analysis applying a blended valuation approach, the summation of 1) EV/EBITDA approach across global generation assets. We use an 8.0x group multiple for US IPPs and apply a 1.0x discount to Southland assets given construction delays, and a 2.0x premium for US distributed generation for further growth expectations. In Asia, we apply a 7.0x multiple to Masinloc and Muong Dong given USD contracted cash flows, and 6.0x multiple at OPGC II given construction concerns. 2) the mtm value of publicly listed LATAM subs as well a P/E methodology for US regulated utilities of 18.0x including an inline multiple at IPALCO and 1.0x discount at DPL given the only slightly positive equity value. We assume asset sales for DPL as well as Elsta in our valuation of $300/kW and $200/kW respectively. Downside risks to our price objective are negative regulatory outcomes in the US, international currencies devaluing against the American Dollar, and expensive M&A acquisitions impacting value and a reduction in emerging market power demand growth. Upside risks are positive regulatory outcomes, emerging market growth, and Dollar weakness vs EU FX.

American Electric Power (AEP)

Our price objective of $83 is based on SOTP analysis. We ascribe a peer forward P/E multiple (18.9x) to its vertically integrated utilities, a 1x premium to its T&D utilities, and a 2x premium for its transmission-only Utilities segments, which is appropriate given varying risk profiles vs. peers. We also ascribe limited value to the remaining Genco valuation ($1/sh, based on $/kw values on the plants in line with appropriate transaction values) and to the nascent renewables business ($2/sh), based on a 3x discount to peer P/E multiple given uncertainty. Finally, $1.5/sh for the $4.5B Wind Catcher project based on 10% ROE discounted back two years at 50% probability due to uncertainty.

Downside risks to our price objective are1) 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.

Consolidated Edison (ED)

Our $92 price objective is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples (21.5x/18.0x for gas/electric respectively). We give a 2.0x P/E premium to the peer regulated multiple at CECONY given its rate certainty, but also more upside should the company be able to outpace its allowed return in the later years of its three year rate case cycle.

We apply a discounted PE for infrastructure projects given the lack of clarity around the capital structure.

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. Furthermore, ED is a bellwether utility and has historically outperformed during market uncertainty as a large liquid "flight to safety" stock. 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.

DTE Energy (DTE)

We value DTE Energy at $112 using a SOTP approach. Given the difference in earnings strength, growth opportunity & risk profile, we divide the business into the utility and the non-utility segment.

We value the utility segment on a 2019E forward P/E multiple basis and the non-utility seg. on a 2020E forward P/E multiple basis. For the utility segment we apply a 2x premium to our reg. utility peer multiple of 18.4x and a 2x premium to our gas peer multiple of 21.6x. We apply a 2x premium to both utilities given strong reg. environment & capex opportunities. We subtract out Corp & Other expense excl. interest rate using 20x multiple.

Price Objective Basis and Risk

For P&I, we apply a 8x EV/EBITDA multiple (in line with peers) to reflect both the lower equality of these earnings an opaque disclosures. We value the reduced emissions fuel (REF) tax credits separately using a DCF methodology at 6% discount rate, given relatively secure nature of REF earnings. For Gas Storage and Processing (GSP), we apply an in line multiple of 12x EV/EBITDA, weighing EBITDA from yet to be allocated capex at 50% given execution risk (we also take out 50% of related debt). For Energy trading we ascribe a multiple of 4x 2020E EV/EBITDA (in line with peers) to reflect the uncertain nature of the earnings.

Upside risks to our PO are capex expansions, higher authorized ROEs, & strong performance in the ET segment. Downside risks are interest rate hikes, execution risk on capital spend, and less favorable regulatory environment.

Entergy (ETR)

Our $89 PO is SOtP based. We assign P/E multiples (peer multiple of 18.7x 2019E on most segments, 1x discount on ETR Arkansas (given historic issues) and on Texas (ongoing risk from rate cases), and strip out 50% of the holdco debt given leverage at the parent. The Merchant business is also added as a DCF (10%, no terminal).

Upside risks:1) Regulatory outcomes or earned ROE's could improve 2) rate making mechanisms could change in the future 3) Additional riders and capital trackers can improve ROE 4) weather can affect operations and earnings. 5) lower interest rates improve cost of capital 6) Consumer advocates or utility staff may focus less on issues that challenge the company ROE 7) Improving safety would be viewed positively in regulatory relationships. 8) ETR is planning to largely exit the competitive business (primarily nuclear), which will reduce volatility of earnings if no issues arise

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

Eversource Energy (ES)

Our sum of the parts based price objective of $62 uses P/E multiples on 2019E earnings. For electric utilities we use a 18x P/E in line to the peer multiples of 18x, reflecting unfavorable regulatory environment, but meaningful capex opportunities. For gas, we use a 21.5x multiple, in line with peers, reflecting meaningful infrastructure modernization spend, offset by downward pressure on earned ROEs. The valuation also includes a 50% probability of approval for Northern Pass at this point, given the clear risks in execution, and provides value for ES acquisition of Aquarion at a 25x multiple in line with peer multiples for water companies, which trade meaningfully above electric and gas utilities. We take out 50% of parent debt, and 50% of interest to accurately reflect parent leverage. Upside risks to our price objective are meaningful progress on NP permitting on the state level as well as further clarity on rates cases on the federal and state level, and additional capex upside. Downside risks are continued risk in final Mass RFP project selection for Northern Pass, worsening of the regulatory environment in CT, MA, NH, as well as delays in capex spend. There may be milder 2018 EPS guidance and 2017 results, weighing on investor expectations as well.

Exelon (EXC)

Our $45 PO is based on a Sum-Of-The-Part valuation (SOTP) of the Utility and Generation segments.

Our Utility valuation is based on applying a P/E multiple to our EPS estimates. Our base P/E multiple is based on the average 2019E P/E for large-cap regulated utilities. We apply an in-line multiple for Pepco and BGE. We apply a 1.0x premium to ComEd to account for formulaic rates and decoupling on the distribution business which aids in earnings predictability. We also apply a 1.0x premium to PECO to reflect its superior regulatory environment and consistent ROE overearning.

Price Objective Basis and Risk

Bank of America Merrill Lynch

Our Generation valuation is based on a 2020E SOTP. We start with our EBITDA estimates at each segment and capitalize them at an 8.0x base multiple (based on the long-term average forward EV/EBITDA in the sector) to which we apply a premium/discount based on our views of the specific region and portfolio.

Upside/Downside risks: 1) the company may or may not experience adverse regulatory rulings in its future rate cases, 2) Rate making mechanisms may or may not change in the future, 3) the company may or may not experience an increase in the price of key inputs such as natural gas and coal 4) the company may or may not experience a decrease in wholesale power prices 5) the company may or may not have to deal with stricter environmental or safety regulations 6) the company may or may not be able to access capital markets, 7) the company's operations could be materially impacted by weather events.

Pattern Energy Group (PEGI)

Our $19 PO is based on a 50/50 weighting between a DCF valuation and a drop-down valuation.

Main assumptions in our DCF are:

- 7.52% cost of equity on a CAPM approach (using 2.5% risk free rate, 5.5% equity risk premium, and 0.91 adjusted Beta)
- Cash SG&A expense of $51 Mn in 2017, increasing at 1.0% per year.
- $5 Mn annual recurring O&M savings by 2018, $10 Mn by 2019, and $15 Mn from 2020 onwards
- $10 Mn annual recurring corporate savings from 2019 onwards

Main assumptions under our drop down approach include:

- 1,500 MW of assets are dropped down
- A target payout ratio of 80%
- A 7.8% required yield based on the 2019E dividend yield for the YieldCo peer set plus a 100 bps discount to reflect the uncertainty around the devco business.

Upside/Downside risks are 1) the company may or may not be able to make accretive acquisitions to fuel growth, 2) the company may or may not be able to access capital markets at favorable terms, 3) the company may or may not be able to successfully develop new projects, 4) the company may or may not be able to implement its full cost savings plan, 5) the company may or may not be able to grow DPS at the targeted growth rate, 6) the company may or may not be able to sustain its current dividend levels, and dividend yield could increase, 7) the company's operations could be materially impacted by weather events.

Xcel Energy Inc (XEL)

Our PO is $54. 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 2019E forward P/E multiples to derive a value for the different business segments, including the parent segment. We relied on a peer multiple of 18.0x, in line with current consensus expectations for 2019 forward P/E ratio utilities. We apply a 2x premium to NSPM, NSPW, and PSCo given the favorable regulatory environment in both subsidiaries' jurisdictions, as well as meaningful capex growth. We valued apply an in line multiple for SPS. We see this multiple as appropriate as this subsidiary has meaningful growth opportunities, but suffers from regulatory drag given historical test years, which prevent timely recovery. Downside risks to our investment thesis are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, 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.

Special Disclosures

BofA Merrill Lynch is currently acting as financial advisor to DPL Inc, a wholly-owned subsidiary of AES Corp, in connection with its proposed sale of the generation and related assets for various AES Ohio facilities (the "Peaker Assets") to Kimura Power LLC, which was announced on December 15, 2017.

BofA Merrill Lynch is currently acting as financial advisor to SMC Global Power Holdings Corp in connection with its acquisition of 100% interest in Masin-AES Pte Ltd, which was announced on 18 December 2017.

Important Disclosures

Bank of America Merrill Lynch

Equity Investment Rating Distribution: Alternative Energy Group (as of 31 Dec 2017)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	4	66.67%	Buy	3	75.00%
Hold	2	33.33%	Hold	2	100.00%
Sell	0	0.00%	Sell	0	0.00%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2017)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	64	45.07%	Buy	45	70.31%
Hold	40	28.17%	Hold	28	70.00%
Sell	38	26.76%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2017)					
Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1561	52.31%	Buy	975	62.46%
Hold	646	21.65%	Hold	406	62.85%
Sell	777	26.04%	Sell	372	47.88%

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

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

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

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