US Solar Flash

Is the Latest Solar Distress Comparable?

Equities

Americas
Electric Utilities

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SolarCity issues are not those of SunEdison, just a bit related

Investor continue to ask why SolarCity is not the next SunEdison (SUNE declared bankruptcy in April), we believe SCTY is different for a variety of reasons: (1) more modest scale without significant M&A; (2) more flexible cost structure; (3) retention of operating projects and the associated cash flows; (4) and less financial leverage. So what is similar? Extensive use of convertible debt, ongoing free cash flow negative business development, and challenging commercial deployment all warrant further analysis, but SolarCity's ability to scale the sales force and other variable costs as needed suggest the company needs to bring costs under control and execute transactions with attractive valuations for operating assets. Execution on cost roadmap remains the critical variable given the inflation of late associated with 'regulatory uncertainty'. We think SCTY differs in two major ways: 1) the bulk of its resi signups are not immediately sensitive counterparty risk, and hence financial volatility does not directly interfere with ability to garner new customers, in contrast to utility-scale and commercial efforts—SCTY remains the most credible in the sector; and 2) development pipeline is short, such that ability to ramp/cut back spending is on a short life cycle enabling the company to be in theory nimble. The key question under this context is how fixed DevCo cost structure ramps down and up in tandem.

SCTY: How to read the latest gyrations?

Following 1Q results we think the story will largely migrate back towards financing and equity asset selldown datapoints which could be positive developments; however, investors are significantly bearish. While datapoints in AZ are always possible given ongoing Net Energy Meting (NEM) reforms – and now real mediation efforts underway – we emphasize the next most tangible developments are tied to the Tucson electric rate case outcome potentially in July (still likely modest negative vs. limited solar investor expectations). November ACC elections will also be important but expect a much quieter election season than the last cycle. Other datapoints on trends in volumes are also important as SCTY commits to reaccelerate its efforts once more to get back on track.

Terraform Power (TERP) delays again; TerraForm GLBL receives default notice

Following the latest deadline extension for FY and Q1 audited financial statements (to May 28), TERP noted several further developments which highlight ongoing uncertainties at the company. Most recent 10-K/Q extension for revolver lenders requires maximum applicable interest expense, which could be up to ~$34M assuming fully drawn (which we consider a likely scenario after recent acquisitions). Additionally, the company highlighted new material weaknesses in several areas including valuation of costs of projects acquired from SunEdison and controls over restricted cash classification. We see increased risk regarding "cash traps" as particularly concerning as up to ~50% of CAFD may be subject to potential cash traps in the event of a technical default – which could severely limit cash capture at the TERP parent level. We also note a May 16 deadline for Nasdaq compliance plan, which will likely extend delisting deadline out to September 12. Separately at TerraForm Global (GLBL) bond holders issued a notice of default on its $800Mn 9.75% 2022 debt for the failure to file timely financial statements – a similar situation is a risk at TerraForm Power as well. GLBL believes the notice of default is premature

PEGI Read-throughs: Continued Strength in Wind

The recent Pattern Energy (PEG) earnings call reaffirmed our belief that wind will continue to represent a disproportionate share of new generation going forward. IRS guidance on PTC extension continues to be in focus and management highlighted the potential for even more wind development as solar continues to work through some industry challenges as the segment matures.

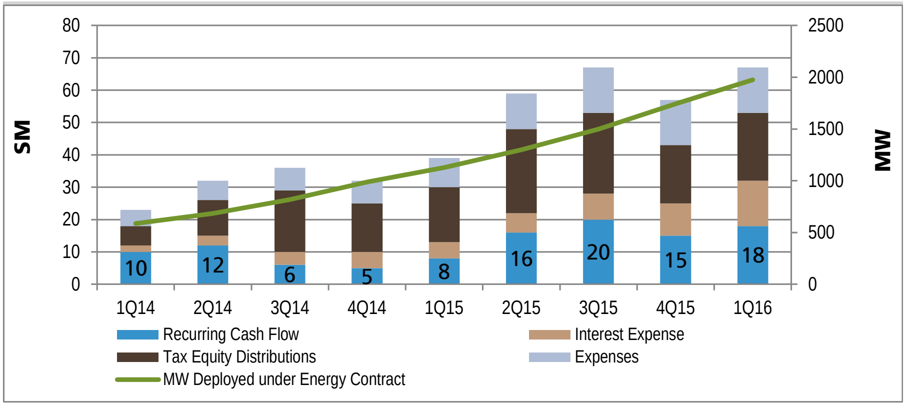
SolarCity: Feedback Post Q1

We continue to receive a considerable number of questions on SCTY and note increasing investor interest on interest expense, cash generation, and path forward for the company. We have provided a few key points below. Our recent post-earnings analysis is here.

Investor sentiment on SolarCity has been negative following its earnings call.

SCTY recently provided details around ~$69M of PowerCo cash generation over the last twelve months provide some insight into the existing operating assets but we note this does not include a variety of ongoing DevCo corporate expenses.

Figure 1: Powerco Trailing Cash Generation



Source: Company Filings, UBSe

How do we think about ongoing viability ex-Devo: Can it service recourse interest expense?

Recourse interest expense appears to be largely supported by ongoing PowerCo cashflows; however, the current debt maturity profile has material obligations in 2019 which poses a challenge. If management were to cut costs at its development company it could reduce the overall cash burn and improve the outlook.

Figure 2: Illustrative Ability of Powerco to Service Parent Debt

	Revolver	Vehicle and other loans	2.75% Converts	1.625% Converts	Zero Coupon Converts	Solar Bonds	
Principal ($M)	$375	$21	$230	$566	$113	$217	
Cost of Debt (%)	3.7 to 5.8%	2.5 to 7.6%	2.80%	1.60%	0	1.1-5.8%	
Midpoint	4.75%	5.05%	2.80%	1.60%	0.00%	3.45%	**Total Yearly**
Yearly Expense	$17.8	$1.0	$6.4	$9.1	$0.0	$7.5	**$41.8**
				UBSe Levered Powerco Cash Flow ($M)			**$77**
				Net 2016e Cash Flow After Debt Service ($M)			**$35**

Note: No sales expense factored in; this illustrates ability of powerco to service parent debt: = (powerco) - (parent debt service)

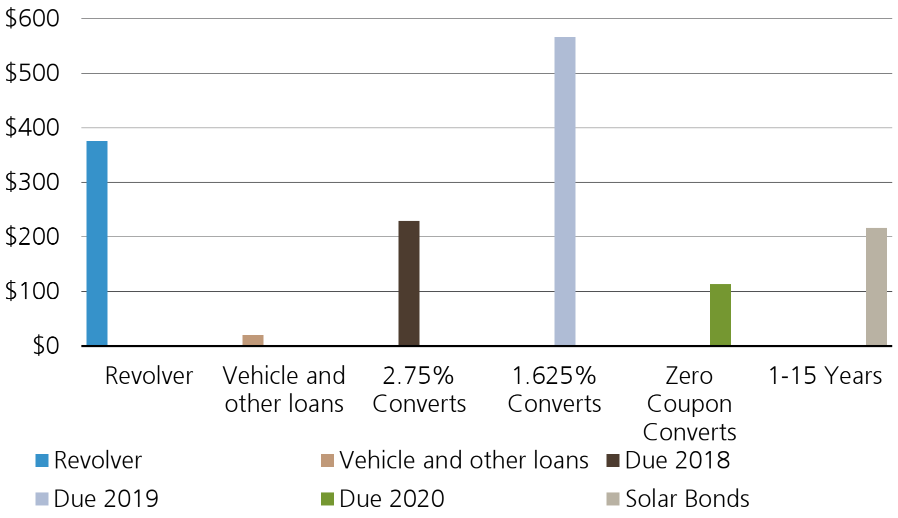
Source: Company Filings, UBSe

What is the maturity profile? Relatively clean in near-term

The current recourse debt profile is shown below. While we see room for the company to refinance debt down the road as needed, the low interest rates on outstanding converts suggest another layer of interest rate sensitivity in the future.

Replacing revolver borrowings with long-term debt will increase financing costs but reduce interest rate sensitivity.

Figure 3: Q1 Reported Recourse Debt Profile ($Mn)



Source: Company Filings, UBSe

Sales cost trends remain the most concerning datapoint

We highlight the company's sales calculations and implied ~$166M of cash sales cost in Q1. Sales cost is one of the most variable costs of any business but we have observed a mismatch between ongoing cash generation and expenses. We note this has been among our principal concerns in the sector as competition. The question also remains reconciling booked-to-installed MWs through installation and construction cycle.

Figure 4: SCTY Sales Calculation

Direct Sales Cost		Capitalized Sales Cost	
Sales and marketing Expenses	126	Total Capitalized Sales Costs	51
-S&M Stock Comp	-8		
-S&M Amortization	-3	Operating Lease MW	196
=Sales and marketing cost	115	+MyPower MW Installed	11
/MW booked	160	/Total Energy contract MW installed	207
=Sales and marketing cost per watt	$0.72	=Capitalized sales cost per watt	$0.25
Total Sales Cost	**$0.97**		

Source: Company Filings, UBSe

Terraform Update: Stumbling through Challenges

Another deadline, another extension

TERP once again extended the deadline for filing year-end 2015 audited financial statements (for purposes of the revolver) to May 28, 2016 on May 10th. The amendment also requires preliminary Q1 financial information submission to lenders and fulfillment of the Nasdaq compliance plan (deadline May 16). Further, the amendment requires maximum applicable interest rate calculation, which implies a maximum of 4.75% (based on Eurodollar base rate of 2.25% plus margin of 2.5% as outlined in the last 10-Q). This implies annualized interest expense (until financial statements are filed) of $34.4M on the revolver, assuming the facility has been fully drawn.

TERP filed a 'notification for late quarterly filing' NT-10Q on May 11, which was generally expected but included several notable items:

- 1.3GW of additions YoY since 1Q15 which implies 3GW of assets currently operating. The bulk of the addition relates to the 930MW Invenergy transaction but management has opted to not include a detailed listing of assets in its latest disclosures. As of 9/30/15 (last filed 10Q) TERP had $580.3Mn of "Commitments to Acquire Renewable Energy Facilities from SunEdison" as investors continue to lack transparency as to exactly what assets have been purchased since 9/30 and the liquidity situation. Further details are in our April 4th note 'Valuing Life Without SunEdison' and below in the Comanche section.

- In another expected disclosure, TERP stated that that SUNE may be unable to complete its internal investigation and the "remedial actions" which would have an adverse impact on TERP. Due to the reliance on SunEdison's systems and personnel, TERP believes it could take "substantial time and resources" to complete its YE2015 audit.

Operationally TERP was not an independent entity from SUNE – this could have further implications in SunEdison's bankruptcy proceeding.

- TerraForm identified more material weaknesses over internal controls as the auditors continue their review including the ERP systems, process for validating revenue recognition, processing of accounts payable and G&A, controls over account reconciliations / restricted cash classification, and material weakness in valuation of costs of projects acquired from SunEdison.

TERP has identified material control weaknesses over substantially key accounting systems which casts a cloud over past disclosures.

Separately, TERP has until May 16 to file a compliance plan with NASDAQ or risk delisting. We expect the company will take this route and could be granted up to 180 days (September 12) to file updated financial statements and regain compliance at least temporarily.

Cash traps could put ~50% of project cash flows at risk

Investors continue to be concerned about potential "cash traps" at the project subsidiary levels in the event of a technical default. Moody's estimates ~50% of TERP cash flow comes from projects that have project level debt and any outstanding issues at the revolver or elsewhere could trigger project level cash traps (where the parent would not receive dividends from the subsidiary). While the company could seek waivers in this event this would likely involve additional restrictions and costs, particularly if any of the projects are underperforming. **If TerraForm has limitations on its ability to distribute cash to the parent this could have a materially negative impact on the distributable cash flows.**

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Comanche Solar: Still on the Hook but looking for an out

The 120MW Comanche Solar project in Colorado remains on the horizon with scheduled June COD and puttable option to TERP. SUNE received FERC approval on April 21 to sell interests in the Comanche project to one of three potential buyers: Terraform, IIF US Holding, Wells Fargo, or some combination thereof. More recent filings indicate Bank of America's "BALIA" subsidiary has applied to partner with First Reserve on the tax equity portion of the Comanche project, which will remove SUNE as a party to the transaction by June 13, 2016 (in order to receive tax benefits). If the holding company or Wells Fargo acquired Comanche this would be a positive as we believe the Comanche transaction with TerraForm would be dilutive based upon the disclosed transaction obligation.

Bottom Line: We are still concerned

GLBL default notice is a very cautious datapoint for TERP investors.

Management has indicated that they expect to provide incremental disclosures in the next few weeks, perhaps in the form of unaudited financial statements, we remain cautious of ongoing uncertainties. Based upon TERP's NT-10Q and other SEC filings it appears that the 2015 audited financial statements may not be available for quite some time. The longer the process takes the more pressure shares will be under from investors as further questions about the uncertainty grow. Additionally TERP has not paid a dividend since December 2015 so investors are not being paid to wait.

Yet another revolver deadline extension (with more onerous terms) suggests the cash trap issue in particular could prove troubling or expensive in that scenario. Management remains focused on debt paydown and de-leveraging but again there is no transparency into whether action has been taken. Moreover, with investors in TERP keen to see the assets divested out of the SUNE bankruptcy, we caution many players in the market continue to apply high discount rates to the substantial portion of SRECs derived from the TERP portfolio, the highest of any YieldCo peer.

What about the wider YieldCo sector? We're increasingly constructive.

We are increasingly open to the sector, emphasizing the pullback in NYLD as among the best opportunities in the sector. While we agree with a potential discrepancy between public and private valuations, we note that equities such as TERP would not be as eligible to benefit from this trend given the sizable portion of value derived from the SREC market. We see few private players as willing to place much value on uncontracted values given the regulatory risk. This remains a key misunderstood element to the bull case.

SunRun Bucks the Trend – No Change to Guidance

On Thursday SunRun reported 60MW of deployments in the quarter compared to guidance of 56MW, up 63% YoY. This is in contrast to recent negative revisions at competitors SCTY and VSLR which has caused a general reduction in investor expectations more broadly. Cost increases were in-line with the historical trend due to cost increases within the sales line (from $0.64/w to $1.13/w). 2Q16 guidance of 60MW implies ~165MW in 2H16 (given FY guide of 285MW), or ~38% increase versus the comparable period. Additionally, management stressed access to capital is robust, with tax equity into Q1 2017 and back leverage capacity through Q2 2017.

Access to capital continues to be a key question for residential solar installers and RUN's datapoints should help to ease broader concerns.

Tax equity selldown – constructive datapoint for resi market.

Also of note was the company's ~$110M tax equity monetization fund with a 6.9% unlevered WACC (6.5 year debt at 3.5% and equity return at 8.8%), which monetized 100% of 20-year contracted cash flows plus 2 years of renewals; however, the company did not disclose what the aggregate MW capacity of the portfolio. The key discrepancy on this WACC is the limited duration of the underlying debt and hence a bit of a duration mismatch (6.5 years relative to 20-years of the deal) as investors react to the ~8+% unlevered return disclosed by SCTY on its latest equity monetization (for a 20-year period). RUN also added $90Mn to its aggregation facility involving two international banks. Access to capital continues to be a key question for residential solar installers and RUN's datapoints should help to ease broader concerns.

Breaking down RUN's 6.9% compared to SCTY's 8% unlevered selldown requires further scrutiny as duration mismatch appears the key to comparison

Once Again, Bookings Shortfall Matters – Regulatory Concerns to Blame?

Similar to SCTY, sales cost per watt increased in large part to Q1 bookings decline (From 79.6MW in Q4 to 43.4MW plus 12.8MW due to Nevada cancelations in Q1). Now that all three residential installers have reported earnings we note a consistent message of weak bookings in light of consumer regulatory concerns. Both SunRun and Solar City noted regulatory overhangs in states such as California, Massachusetts, New York, and New Hampshire as contributors to bookings drag. RUN suggested this as a relatively normal ebb and flow of consumer demand in the face of uncertainty, and suggested 30% CAGR over next 10 years is achievable for RUN. We note upcoming shift to NEM 2.0 in California suggests uncertainty is unlikely to abate completely, while management suggested the framework is positive and sales training will offset decline.

We note a consistent message of weak bookings in light of consumer regulatory concerns

But Still, a Focus on Costs

Given cost increases in the quarter, the company focused on cost cutting possibilities several times and highlighted no need for incremental market expansion, and ability to cut highest cost sales channels. The company also highlighted potential revenue benefit from slight uptick in PPA pricing in the quarter.

Balancing growth and profitability continues to be a challenge in the residential solar industry.

More Evidence of A Gradual Shift to Cash Loan/Sales

Although management stated that PPAs continue to dominate installations and highlighted consumer benefits from leases on the call, some data suggests incremental evidence of increasing interest in cash sales and loan products, which the company expects to increase from ~15% to 20% of deployments exiting this year. Management suggested this is more related to 'different marketing channels'

although partnerships with Constellation and NRG are not currently factored into Q2 guidance.

Pattern Energy Group

PTC Runway Could Allow Larger Wind, Smoothed Demand

PEGI's expectations for wind development are similar to statements from Southern Company, Consolidated Edison, and others who see a growing focus on wind opportunities versus solar.

On May 5, the IRS issued guidance effectively allowing a four year runway to qualify for the PTC without having to document that the work was continuous (up from the prior two years afforded to qualify for the safe harbor), as long as projects have 'significant' physical work started or 5% of project cost incurred (including turbines with a 3.5 month leeway period to take delivery - relevant if ordered at year end). Specifically, the value of new wind equipment must be 4x the retained value on a turbine by turbine basis; however, turbines can be grouped together on project sites for the 5% test (so all retrofitted turbines can qualify if aggregate spend at a wind farm meets the 5% threshold for PTC qualification).

In PEGI's case, the IRS guidance allows the company to extend the period of time to complete the projects / buy turbines and qualify for 100% of the PTC. Additionally, management highlighted opportunities to initiate larger project development that may take longer than two years to construct. The company also expects the extension to result in a 'smoothing out' of demand over the next four years. Further, we expect this guidance to drive a new wave of repowerings particularly in light of multi-year runway on top of gradual ITC stepdown. **PEGI's expectations for wind development are similar to statements from Southern Company, Consolidated Edison, and others who see a growing focus on wind opportunities versus solar.**

Solar Bidding Still Tight

Given the tightness in the solar bidding market, mgmt. sees their target portfolio mix of 80%-20% wind-to-solar shifting away from solar. The company is currently examining some of the SUNE assets for sale, but did not suggest that distressed assets are having a significant negative effect on the market. In fact, relatively competitive solar has shifted focus to internal development.

Shifting the Focus from El Nino to La Nina

Pattern Energy Group reported ~10% lower wind production compared to mgmt's long-term average as a result of El Nino, which was anticipated. As mentioned during their conference call in May, the adverse wind conditions will continue to impact production levels through the second quarter as well. **Management cited research from their meteorological team regarding the likely switch to La Nina which could result in higher production** than the aforementioned long-term average for 2H16 and into 2017. The company's FY 2016 cash available for distribution (CAFD) takes into account the Q1 and Q2 impact of lower wind levels. Additionally, mgmt's full-year guidance assumes production and wind speeds at the long-term average during 2H16. We also note PEGI's Texas hedges are swaps.

Higher wind levels positive for NEP and NYLD

A number of companies under our coverage universe have entered the wind generation business. AEP, Dominion, NYLD and NEE are just a few among many that have invested in capital projects or engaged in PPAs to generate wind energy. PEGI's overarching expectation of higher wind levels for the rest of this year may drive up earnings for these companies. Coupled with efforts by companies to penetrate wind markets, given the wave of legislative and regulatory mandates to increase renewable generation as a percentage of the total energy mix, <u>we see companies with wind assets and PPAs as well-positioned in the space.</u>

Below we show the regional exposure for NEP, and NYLD's wind portfolios. 21% of NEP's wind assets are in Texas, where average wind speeds were faster by 4% from the previous quarter (1Q16 vs. 4Q15). For NYLD, the largest chunk of their wind portfolio (47%) is in CA, which experienced 22% growth from the previous quarter.

Figure 4: NEP Wind Portfolio

State	MWs	% of Portfolio
ND	165	14%
Ontario	185	16%
OK	216	18%
CO	30	3%
TX	250	**21%**
AZ	17	1%
OR	123	10%
WA	177	15%
MI	21	2%
Total	1184	

Source: SNL Financial, UBSe

Figure 5: NYLD Wind Portfolio

State	MWs	% of Portfolio
CA	948	**47%**
TX	425	21%
CO	56	3%
NE	121	6%
OK	220	11%
WV	55	3%
IA	27	1%
PA	51	3%
MN	15	1%
NM	68	3%
UT	14	1%
Total	1999	

Source: SNL Financial, UBSe

Foreign owner interests keep wider wind sector valuations afloat

Despite yieldco M&A slowdown, we believe heightened European involvement of late could be helping to support asset valuations. We note recent efforts by Iberdrola (IBR) to kick start US efforts via their publically listed Avangrid (AGR) merger with UIL, as well as efforts by Enel, EDP (EDPR), and EDF to continue to scale their Americas efforts as well. Further, we see NEE as poised to continue ramping its renewable development efforts to take advantage of the perceived void left by developers with weaker financial positions. NEE has reiterated that returns in wind have held remarkably constant but we suspect pressures could remain on returns in the renewable sector more broadly.

What is on Clients' Minds

In an effort to keep all 'in the loop', we highlight our recent Alternative Energy reports below:

SCTY: Moving the Bullseye

What Impact Will EVs Have on US Utilities

Can Commercial Come of Age?

SCTY: SolarCity Tests the Housing Market

SUNE: A More Vivid Future Without The Vivint Deal

Mass Making a Mess of Renewable Market

In Search of Tax Equity (Call Transcript)

FSLR: Consistency is Key

SCTY: Providing a New Framework for Value

Connecting the Solar Dots

Doing the Math on Grid Parity with GTM

A (Less) Clean Power Plan Outlook

Figure 5: Solar & YieldCos Comps Table

	Ticker	Rating	Market Cap. ($ in millions)	Price 5/12/2016	Price Target	Dividend Yield	Short Interest	Days to Cover	P/E Multiple 2016E	2017E	2018E	2019E	Earnings Per Share 2016E	2017E	2018E	2019E	EV / EBITDA Multiple 2016E	2017E	2018E
SOLARCOs																			
First Solar Inc	FSLR	Neutral	4,965	48.56	59.00	0.00%	6.5%	2.1	11.7	15.4	14.4	11.4	4.15	3.15	3.36	4.27	7.0	8.1	4.3
SunPower Corp	SPWR	Neutral	2,272	16.61	NA	0.00%	21.1%	7.9	9.2	8.9	na	na	1.81	1.86	na	na	6.6	na	na
Canadian Solar Inc.	CSIQ	Not Rated	971	16.91	NA	0.00%	10.8%	2.7	6.1	4.3	na	na	2.76	3.93	na	na	4.8	na	na
Hanwha Q Cells Co.	HQCL	Not Rated	907	10.90	NA	0.00%	na	6.6	6.7	na	na	na	1.62	na	na	na	na	na	na
JA Solar Holdings Co.	JASO	Not Rated	396	7.84	NA	0.00%	na	6.7	4.2	5.8	na	na	1.87	1.35	na	na	3.3	na	na
JinkoSolar Holding Co.	JKS	Not Rated	648	20.67	NA	0.00%	na	7.6	3.6	3.4	na	na	5.81	6.06	na	na	3.5	na	na
SolarCityCorp	SCTY	Neutral	1,927	19.60	18.00	0.00%	34.4%	4.0	nm	nm	nm	nm	-4.28	-2.38	-2.27	-2.24	-16.8	-88.8	61.2
Average									6.8	8.3	10.9	9.4	1.0	1.2	1.2	1.5	1.4	-40.4	32.8

	Ticker	Rating	Market Cap. ($ in millions)	Price 5/12/2016	Price Target	% Public Float	Short Interest	Days to Cover	Dividend Yield (%) 2016E	2017E	2018E	2019E	Dividend Growth Rate 2016E	2017E	2018E	2019E	EV / EBITDA Multiple 2016E	2017E	2018E
'PRIMARY' YIELDCOs																			
8point3 Energy Partners	CAFD	Sell	1,010	14.23	11.00	28.1%	5.9%	6.5	7%	8%	8%	8%	119%	13%	9%	0%	12.6	9.2	13.2
Hannon Armstrong Sustainable Infrast	HASI	Buy	790	20.31	22.00	93.2%	3.1%	8.6	6%	7%	8%	8%	14%	12%	15%	0%	na	na	na
NextEra Energy Partners LP	NEP	Neutral	2,789	29.05	25.00	31.7%	1.3%	1.4	5%	5%	6%	7%	13%	15%	15%	15%	7.5	7.0	na
NRG Yield	NYLD.A	Buy	2,795	13.89	16.00	48.3%	7.0%	5.6	7%	8%	9%	10%	19%	13%	12%	4%	9.8	8.6	na
Pattern Energy Group A	PEGI	Not Rated	1,517	20.31	N/A	76.3%	13.2%	8.2	8%	9%	10%	10%	10%	10%	12%	0%	12.8	12.5	na
TerraForm Power	TERP	Sell	709	8.86	6.00	79.7%	21.6%	5.0	16%	16%	16%	16%	4%	0%	0%	0%	10.2	9.6	4.2
Tranaslta Renewables	RNW-CA	Not Rated	2,465	12.92	N/A	40.2%	na	2.4	7%	7%	7%	7%	7%	4%	3%	0%	9.6	9.2	na
Average (Ex-TERP)									7%	7%	8%	8%	30%	11%	11%	3%	10.0	9.2	8.7
'SECONDARY' YIELDCOs																			
Algonquin Power & Utilities Corp.	AQN-CA	Not Rated	2,931	11.44	NA				5%	5%	6%	6%	-4%	7%	13%	0%	4.1	4.1	na
Brookfield Renewable Partners LP	BEP.UT-CA	Not Rated	10,628	38.57	NA				6%	6%	7%	7%	25%	5%	6%	0%	10.4	4.5	na
Capital Power Corporation	CPX-CA	Not Rated	1,758	18.28	NA				8%	9%	9%	9%	-5%	6%	2%	0%	7.6	7.3	na
Greencoat UK Wind Plc	UKW-GB	Not Rated	1,083	1.07	NA				6%	6%	6%	6%	3%	-1%	2%	0%	na	na	na
Innergex Renewable Energy Inc.	INE-CA	Not Rated	1,574	14.58	NA				4%	5%	5%	5%	-4%	3%	3%	0%	14.7	14.6	na
Renewables Infrastructure Group Limi	TRIG-GB	Not Rated	744	1.01	NA				6%	6%	7%	7%	-2%	2%	2%	0%	na	na	na
Average									6%	6%	6%	6%	2%	4%	5%	0%	9.0	5.9	na
GLOBAL' YIELDCOs																			
Abengoa Yield PLC	ABY	Not Rated	1,649	16.45	NA	54.4%			10%	12%	12%	12%	18%	14%	-1%	0%	9.1	na	na
Saeta Yield SA	SAY-ES	Not Rated	753	9.23	NA				9%	9%	8%	8%	-9%	8%	-13%	0%	8.4	8.5	na
TerraForm Global	GLBL	Not Rated	305	2.62	NA	62.6%			27%	24%	NA	NA	-36%	-10%	na	na	4.5	6.3	na
Average									15%	15%	10%	10%	-9%	4%	-7%	0%	7.3	7.4	na

Source: UBS estimates for companies under coverage; all others are Factset

Valuation Method and Risk Statement

Risks for Utilities and Independent Power Producers (IPPs) primarily relate to volatile commodity prices for power, natural gas, and coal. Risks to IPPs also stem from load variability, and operational risk in running these facilities. Rising coal and, to a certain extent, uranium prices could pressure margins as the fuel hedges roll off Competitive Integrateds. Further, IPPs face declining revenues as in the money power and gas hedges roll off. Other non-regulated risks include weather and for some, foreign currency risk, which again must be diligently accounted in the company's risk management operations. Major external factors, which affect our valuation, are environmental risks. Environmental capex could escalate if stricter emission standards are implemented. We believe a nuclear accident or a change in the Nuclear Regulatory Commission/Environment Protection Agency regulations could have a negative impact on our estimates.

Risks for regulated utilities include the uncertainty around the composition of state regulatory Commissions, adverse regulatory changes, unfavorable weather conditions, variance from normal population growth, and changes in customer mix. Changes in macroeconomic factors will affect customer additions/subtractions and usage patterns.

TERP, NYLD valuation based on a discounted cash flow model. SCTY, NEE valuation based on SoTP Methodology. NEP valuation based on a 50/50 weight between 2018E DPS yield and DCF on the current operating portfolio.

Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	**Definition**	**Coverage[1]**	**IB Services[2]**
Buy	FSR is > 6% above the MRA.	49%	32%
Neutral	FSR is between -6% and 6% of the MRA.	38%	26%
Sell	FSR is > 6% below the MRA.	14%	19%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2016.
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.
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UBS Securities LLC: Julien Dumoulin-Smith; Jerimiah Booream; Michael Weinstein; Paul Zimbardo.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
NextEra Energy[4, 5, 6a, 6b, 7, 16]	NEE.N	Buy	N/A	US$120.76	13 May 2016
NextEra Energy Partners LP[2, 4, 6a, 16]	NEP.N	Neutral	N/A	US$29.05	13 May 2016
NRG Yield[16]	NYLDa.N	Buy	N/A	US$13.89	13 May 2016
SolarCity Corp[16]	SCTY.O	Neutral	N/A	US$19.60	13 May 2016
TerraForm Power, Inc.[2, 4, 5, 6a, 16]	TERP.O	Sell	N/A	US$8.86	13 May 2016

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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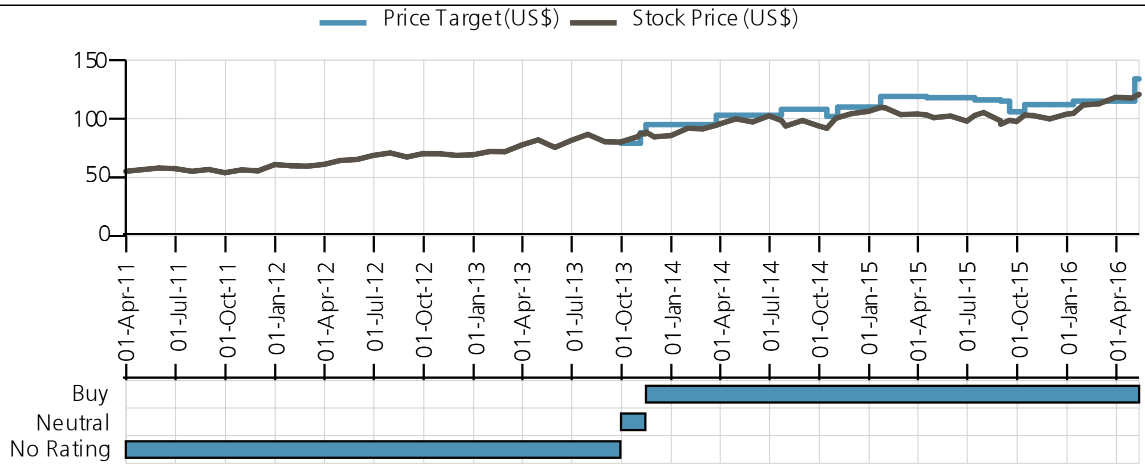
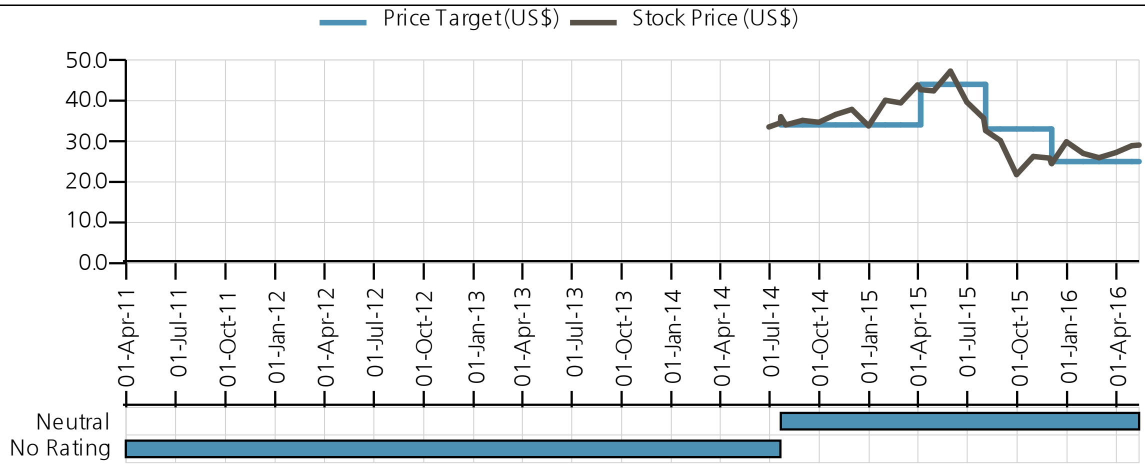
NextEra Energy (US$)



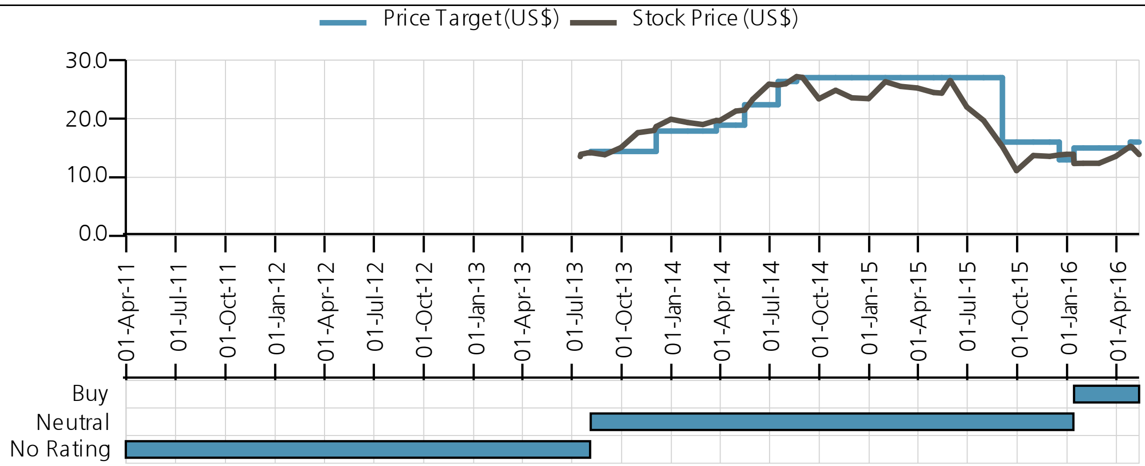
Source: UBS; as of 13 May 2016

NextEra Energy Partners LP (US$)



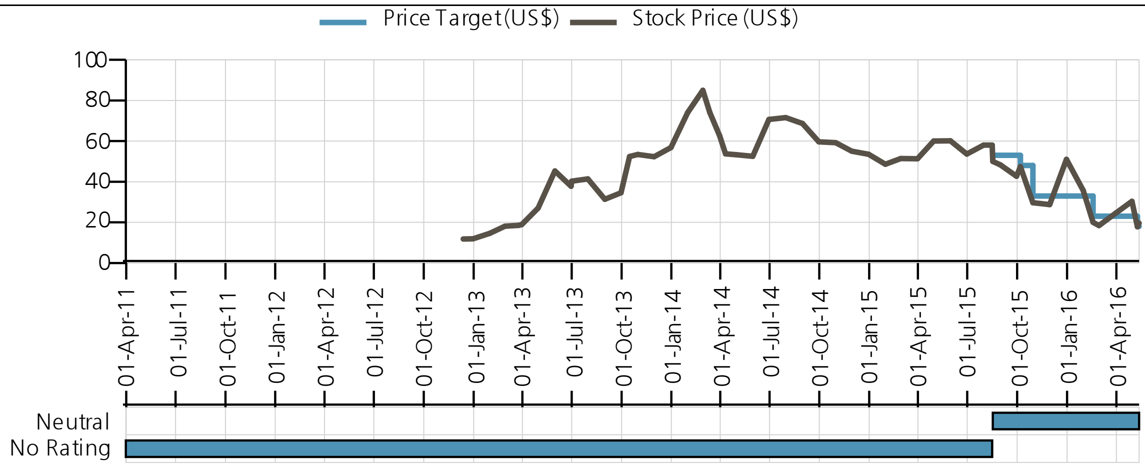
Source: UBS; as of 13 May 2016

NRG Yield (US$)



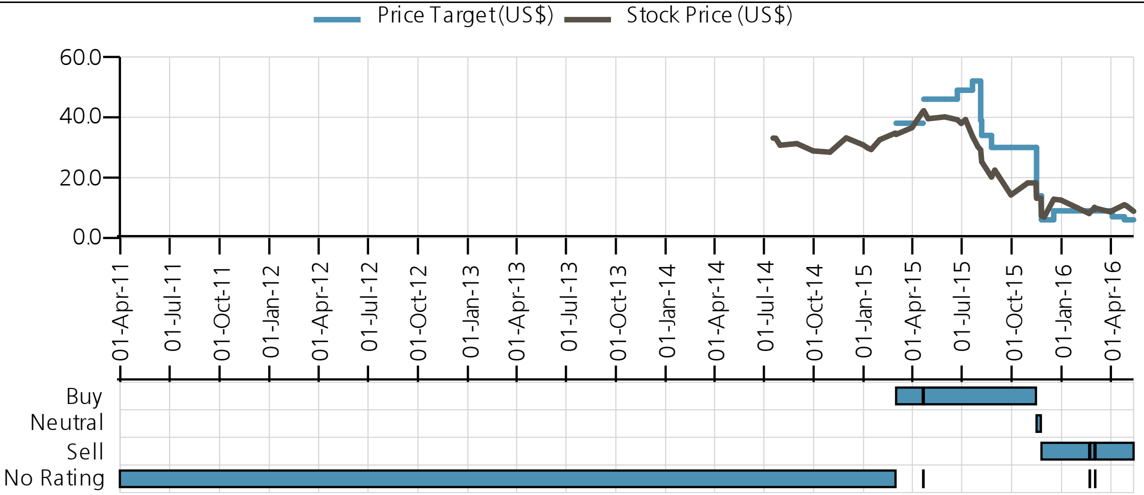
Source: UBS; as of 13 May 2016

SolarCity Corp (US$)



Source: UBS; as of 13 May 2016

TerraForm Power, Inc. (US$)



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