

Can Wind Help Fill More Capex, Still? Missouri and C&I Upside Ahead

Maintain Rating: BUY | PO: 71.00 USD | Price: 66.72 USD

Equity | 25 September 2019

PISA capex – how much and how fast?

Following management meetings with investors yesterday, we see EVRG as an emerging execution story as the company continues extracting synergies from the Westar-KCP&L merger. We see an incremental update through PISA spending to the current \$6.1B capex plan – the 3% customer bill increase cap allows for a gross increase of \$1B including \$150m of spending re-allocated from Kansas to Missouri. Mgmt has indicated that new capex spending guidance will be provided by the Q4 call in Feb 2020, though an update at EEI in November remains possible too. One potential scenario remains mgmt. potentially dialing back on its announced repurchase program and allocating the net \$850m of PISA capex ratably – though fully-utilizing the capex “capacity” under PISA (up to a 3% rate increase per annum) would potentially compound to a double-digit ask at the time of the MO rate case filing in late 2022.

Sibley and SB 69 – we still see regulatory risks as minor

With rate case stay outs in its Kansas (2023) and Missouri (2022) jurisdictions, EVRG has good visibility for ROE and spending during the forecast period. We see upside to spending forecast potentially from PISA, though this could shift capital allocation away from announced buybacks. On the regulatory front, mgmt. remains confident in a favorable ruling in the Sibley hearing after reply briefs filed in Sep largely agreed with EVRG’s position. In Kansas, SB 69 remains pending in the state legislature, requiring a study of electric rate making process in the state. With Phase 1 of the study by a third party due in January, mgmt. projects confidence that the third party study will yield results similar to its own review, i.e. that no additional merger credits will be due to Kansas customers over and above those from the settlement.

Maintain Buy, PO to \$71

We see EVRG shares as attractive based on their clear ROE and spending line of sight, owing to rate stayouts through '22-23. We update our PO to \$71 based on mark-to-market of the latest peer group multiple, reiterate Buy.

Estimates (Dec)

(US\$)	2017A	2018A	2019E	2020E	2021E
EPS	2.27	2.50	2.84	3.11	3.32
GAAP EPS	2.27	2.50	2.84	3.11	3.32
EPS Change (YoY)	-7.0%	10.1%	13.6%	9.5%	6.8%
Consensus EPS (Bloomberg)			2.89	3.17	3.31
DPS	1.60	1.84	1.95	2.07	2.19

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	29.4x	26.7x	23.5x	21.5x	20.1x
GAAP P/E	29.4x	26.7x	23.5x	21.5x	20.1x
Dividend Yield	2.4%	2.8%	2.9%	3.1%	3.3%
EV / EBITDA*	29.3x	19.5x	14.1x	13.6x	13.3x
Free Cash Flow Yield*	1.0%	3.0%	2.3%	2.4%	3.8%

* For full definitions of *IQmethod*SM measures, see page 10.

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Timestamp: 25 September 2019 09:46AM EDT

Key Changes

(US\$)	Previous	Current
Price Obj.	67.00	71.00
2019E Rev (m)	5,585.4	5,596.0
2020E Rev (m)	5,790.5	5,797.0
2021E Rev (m)	5,990.2	5,997.3
2019E EPS	2.86	2.84

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Stock Data

Price	66.72 USD
Price Objective	71.00 USD
Date Established	25-Sep-2019
Investment Opinion	A-1-7
52-Week Range	54.19 USD - 67.20 USD
Mkt Val (mn) / Shares Out (mn)	14,285 USD / 214.1
Average Daily Value (mn)	130.77 USD
BofAML Ticker / Ex change	EVRG / NYS
Bloomberg / Reuters	EVRG US / EVRG.N
ROE (2019E)	7.4%
Net Dbt to Eqty (Dec-2018A)	83.1%

PISA – Plant In Service Accounting

KCP&L – Kansas City Power & Light

iQmethodSM – Bus Performance*

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	4.1%	4.7%	4.5%	4.5%	4.6%
Return on Equity	8.4%	7.7%	7.4%	8.3%	8.7%
Operating Margin	25.6%	21.8%	23.2%	22.9%	22.8%
Free Cash Flow	148	428	323	345	547

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	2.8x	2.8x	2.4x	2.5x	2.5x
Asset Replacement Ratio	2.1x	1.7x	1.5x	1.5x	1.3x
Tax Rate	31.0%	9.8%	15.0%	15.0%	15.0%
Net Debt-to-Equity Ratio	102.9%	83.1%	120.3%	133.8%	128.6%
Interest Cover	3.9x	3.3x	2.9x	2.8x	2.8x

Income Statement Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	2,571	4,276	5,596	5,797	5,997
% Change	0.3%	66.3%	30.9%	3.6%	3.5%
Gross Profit	1,782	2,937	3,858	3,941	4,012
% Change	-2.1%	64.9%	31.4%	2.1%	1.8%
EBITDA	1,030	1,552	2,141	2,216	2,278
% Change	1.0%	50.7%	37.9%	3.5%	2.8%
Net Interest & Other Income	(171)	(334)	(500)	(521)	(532)
Net Income (Adjusted)	324	535	679	677	703
% Change	-6.5%	65.2%	26.9%	-0.4%	3.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	337	546	689	694	720
Depreciation & Amortization	372	619	840	889	910
Change in Working Capital	0	0	(53)	(24)	(24)
Deferred Taxation Charge	150	124	124	124	124
Other Adjustments, Net	55	209	0	0	0
Capital Expenditure	(765)	(1,070)	(1,278)	(1,338)	(1,183)
Free Cash Flow	148	428	323	345	547
% Change	NM	189.7%	-24.6%	7.0%	58.5%

Balance Sheet Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	3	160	1	1	1
Trade Receivables	291	559	839	870	900
Other Current Assets	433	962	1,290	1,321	1,351
Property, Plant & Equipment	9,730	18,783	19,220	19,669	19,943
Other Non-Current Assets	1,167	4,965	4,965	4,965	4,965
Total Assets	11,624	25,429	26,316	26,826	27,159
Short-Term Debt	304	1,839	1,924	2,028	2,012
Other Current Liabilities	519	1,028	1,584	1,620	1,656
Long-Term Debt	3,769	6,687	8,204	8,644	8,576
Other Non-Current Liabilities	3,171	6,053	6,427	6,801	6,925
Total Liabilities	7,764	15,607	18,139	19,092	19,170
Total Equity	3,956	10,066	8,419	7,975	8,232
Total Equity & Liabilities	11,720	25,673	26,558	27,068	27,401

* For full definitions of iQmethodSM measures, see page 10.

Company Sector

Electric Utilities

Company Description

Evergy, formed by the merger of Westar and Great Plains, has a combined ratebase of \$13.1Bn and is headquartered in Kansas City, Missouri. It operates through its subsidiaries Westar Energy, Kansas City Power & Light (KCP&L), and Great Missouri Operations (GMO). Evergy has 1.57Mn electric customers served by 13GW of its owned generation capacity in addition to 10,000 miles of transmission lines, 51,700 miles of distribution assets, and 3GW of existing renewable assets.

Investment Rationale

We rate shares as a Buy. We believe shares do not fully price in the 60Mn share buyback through 2021, with growth prospects on 6-8% EPS at the high end of the sector. We see the EVRG story widely de-risked given current rate case stay outs, and note the buyback also provides technical support for shares. The story otherwise remains fundamentally quiet, with recent concerns on O&M deferrals overdone, in our view.

Stock Data

Average Daily Volume 1,959,934

Quarterly Earnings Estimates

	2018	2019
Q1	0.44A	0.44A
Q2	0.56A	0.58A
Q3	1.34A	1.47E
Q4	0.06A	0.42E

Framing the PISA opportunity

Missouri PISA legislation gives EVRG the opportunity to spend of up to \$1B gross (\$850m net of \$150m capex reallocated from Kansas). Spending authorizations are intended to encourage investment in infrastructure, specifically grid enhancement, modernization, and refurbishment of aging equipment. Wind generation qualifies for spending under the plan while fossil fuel generation and investment for the purpose of customer acquisition is outside of the scope. While mgmt. indicated that the company can spend up to \$1B under the PISA legislation, it did not confirm whether the full amount will be deployed before the next rate case filing, citing ongoing capital allocation review.

PISA: Utility-scale wind seen at \$13-14/MWh; C&I Renewables at 500-1000 MW

Mgmt. has confidence in being able to source a pipeline of projects to fill the \$1B gross capex target in MO, citing the program's overall supportive stance toward investment in infrastructure improvements.

On the renewables front, several commercial and industrial customers have elected to purchase 100% renewable power, including a Google data center and a Nucor steel facility. The pipeline of additional such projects is estimated at 500-100 MW indicating robust demand for clean power. With power produced by utility scale-wind available for \$13-14/MWh, we see additional corporate renewables as a potential lever for spending portions of the unallocated PISA capex, should it be added to the official plan. Given PTC expiration we suspect wind investments will necessarily need to be accelerated to maximize subsidies prior to step-downs in 2021 and 2022: we suspect build-own-transfers remain the most credible angle to achieving this goal.

Solar and battery storage seen as less attractive; EV charging growth

Given the attractive wind resource characteristics (particularly Kansas) of EVRG's service territory, we see utility-scale wind as the predominant source of renewable spend during the forecast period. Mgmt. remains less enthusiastic about solar and battery storage, which have not garnered much attention outside of some small-scale pilot projects.

The Missouri regulatory framework around EV charger infrastructure was highlighted as a positive, with the state now having ~1,000 installed charging stations. With ~\$18m of EV infrastructure in its rate base, we don't see this as a primary avenue for growth, but worth watching given the state's positive stance toward investment in EVs.

Does PISA capex partially crowd out buyback?

In our [prior note](#), we highlighted that were mgmt. to deploy \$850mn of incremental capex under PISA, spread out evenly over the period 2020-2023 (or \$213mn per annum) and were to scale back its repurchase program by \$750mn in 2020 (or just 48mn shares repurchased in aggregate), the rate base CAGR would move up to 3.6% (from our current projection of 2.6%). Further while near-term EPS in 2020 would be slightly lower, EPS growth would accelerate in the outer years with a CAGR of ~5.3% through '23. We perceive a bias for mgmt. to pursue this route given the more constructive long-term outlook, especially as investors shift to a '22 valuation framework. Given the run up in shares, in particular following the Q2 call, it has become all the clearer that reinvestment in new capex is all the more compelling. One factor in favor of continued buybacks is the effect on the overall aggregate ask in the next MO rate case filing, due in 2021: were EVRG to "max out" its PISA capex (that is, to spend the full incremental \$850m) it would approach the maximum 3% cap on rate increases over several years, which would compound to a double-digit rate increase ask at the next rate case. Mgmt. pointed out that it is aware of the optics of a large future rate case ask as it formulates its capital strategy – this could potentially result in an incremental capex spend that does not fully reach the 3% cap increase. We remain confident in the company's ability to keep the overall rate increase at a sustainable level in the upcoming rate case filing in '22, as well.

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Increasing capex and scaling back repurchases?

If mgmt. were to deploy \$850mn of incremental capex under plant-in-service accounting, spread out evenly over the period 2020-2023 (or \$213mn per annum) and were to scale back its repurchase program by \$750mn in 2020 (or just 48mn shares repurchased in aggregate), the rate base CAGR would move up to 3.6% (from our current projection of 2.6%). EPS growth would accelerate in the outer years with a CAGR of ~5.3% through '23. We perceive a bias for mgmt. to pursue this route given the long-term outlook, especially as investors shift to a '22 valuation.

Table 1: Assumptions under scaling back repurchases and deploying incremental capital

	2018A	2019E	2020E	2021E	2022E	2023E
Assumed Share Repurchases						
Share Repurchases (\$Amt)	-1,042	-1,900	0	0	0	0
Shares Repurchased	-16	-32	0			
Ending Shares Shares	255	223	223	223	223	223
Cumulative Shares repurchased						-48
Capital Expenditure Forecast						
GMO	137	136	198	181	173	182
KCPL	431	409	593	543	518	547
WR	760	733	760	672	629	679
Total	1,328	1,278	1,551	1,396	1,320	1,409
Cumulative Capex						6,952
Combined Ending Rate Base						
KCP&L- MO	2,236	2,291	2,427	2,534	2,625	2,726
KCP&L- KS	2,699	2,766	2,931	3,062	3,173	3,295
GMO	1,937	1,964	2,051	2,117	2,173	2,235
WR	7,262	7,599	7,951	8,200	8,396	8,634
EVRG Rate Base	14,134	14,620	15,359	15,912	16,366	16,890
CAGR '18-'23						3.6%
Earned ROEs (Avg Rate Base)						
GMO	8.03%	9.85%	9.85%	9.85%	9.85%	9.85%
KCPL	6.86%	9.81%	9.93%	9.92%	9.92%	9.91%
WR	9.28%	9.71%	9.79%	9.77%	9.74%	9.75%
BofAML EPS Estimates - current assumptions	\$2.50	\$2.86	\$3.10	\$3.33	\$3.49	\$3.57
5yr CAGR (off 2019 Midpoint)						5.3%

Source: BofA Merrill Lynch Global Research estimates, company filings

Base case assumes status quo for now and lower CAGR

We assume total capital expenditures of \$6.1bn over the 5 year period through '23, equating to 2.6% rate base growth, which is consistent with mgmt.'s 2-3% guidance. For share repurchases, we assume the bulk is repurchased in 2019 (ratable from 2H19-1H20) with total cumulative share repurchases of 60mn shares by mid-20 consistent with mgmt.'s guidance through the forecast period. This equates to a 4.6% EPS CAGR through '23, at the low-end of mgmt.'s guidance range of 5-7%.

Table 2: Current EPS, Capex, and Rate Base Assumptions

	2018A	2019E	2020E	2021E	2022E	2023E
Assumed Share Repurchases						
Share Repurchases (\$Amt)	-1,042	-1,900	-750	0	0	0
Shares Repurchased	-16	-32	-12			
Ending Shares Shares	255	223	211	211	211	211
Cumulative Shares repurchased						-60
Capital Expenditure Forecast						
GMO	137	136	144	128	120	129
KCPL	431	409	433	383	359	387
WR	760	733	760	672	629	679
Total	1,328	1,278	1,338	1,183	1,107	1,196
Cumulative Capex						6,102
Combined Ending Rate Base						
KCP&L- MO	2,236	2,291	2,355	2,393	2,419	2,456
KCP&L- KS	2,699	2,766	2,843	2,890	2,921	2,967
GMO	1,937	1,964	1,998	2,013	2,020	2,036
WR	7,262	7,599	7,951	8,200	8,396	8,634
EVRG Rate Base	14,134	14,620	15,147	15,497	15,756	16,094
CAGR '18-'23						2.6%
Earned ROEs (Avg Rate Base)						
GMO	8.03%	9.85%	9.85%	9.85%	9.85%	9.85%
KCPL	6.86%	9.81%	9.93%	9.92%	9.92%	9.91%
WR	9.28%	9.71%	9.80%	9.80%	9.80%	9.83%
BofAML EPS Estimates - current assumptions	\$2.50	\$2.86	\$3.11	\$3.32	\$3.44	\$3.47
5yr CAGR (off 2019 Midpoint)						4.6%

Source: BofA Merrill Lynch Global Research estimates, company filings

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Regulatory update

With rate case stayouts until well into the 2020s, ongoing developments in the Kansas legislature and Missouri Sibley complaint are the regulatory items to watch. In our conversations, mgmt. was optimistic on the potential outcome at Sibley following supportive staff testimony as well as the eventual outcome of the Kansas SB 69 process.

Staff in Sibley complaint supportive of EVRG, ruling expected in Oct.

Mgmt. expressed optimism that the ruling expected in Oct. on the Sibley Power Station compliant will come back in the company's favor. We ascribe this optimism to recently-filed reply briefs from the Missouri Public Service Commission which found that the interveners in the complaint – the Missouri Office of Public Counsel and the Missouri Energy Consumers Group – had not met the requisite burden of proof to show that the retirement of Sibley was an extraordinary event. We had previously estimated the downside case associated with a negative ruling as translating to a ~\$0.14/sh impact on EPS. We remain confident the Sibley station will not be reopened given the ongoing generation mix shift away from coal and favorable economics for new wind projects in the region.

Kansas SB 69 progressing, phase 1 not expected until Jan '20

Kansas SB 69 passed out of the state legislature earlier this year. Under the bill, a two-phase study of utility rates will be conducted by an independent third party. The first portion of the study is expected to be completed by January 8th, 2020 with a subsequent part to be completed by July 1, 2020. The legislative council recently selected a consultant to conduct the first part of the study, which is set to focus on effectiveness of rate making practices. The council is currently working through a separate RFP for the second half of the study which will focus on rate impact of energy matters. EVRG mgmt. conducted its own study of the rate making practices under review in phase 1, and expressed confidence that the independent third party's findings are unlikely to lead to drastically different findings. Bottom line, we are less concerned on this front and do not expect any updates until the results of phase 1 are released in early 2020.

EPS Estimates: Growth via buyback, merger savings

Mgmt. highlighted that it is ahead the pace for its annual goal of \$110m in 2019, against its cumulative target of \$550m, largely through removal of redundant costs and reduction in staffing – Wolf Creek nuclear was highlighted as reducing headcount by ~28% via voluntary retirements and employee attrition. Mgmt. highlights this saving, along with the sharecount effects associated with its announced buyback (36m shs out of a target of 60m bought back to date as of the Q2 call) as being the primary levers for its target EPS growth through '23. We await updates to the PISA incremental capex plan (and associated effects on the buyback, if any) at EEI or on the Q4 investor call. Until further clarity on investment timing is provided, we maintain our EPS estimates, growing at 7-9% in '20-21 and declining thereafter as modeled share count stabilizes in '21 following completion of the buyback.

Table 3: EPS forecast – 5-6% CAGR through '22 from '19 midpoint

EPS Estimates by Subsidiary	2018A	2019E	2020E	2021E	2022E	2023E
KCP&L	\$0.76	\$1.00	\$1.13	\$1.19	\$1.20	\$1.22
GMO	\$0.35	\$0.42	\$0.47	\$0.49	\$0.49	\$0.49
Westar	\$1.58	\$1.53	\$1.76	\$1.88	\$1.93	\$1.98
Parent/Other	(\$0.19)	(\$0.10)	(\$0.24)	(\$0.23)	(\$0.19)	(\$0.22)
Combined EPS	\$2.50	\$2.84	\$3.11	\$3.32	\$3.43	\$3.47
YoY EPS Growth %		13.7%	9.4%	6.6%	3.2%	1.3%
Prior estimates	\$2.50	\$2.86	\$3.11	\$3.32	\$3.44	\$3.47
Consensus (BBG)		\$2.89	\$3.17	\$3.31	\$3.47	
DPS	\$1.84	\$1.95	\$2.07	\$2.19	\$2.30	\$2.42
Dividend Payout (60-70%)	73.52%	68.57%	66.43%	66.03%	67.17%	69.60%
EPS Trajectory (Company Guidance: 5-7% Updated)						
Low		\$2.80	\$3.05	\$3.20	\$3.36	\$3.52
Mid		\$2.90	\$3.07	\$3.26	\$3.45	\$3.66
High		\$3.00	\$3.10	\$3.32	\$3.55	\$3.80
EPS CAGR off 2019 Mid-point			7.32%	6.98%	5.71%	4.6%

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

Valuation

Our PO remains goes to \$71/sh after marking to market of the latest peer group multiple of 20.3x (previously 19.2), grossed up by 5%. We do not ascribe any value to the potential lost earnings due to deferral of Sibley cost savings given the positive developments in the ongoing complaint proceeding. Given the run up in share price of late, we see value in EVRG and maintain our Buy rating on updated \$71 PO.

Table 4: EVRG SOTP Valuation

Eversource Sum-of-the-Parts Valuation	2021 EPS	P/E Multiple					Equity Value/Sh		
		Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric			20.3x	-	-	-	-	-	-
Group EPS '18-'22 CAGR - Electric			5.00%	-	-	-	-	-	-
			21.3x	-	-	-	-	-	-
KCP&L	\$1.19	20.3x		0.0x	21.3x	22.3x	\$24.12	\$25.31	\$26.50
GMO	\$0.49	20.3x		0.0x	21.3x	22.3x	\$9.86	\$10.34	\$10.83
Westar	\$1.88	20.3x		0.0x	21.3x	22.3x	\$38.16	\$40.03	\$41.91
Parent & Other	-\$0.23	20.3x		0.0x	21.3x	22.3x	-\$4.71	-\$4.94	-\$5.17
Total Implied Utilities	\$3.32				21.4x		\$67.00	\$71.00	\$74.00
	After-tax Amount (\$mn)		\$/sh	Probability					
Deferral of Sibley cost savings	29.5		-\$0.14	0%			-\$2.97	\$0.00	\$0.00
Shares outstanding (Average 2021)	212								
Shares outstanding (Y/E 2021)	212								
EVGR Price Objective							\$64.00	\$71.00	\$74.00
EVGR Current Share Price								\$66.72	
Implied Return								6.41%	
EVGR Standalone NTM Dividend Yield								2.90%	
Total Potential Return								9.31%	

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

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Price objective basis & risk

Evergy, Inc (EVRG)

Our \$71 price objective for EVRG shares is based on sum of the parts valuation, applying an in-line utility peer 2021E P/E of 20.3x. Electric peer P/E multiple is grossed up for a year to 2019 by 5% to reflect capital appreciation across the sector.

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.

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.

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US - Electric Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	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
	Aqua America	WTR	WTR US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP 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
	Consolidated Edison	ED	ED 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
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG 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
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	CEL	CEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith

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US - Electric Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
RSTR	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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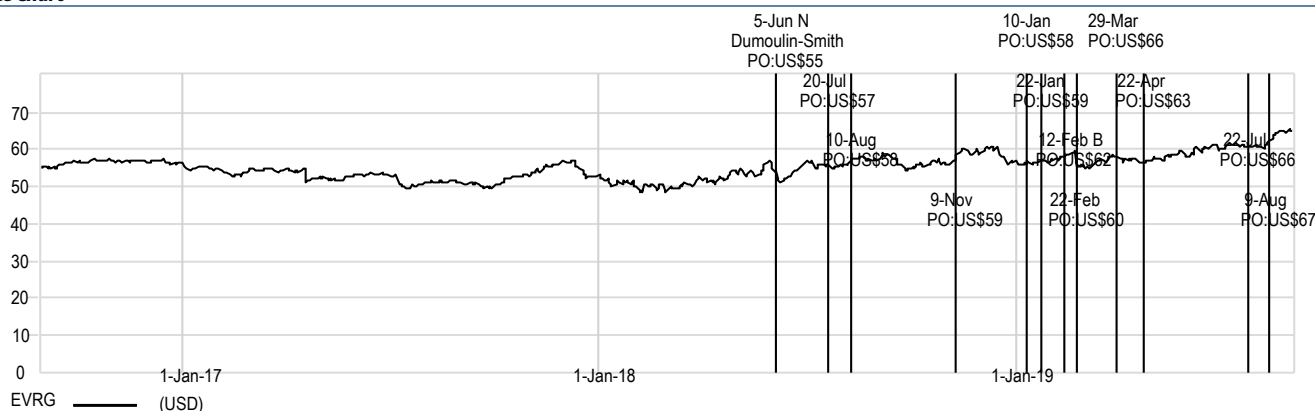
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Important Disclosures

EVRG Price Chart



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

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Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	61	44.20%	Buy	47	77.05%
Hold	42	30.43%	Hold	30	71.43%
Sell	35	25.36%	Sell	27	77.14%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1516	51.23%	Buy	942	62.14%
Hold	687	23.22%	Hold	431	62.74%
Sell	756	25.55%	Sell	380	50.26%

* 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*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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