

# US YieldCos

## Expanding Horizons for the YieldCo Structure

### Equities

Global  
Utilities

#### The globalization of the concept has positive implications for US YieldCo's

In tandem with our Global YieldCo report today, we are releasing a report focused on the implications of the globalization of the US YieldCo paradigm, enabling greater geographic and asset diversity to this nascent subsector. The move abroad could extend the 'runway' for organically developed assets as well as third party transactions. Moreover, without extensive competition amongst YieldCo's abroad yet, we sense opportunities may prove particularly accretive.

#### We anticipate the growth-oriented YieldCo concept will move abroad

Following the recent IPO of Abengoa Yield (ABY) from the global E&C developer, Abengoa (ABG), we see the prospect for further international listings of renewable companies in the US, but also the expansion of Yield acquisition scope to targets abroad. Following ABY, we see a growing attraction for assets in the Latin American markets in Brazil, Chile in particular as a result of lower renewable acquisition multiples in markets outside of the US (the average publically listed renewable vehicle in Latin America trades at ~12-13x 2015E EV/EBITDA for example). Meanwhile, the underlying question of contract quality – and long-term growth sustainability should remain a key focus, particularly in emerging markets. Moreover, many Latin American countries offer PPA contracts for conventionally ratebase infrastructure (transmission), effectively making it 'qualify' as YieldCo eligible.

#### Europeans will focus on growth areas but not necessarily through a US YieldCo

In particular, we flag the potential for Acciona to follow ABY to float a public YieldCo in the US. The bulk of Acciona's International 2.3 GW total portfolio is located in the Americas, with exposure in Europe, Australia/Asia, and Africa. Meanwhile, we do not necessarily expect other large European renewable developers in the US to follow their lead, such as Iberdrola or EDP Renováveis, given their continued caution on the sector.

#### So who's really benefitting here? Race to provide credible global growth

We see PEGI (Pattern), ABY (Abengoa Yield), and SUNE (Sun Edison) as the most likely to pursue international expansion to drive their respective growth strategies, however, caution that those domiciled in the US will likely face tax complications related to repatriation of cash for dividends (ABY is not). Meanwhile, we expect US consolidation and growth to be left to the US YieldCo stalwarts, with the lowest cost of capital, such as NYLD. The company remains only focused domestically. We also flag as up until now there has been little consternation in the YieldCo world over asset and contract quality between domestic and foreign assets.

#### What US YieldCo's do we like? We prefer acquisition structures in near term

Overall, we prefer NYLD as our vehicle of choice to capitalize on management's aggressive third-party M&A acquisition strategy. While lacking in organic pipeline clarity, management appears both keen to seize on market opportunities as well as among the most competitive cost of capital to do so. While NEP remains our preferred YieldCo structure, we see near term upside as tied to a clearer articulation of what assets are eligible to be dropped (beyond just renewables) as well as upsizing of NEE's organic pipeline expectations, rather than third-party transactions. We also reiterate our clear preference for parent sponsors, with Buy-ratings on both NEE & NRG.

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## **Can the Yield Music Keep Going? Yes, for now. *In fact, it's getting louder.***

While we remain more sober on the long-term ability of YieldCo structures to continue to 'grow' (given the finite nature of contracts and finite size of the addressable market), a shift abroad along with continued domestic consolidation opportunities will enable a continued frenzied pace of acquisitions. We see a clear argument for near-term gains on the back of further nominally 'accretive' transactions (both domestically—and abroad).

### **Appreciation bodes well for cementing industry leading position**

Rather than being more cautious on shares of the leading YieldCos, we see recent outperformance of NYLD among others as cementing their position to out-bid smaller YieldCo peers. Moreover, we see their cost of capital advantage as driving entities contemplating their own publically-traded YieldCos to sell their assets to these incumbents, rather than pursuing a competing IPO of their own. We find it quite ironic that NYLD's recent claim of a higher growth rate (to 15-18% from 10-15%) drove shares higher, enabling yet further accretive growth. We see the increase in growth rate as seemingly inevitable following the latest Alta Wind acquisition.

Overall, we see NYLD as among the most appealing near-term idea among US YieldCo structures, seeing its leading position will only cement its ability to outbid peers- and encourage potential portfolios to sell rather than list their own IPOs.

### **What about distributed generation growth? This too is likely global**

With the economics of distributed solar better abroad vs the US, we think this is a natural complement for YieldCos focused on growth abroad (we believe SunEdison's YieldCo will have some focus here). The broader question remains contract quality and investor appetite for emerging markets within entities nominally designed to limit risk – and structured with limited ability to weather cash flow variability. For existing YieldCo structures such as NRG Yield, we expect cash available for distribution (CAFD) growth to remain focused on domestic opportunities – with the key question being whether the small size of most opportunities will be enough to 'move the needle' on growth. NRG Energy, among others, are likely to focus on converting existing 'green' retail customers to distributed solar customers within their domestic footprint, as part of the next iteration of 'drop-downs'.

### **Some YieldCos are already global: a closer look at Abengoa Yield's portfolio**

#### Abengoa Yield is the international YieldCo

We recently had meetings with Abengoa management. Abengoa Yield pioneered the concept of a 'global' YieldCo. The company has stated its intention to mainly focus on North America (US and Mexico) and on South America (Chile, Brazil, and Uruguay). In addition, ABY will be developing its asset base in North Africa, the Middle East, and South Africa, although on a smaller scale. While investors may naturally have concerns about the foreign exposure, ~90% of ABY's contracts are US dollar-denominated, which mitigates forex risk and we believe that expanding abroad will be the natural extension for YieldCos as the opportunities in North America diminish over time. ABY is set up as a British corporation, which offers an advantage over US C-Corp YieldCos in the development of international assets as the structure essentially eliminates (~1%) repatriation tax.

**Peers will likely have a difficult time matching its tax-advantaged strategy of being a UK company in pursuit of a Global YieldCo.**

## Focus on Generation but also Transmission Assets

Along with the variety of geographical locations comes a diversified asset base. Indeed, besides solar (CSP, for which ABY considers it has considerable competitive advantage versus PV), wind, and conventional generation (natural gas), ABY has a strong focus on transmission, particularly in South America where it sees continued growth opportunities. In addition, the company intends to develop other routes such as water transportation and desalination, essentially becoming a 'Global Infrastructure YieldCo'. Given the asset and geographic diversity of the portfolio, the question is if it will continue to receive a discount, or if the ability for it to engage in transactions will drive an above-average growth profile.

### How does transmission work? Via a PPA Model.

In addition, ABY is committed to a 'PPA-model', meaning that it wants to keep all of its assets unregulated (even transmission) and instead rely on PPAs, rather than conventional ratebase model many US investors are familiar with. While we would not expect ABY to engage anytime soon in US transmission, it appears poised to engage in future RFPs in South America.

Below, we include Abengoa's current portfolio, ROFO assets, and additional potential targets sourced from company filings. Approximately 60% of ABY's current assets revenue comes from the ~1 GW of generation located in Southwest US and Mexico. We highlight that the 24-year average contract length is very long, even for YieldCos.

**Figure 1: Abengoa Yield's Current Assets**

Name	Type	Ownership	Location	Gross Capacity	Status	COD / Expected COD	Years Contract Left
Solana	Renewable (CSP)	100% AZ		280 MW	Operational	4Q 2013	29
Mojave	Renewable (CSP)	100% Class B CA		280 MW	Startup and Production	4Q 2014	25
ACT	Natural Gas Cogen	100% Mexico		300 MW	Operational	2Q 2013	19
ATN	Transmission Line	100% Peru		362 Miles	Operational	1Q 2011	27
ATS	Transmission Line	100% Peru		569 Miles	Operational	1Q 2014	30
Quadra 1 & Quadra 2	Transmission Line	100% Chile		81 Miles	Operational	1Q 2014 & 2Q 2014	21
Palmucho	Transmission Line	100% Chile		6 Miles	Operational	4Q 2007	23
Palmatir	Renewable (Wind)	100% Uruguay		50 MW	Operational	2Q 2014	20
Solaben 2 & Solaben 3	Renewable (CSP)	70% Spain		2x50 MW	Operational	2Q 2012 & 4Q 2012	24

Source: Company Filings

The entirety of the ROFO portfolio is located outside of the US, with a focus on South America, North Africa, and the Middle East. Again, we note the long contract lives (~24 years on average).

**Figure 2: Abengoa Yield's Expected ROFO Assets**

2015							
Name	Type	Ownership	Location	Gross Capacity	Status	COD / Expected COD	Years Contract Left
Cadonal	Renewable (Wind)	100%	Uruguay	50 MW	Construction	1Q 2015	20
Solacor 1 & 2	Renewable (CSP)	74%	Spain	2x50 MW	Operational	2012	23
Shams	Renewable (CSP)	20%	U.A.E.	100 MW	Operational	3Q 2013	25
Honaine	Water	26%	Algeria	7M ft3/day	Operational	2012	23
2016							
Name	Type	Ownership	Location	Gross Capacity	Status	COD / Expected COD	Years Contract Left
3T	Conventional Power	100%	Mexico	220 MW	Construction	4Q2016	20-25
ATN3	Transmission Line	40%	Peru	220 Miles	Construction	3Q 2016	30
Helioenergy 1 & 2	Renewable (CSP)	50%	Spain	2x50 MW	Operational	2011	23
SPP1	Conventional Power	51%	Algeria	150 MW	Operational	3Q 2011	22

Source: Company Filings

In addition to the ROFO assets, the parent company could pursue additional potential acquisitions targets for drop to ABY, as noted in the list below. We note a strong focus on Brazilian Transmission, and Solar CSP and Water in the US.

**Figure 3: Abengoa Yield's Potential Future Acquisition Targets**

Name	Type	Location	Capacity	Status
Palen	Renewable (CSP)	United States	250 MW	Development
Pahrump	Renewable (PV)	United States	90 MW	Development
Water SA(1)	Water	United States	50 million gpd	Development
Zapotillo	Water	Mexico	112 Miles	Pre-Construction
Chile Solar Tower	Renewable (CSP)	Chile	110 MW	Development
Leasing	Renewable (Wind)	Uruguay	70 MW	Pre-Construction
Manaus	Transmission Line	Brazil	364 Miles	Operational
Norte	Transmission Line	Brazil	1,476 Miles	Construction
ATE IV-VIII	Transmission Line	Brazil	354 Miles	Operational
ATE XVI-XXII	Transmission Line	Brazil	3,593 Miles	Pre-Construction
Ashalim	Renewable (CSP)	Israel	110 MW	Pre-Construction
Kaxu	Renewable (CSP)	South Africa	100 MW	Construction
Khi	Renewable (CSP)	South Africa	50 MW	Construction
Tenes	Water	Algeria	7M ft <sup>3</sup> /day	Construction
Skikda	Water	Algeria	3.5M ft <sup>3</sup> /day	Operational

Source: Company Filings

### Global, but also across asset classes too

As we've seen with Abengoa's current portfolio and ROFO assets, YieldCos do not exclusively invest in generation projects. Transmission assets with long-term contracts are also particularly popular, however more limited in opportunity set in the US seeing the ratebase/RAB model as inappropriate for the conventional YieldCo structure.

### What are the comps abroad?

To get a sense of the global landscape for renewable valuations, we compare portfolios of various publically traded entities around the world in the tables below. As expected, US valuations for renewable entities remain among the highest, with EV/EBITDA multiples in the mid to high teens and CAFD yield in the 3% range.

Unsurprisingly, US YieldCos tend to command richer valuations than their peers. This reflects the companies' superior contractual attributes, as well as the positive outlook on renewables and as well as the circular logic of continued growth. We anticipate NRG Yield will stay local: the company stated no intention to focus on regions outside of North America, at least in the near future. Abengoa on the other hand is truly a "global YieldCo", with operations in North America, South America, and Europe. Based on management comments, we see continued focus on those regions and potentially on North Africa and the Middle East through ROFO "drop-downs".

We include below an overview of US YieldCos current valuation levels and expected growth:

**Figure 4: US YieldCos Valuation Metrics and Expected Growth**

	EV/EBITDA	P/E	Div. yield	P/FCF	14-16' EBITDA CAGR
NRG Yield	12.2x	29.5x	3.3%	21.5x	23.8%
Abengoa Yield	13.1x	n/a	4.4%	21.3x	n/a
NextEra Energy Partners	18.4x	n/a	2.2%	36.9x	34.0%
TerraForm	21.1x	n/a	2.7%	31.2x	n/a
Pattern Energy Group Inc.	12.5x	31.9x	4.7%	18.3x	32.6%
<b>US</b>	<b>15.5x</b>	<b>30.7x</b>	<b>3.5%</b>	<b>25.9x</b>	<b>30.1%</b>

Source: FactSet, using current year.

The European YieldCos tend to have a lower valuation than their peers, which is explained by the lower expected growth. We point out however that most of those companies are not YieldCos properly speaking, but rather large energy companies. Again, we do not anticipate seeing additional US YieldCo listings from European utilities besides Acciona.

That being said, we could see “YieldCo-like” structures being listed in Europe: for example, we believe that Italian utility Enel could spin-off Endesa, its Iberian and Latam subsidiary, in order to focus more effectively on those growth regions. Additionally, we think that Iberdrola could divest a stake in its Spanish distribution business and turn it into a yield vehicle.

We include below an overview of relevant European comps and expected growth:

**Figure 5: European YieldCos Valuation Metrics and Expected Growth**

	EV/EBITDA	P/E	Div. yield	P/FCF	14-16' EBITDA CAGR
Renewables Infrastructure Group	n/a	n/a	5.7%	n/a	n/a
Greencoat UK Wind	n/a	n/a	6.6%	n/a	n/a
EDP Renovaveis	7.1x	24.6x	1.3%	18.6x	11.4%
Iberdrola S.A.	8.4x	14.3x	6.8%	n/a	2.9%
Acciona	8.6x	28.5x	1.3%	18.7x	4.3%
<b>Europe</b>	<b>9.9x</b>	<b>26.0x</b>	<b>4.4%</b>	<b>19.2x</b>	<b>15.9%</b>

Source: FactSet

### LatAm is the clearest expansion opportunity for US YieldCos

The high valuation levels of YieldCos in South America, namely Brazil here, reflect investors' high growth expectations for the region, as well as an environment favorable to renewables development. With that said, we expect multiples to come down over the next few years as these companies have several projects that will be coming online and that haven't fully contributed to EBITDA yet. With regards to other asset classes, we've seen Brazilian utility companies acquire small renewables assets with long-term contracts at the c. 16x P/E or 9x EBITDA, or T&D assets with long-term contracts in the c 7-8x EV/EBITDA level, with targets being typically smaller, unlisted assets.

We include below an overview of LatAm YieldCo's and Transmission company Taesa's current valuation levels and expected growth:

**Figure 6: South American YieldCos Valuation Metrics and Expected Growth**

	EV/EBITDA	P/E	Div. yield	P/FCF	14-16' EBITDA CAGR
Renova Energia	11.0x	55.7x	0.0%	27.7x	42.0%
CPFL Renovaveis	13.5x	16.3x	2.1%	n/a	23.2%
Taesa	13.0x	11.0x	8.3%	22.0x	0.0%
<b>South America</b>	<b>12.5x</b>	<b>27.7x</b>	<b>3.5%</b>	<b>24.8x</b>	<b>21.7%</b>

Source: FactSet and UBS Estimates

**Canada: Setting the Stage for Mature YieldCo Value**

The average valuation commanded by Canadian YieldCos reflects the lower growth expectations for the region. While we believe that TransAlta will continue to focus on its parent company's core market, i.e. North America, we could also see development of other regions such as Australia down the road, as long as the assets acquired are long-term contracted renewables.

We see the 5-6% yield on the more mature Canadian Income vehicles as proxies for terminal value on post-growth US YieldCos (following all drop-downs of ROFOs, etc.)

We include below an overview of Canadian YieldCos current valuation levels and expected growth:

**Figure 7: Canadian YieldCos Valuation Metrics and Expected Growth**

	EV/EBITDA	P/E	Div. yield	P/FCF	14-16' EBITDA CAGR
Algonquin Power	11.7x	20.8x	4.7%	10.2x	n/a
Boralex	8.8x	185.4x	4.1%	11.2x	10.3%
Innervex Renewable	14.7x	55.5x	5.7%	16.1x	9.7%
TransAlta Renewables	11.0x	27.4x	6.1%	13.6x	-2.5%
Brookfield Renewable Energy Partners	10.9x	51.5x	5.4%	n/a	5.8%
<b>Canada</b>	<b>11.4x</b>	<b>68.1x</b>	<b>5.2%</b>	<b>12.8x</b>	<b>5.8%</b>
<b>Global Average</b>	<b>12.2x</b>	<b>33.6x</b>	<b>4.8%</b>	<b>20.8x</b>	<b>14.8%</b>

Source: FactSet

## Reviewing the US portfolios to date

We also include a list of existing YieldCo structures in the table below:

**Figure 13: US YieldCos Snapshot**

Comparison of YieldCos	NRG Yield	Abengoa Yield	NextEra Energy Partners	TerraForm Power	Pattern Energy Group Inc.
<b>Background Info:</b>					
Related Entity	NRG Energy	Abengoa	NextEra Energy	SunEdison	Riverstone Holdings
Parent Market Cap (\$Mn)	\$12,495	\$2,085	\$43,080	\$6,066	n/a
IPO Date	Jul-13	Jun-14	Jun-14	n/a	Oct-13
IPO Price	\$22.00	\$26.00	\$25.00	\$25.00	\$22.00
Current Price (06/27/2014)	\$51.69	\$39.90	\$34.50	\$33.09	\$32.34
Performance since IPO	135%	53%	38%	32%	47%
Current Market Cap (\$Mn)	\$3,373	\$3,192	\$3,213	\$3,343	\$1,658
Current Enterprise Value (\$Mn)	\$4,263	\$5,992	\$4,608	\$4,081	\$3,258
Fwd. EV/EBITDA (FactSet)	12.2x	13.1x	18.4x	21.1x	12.5x
Fwd. P/E (FactSet)	29.5x	n/a	n/a	n/a	31.9x
Fwd. P/FCF (FactSet)	21.5x	21.3x	36.9x	31.2x	18.3x
Fwd. EV/current MW	2.9x	6.1x	4.7x	5.0x	2.6x
<b>YieldCo Portfolio:</b>					
Wind	100	50	699	-	1,255
Solar	313	630	290	808	-
Other Renewables	-	-	-	-	-
Conventional	1,033	300	-	-	-
Total Current Capacity (MW)	1,446	980	989	808	1,255
Other Types of Asset?	Thermal	Transmission, Water	No	No	No
Geography	US (100%)	USA, Mexico, Peru, Chile, Uruguay, Spain	US (75%), Canada (25%)	US (69%), Chile (13%), Canada (5%), UK (13%)	US (70%), Canada (27%), Chile (3%)
Contract Tenor (years)	16	26	21	18	18
Tax 'Runway' (Years)	~10 Years	n/a	~15 (US); ~7 (Canada)	~10 Years (US)	n/a
Follow-on Portfolio (MW)	1,059	480	1,549	1,076	828
Total Portfolio (MW)	2,505	1,460	2,538	1,884	2,083
Ratio of Follow-On to Current	0.7x	0.5x	1.6x	1.3x	0.7x
Follow-on Portfolio Mechanism	ROFO	'Perpetual ROFO'	ROFO	'Call Rights' Project and 6-year ROFO	ROFO
<b>Financial Metrics</b>					
Compound 3Yr CAFD Target	15-18% 5Yr Target	Low double digits	12-15%	15%	8-10%
Run-rate Adj EBITDA	\$510.9Mn in 2015 (FactSet)	\$458Mn (Mgmt 2016 Est.)	\$250Mn (Mgmt 14-15 Est.)	\$193Mn (Mgmt. 2015 Est.)	\$348Mn in 2015 (FactSet)
Dividend Policy	~90% Payout	~90% payout	80% payout	85% payout	~80% Payout
Fwd. Dividend	\$1.71 in 2015 (FactSet)	\$1.68 in 2016 (Mgmt)	\$0.75 (Mgmt. 2015 Est.)	\$0.90 (Mgmt. 2015 Est.)	\$1.53 in 2015 (FactSet)
Fwd. Dividend Yield	3.3%	4.2%	2.2%	2.7%	4.7%
<b>Sponsor Entity:</b>					
Parent Ownership Interest (%)	~65.5%	69%	~80%	~62% in B shares	~63%
Parent Pipeline (MW)	~1,600	~780 and other assets	~6,800	~3,600	~3,000
Primary Technology	Wind and Natural Gas	Diverse	Wind	Solar	Wind
<b>Other:</b>					
Legal Entity	Corporation	British Corporation	Partnership	Corporation	Corporation
Incentive Distribution Rights (IDRs)?	No	No	Yes	Yes	No

Source: Company Filings and SNL

## What is the next potential YieldCo to come next? A deeper dive into the Acciona portfolio

We see credibility in particular for Acciona to float a public YieldCo in the US to capture the market's demand. We flag KKR recently paid €417 Mn for a one third stake in its International Subsidiary (AEI), translating to a 7.6x trailing EV/EBITDA multiple and a ~10.4% trailing CAFD yield. The bulk of AEI's 2.3 GW total capacity is located in the Americas, with exposure in Europe, Australia/Asia, and Africa. Acciona and KKR stated their intention to form a global YieldCo in the near future. In 2013, AEI generated approximately 50% its €500 Mn of revenue in US dollars. EBITDA and CAFD amounted to €350 Mn and €130 Mn over the same period, respectively. We include below an overview of the assets held within the Acciona portfolio:

**Figure 13: Acciona Energy International (AEI) Assets**

	Wind Capacity (MW)	Solar Capacity (MW)	Energy Produced (GWh)
US	481	68	2,118
Mexico	556	-	1,863
Canada	93	-	554
Costa Rica	42	-	
<b>Americas Subtotal</b>	<b>1,172</b>	<b>68</b>	<b>4,535</b>
Italy	156	-	236
Germany	150	-	243
Portugal	119	46	321
Poland	71	-	108
Greece	48	-	125
Croatia	30	-	65
Hungary	24	-	50
<b>Europe ex Spain Subtotal</b>	<b>598</b>	<b>46</b>	<b>1,148</b>
Australia	305	-	1,010
India	86	-	246
South Korea	62	-	205
<b>Asia and Oceania Subtotal</b>	<b>453</b>	<b>-</b>	<b>1,461</b>
<b>Total</b>	<b>2,223</b>	<b>114</b>	<b>7,144</b>

Source: Company Filings and SNL

We also include a more detailed list of the assets located in the US and Canada:

**Figure 14: AEI US and Canadian Assets**

Plant Name	Location	Ownership	Owned Capacity	Status	Fuel Type	COD	NERC region	PPA Counterparty	PPA Expiration
Big Smile Wind Farm	OK	100.0	132	Operating	Wind	2012	SPP	n/a	n/a
Chin Chute Wind	Alberta	33.3	10	Operating	Wind	2006	WECC	n/a	n/a
EcoGrove Wind	IL	100.0	100.5	Operating	Wind	2009	RFC	New Brunswick Power	Mar-36
Lameque Wind Farm	New Brunswick	100.0	45	Operating	Wind	2011	NPCC	Enbridge	n/a
Red Hills Farm	OK	100.0	123	Operating	Wind	2008	SPP, TRE	Ontario Power Authority	Dec-27
Ripley Wind Project	Ontario	50.0	38	Operating	Wind	2007	NPCC	n/a	n/a
Tatanka Wind	ND	63.0	113.4	Operating	Wind	2008	MRO	n/a	n/a
Velva	ND	100.0	11.9	Operating	Wind	2005	MRO	Northern States Power	Dec-25
Nevada Solar One	NV	100.0	68.5	Operating	Solar	2007	WECC	Nevada Power and Sierra Pacific	Jun-27
<b>Total</b>			<b>642.3</b>						

Source: SNL



## Ways to Play the YieldCo Theme: Key Stocks

Overall, we remain biased to own the parent companies of the YieldCo ('sponsors'), than the YieldCo themselves. We emphasize that the search for yield is usually a misnomer for the 'YieldCo' thesis, with most of the contemplated entities promising substantially above-average growth as their primary value proposition. Rather, these entities are neither high-yield (in fact they are among the lowest in the sector), nor necessarily low risk given the substantial capital markets exposure involved. Among the YieldCos themselves, we prefer NYLD given the clear bias for management to pursue third-party transactions to deliver above-promised dividend growth, however emphasize it has the most significant risk profile given the more limited tenor of visibility around future drop downs from its parent,

**We tend to prefer to own parent structures to YieldCo's, than the YieldCo's themselves**

We reiterate our Buy ratings on the two covered US parent sponsors for the YieldCo structures: NEE and NRG.

### NextEra (NEE) – The Preeminent Renewable Developer

We reiterate our view that NextEra and its corresponding YieldCo, NextEra Energy Partners (NEP) are among the most credible growth platforms among peers. We see NEP's contemplated 12-15% distribution growth as sustainable through the 5-year period. However, the real value remains tied to the organic renewable development at NEE, which will feed growth at NEP. We reiterate our belief that the pace of US wind development will exceed many investor expectations, putting an upward bias on NEE's consolidated EPS guidance range of \$5.50-6.00 (we are well ahead at ~\$6.40/sh).

### NRG Energy (NRG) – Poised to Acquire the Most?

There is a clear bias towards M&A to grow in the US and, since we suspect NEP will participate in third-party transactions to a much more limited degree, we believe NRG and its YieldCo, NRG Yield (NYLD), will continue to win portfolio deals as it seeks to consolidate up the sector. We see the opportunity to accretively grow and acquire development businesses at the NRG parent level will both prove attractive to shareholders as well as provide greater transparency to its more limited pipeline of organic projects. We look for updates on NRG's solar strategy in the coming months, with a focus on both its incumbent retail position across several key solar states (NY, CT, and TX) as well as nascent efforts to grow its distributed generation (DG) business more broadly to commercial customers.

**NYLD's acquisitive strategy has enabled meaningful growth thus far for both entities**

### Abengoa Yield (ABY, not rated) – Will It Capture the International Arbitrage?

Among the primary beneficiaries of the theme in our latest note focusing on capturing a cost of capital arbitrage is Abengoa Yield, which is poised to benefit from both its parent company's international pipeline of developments assets as well as global acquisitions of third-party assets. Notably, we see an emphasis on Latin American opportunities given the high cost of capital for incumbents there. In particular, management has stated an interest in participating in transmission RFPs, with a focus on regulated utility assets structured under PPA agreements.

## Sun Edison (SUNE)

An interesting play recently has been US based solar developer SunEdison which recently accomplished its own YieldCo spin-off, TerraForm Power (TERP). First off, with a 15% dividend growth CAGR and a \$175M cash flow growth agreement with SUNE, we believe that TERP's structure and relationship with SUNE positions itself for strong dividend and asset growth in the near and medium term. More importantly, we believe that the TERP vehicle will give SunEdison a significant edge in an increasingly competitive field of solar developers, giving SUNE a 'premium currency' with which to become a force in both organic growth as well as the acquisition of development/operating assets from third-party developers. We also see TERP's position as a global YieldCo, with assets in Canada, UK, Chile, and the US, as leading to future opportunities to finance an increasing portion of projects through the YieldCo vehicle, providing future deployment and profit gains through cost of capital reduction.

### **Statement of Risk**

Risks for global YieldCo utilities include: adverse changes to local regulations, legislation or taxation. Any lack of ability to enforce contractual undertakings. Higher-than-expected costs of capital. Restrictions on the ability to move money from international investments to fund corporate needs including dividend payments.

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UBS 12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	FSR is > 6% above the MRA.	48%	33%
Neutral	FSR is between -6% and 6% of the MRA.	41%	30%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 30 June 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

**KEY DEFINITIONS:** **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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**UBS Securities LLC:** Julien Dumoulin-Smith; Stephen Chin; Paul Zimbardo; Michael Weinstein.

## Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>NextEra Energy</b> <sup>6, 16</sup>	NEE.N	Buy	N/A	US\$98.49	23 Jul 2014
<b>NextEra Energy Partners LP</b> <sup>2, 4, 5, 16</sup>	NEP.N	Neutral	N/A	US\$35.42	23 Jul 2014
<b>NRG Energy Inc.</b> <sup>16</sup>	NRG.N	Buy	N/A	US\$31.58	23 Jul 2014
<b>NRG Yield</b> <sup>16</sup>	NYLD.N	Neutral	N/A	US\$54.38	23 Jul 2014
<b>SunEdison Inc.</b> <sup>16</sup>	SUNE.N	Buy	N/A	US\$21.66	23 Jul 2014

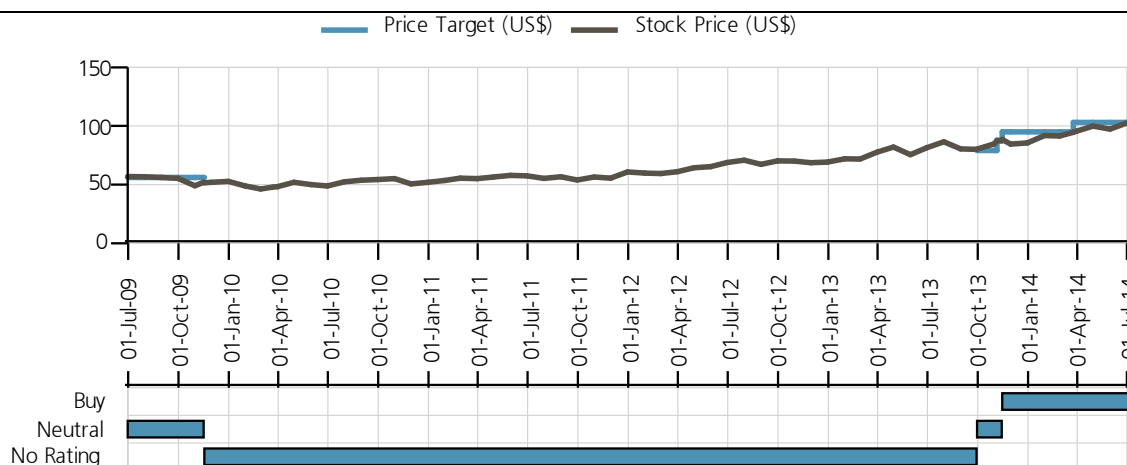
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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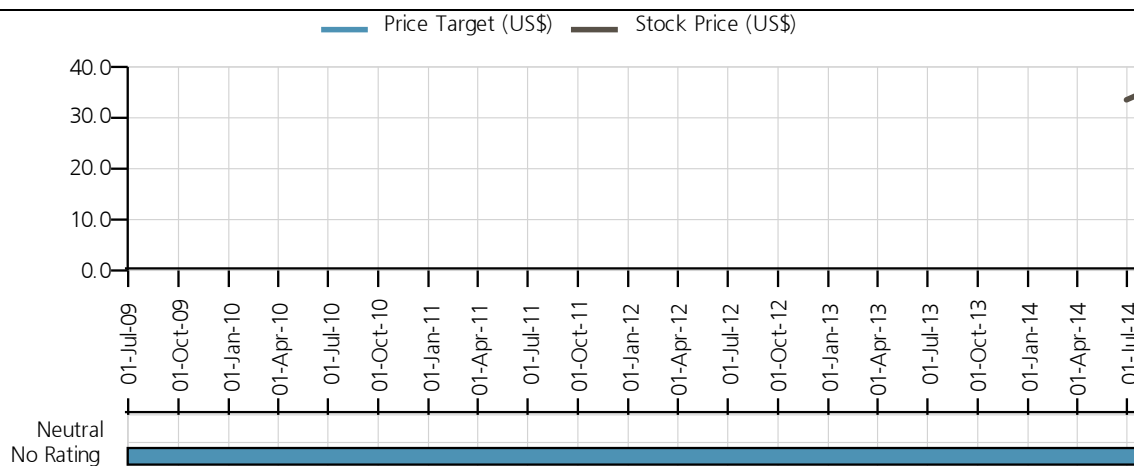
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

## NextEra Energy (US\$)



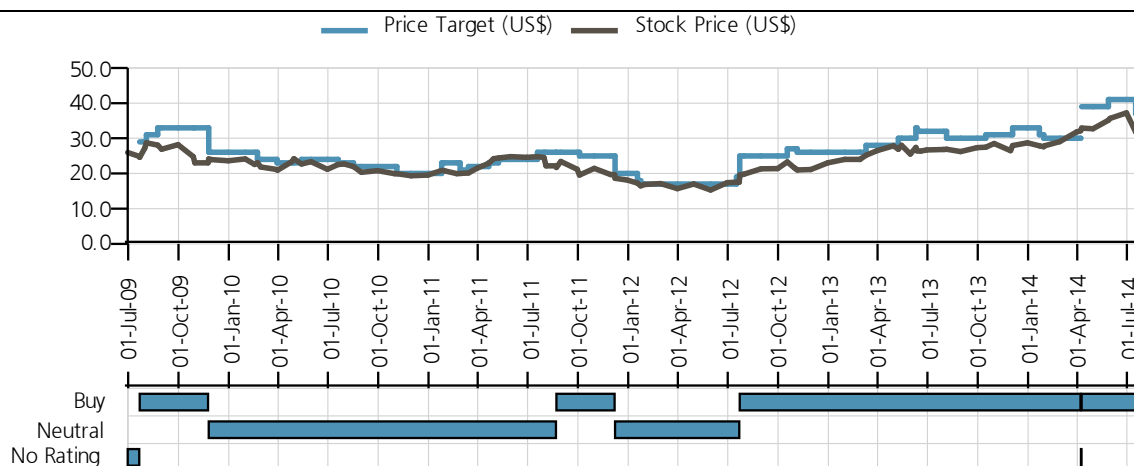
Source: UBS; as of 23 Jul 2014

## NextEra Energy Partners LP (US\$)



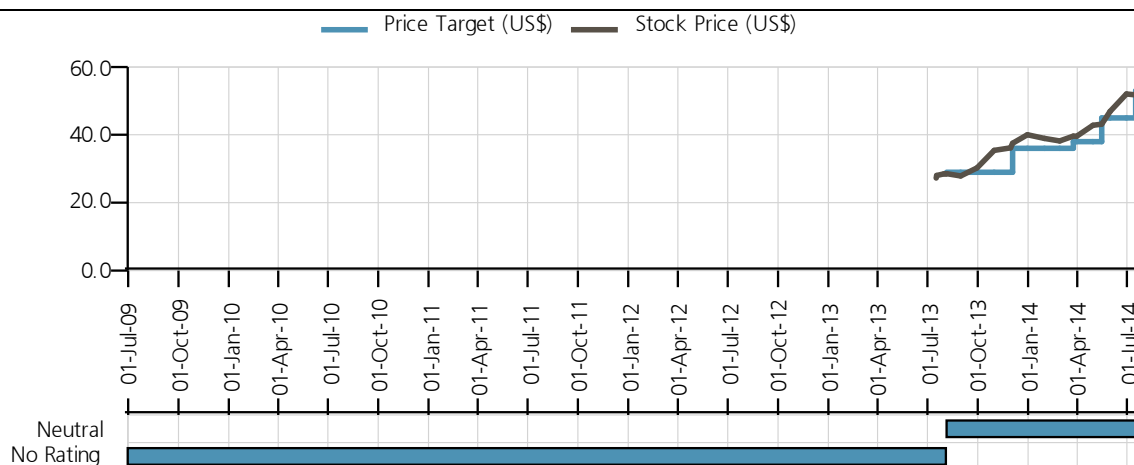
Source: UBS; as of 23 Jul 2014

## NRG Energy Inc. (US\$)



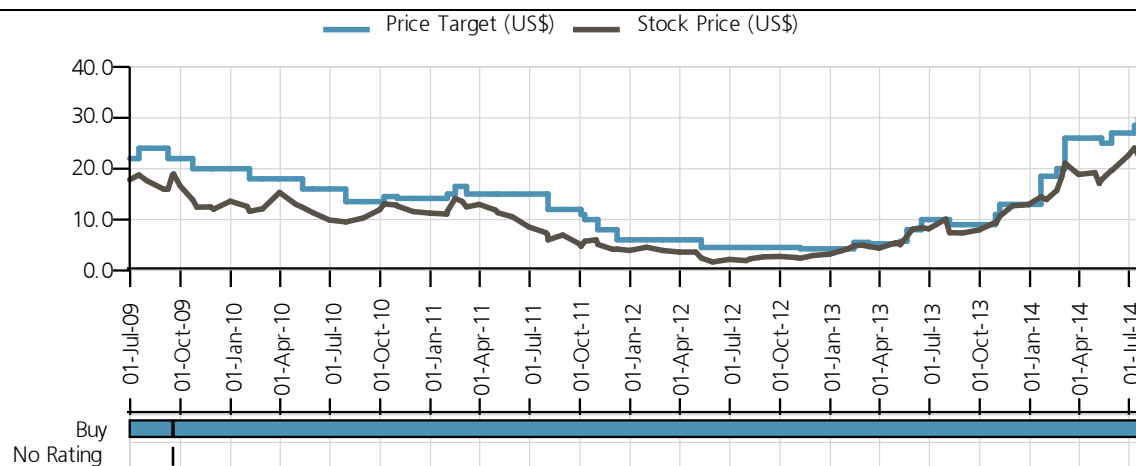
Source: UBS; as of 23 Jul 2014

## NRG Yield (US\$)



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# SunEdison Inc. (US\$)



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