

Dynegy, Inc.

Super-Sizing the Portfolio

Increasing PT to \$36 and see shares as having room to recover as digests deal

We took a deep-dive into our pro-forma estimates and arrive at \$1.1Bn of run-rate '16 EBITDA. We now also explicitly give credit for FCF and tax NPV benefits which improves our valuation further. The operational synergy estimate could be upsized by \$20Mn to a still modest ~\$5/kW on the acquired fleet, worth an additional \$1.30/sh in our latest PT. We still view shares attractive after the deal, especially when trading down to \$31.

Further positive catalysts- both internal and external- to drive recovery

We detail five areas that could push shares back into the mid-\$30s: Update on synergies is the most visible upside lever that could be pulled relatively soon after the deal closes. From a power/capacity standpoint, the increased presence in New England brings meaningful presence to the most promising market in the US. Back in its MISO home territory the capacity price datapoints continue to point higher. The potential \$1-1.1Bn public issuance is likely among the most pressing of overhangs. Lastly, the potential for M&A remains, although further meaningful deals are likely a 2015 event.

Even without Brayton, ECP EquiPower portfolio looks solid in '16

After modeling out the ECP portfolio we estimate \$323Mn of run-rate 2016E EBITDA including synergies, and ex-Brayton Point. With Brayton we see a \$125Mn dip YoY in 2016E but a \$40Mn recovery in 2017E. A disproportionate slice of EBITDA is via the PJM units with NE's Lake Road also contributing nearly \$100Mn of EBITDA by 2017, essentially matching the contribution from the balance of the ISO-NE fleet (ex-Brayton Point). We emphasize an improving trajectory for New England capacity, and sustained high basis should lend itself to further positive revisions (and 2018 improvement).

Valuation: Reiterate Buy and Increasing Price Target \$3 to \$36 (from \$33)

Valuation is based on a sum-of-the-parts with 9x EV / EBITDA pro-forma for the deal. We maintain our constructive view on shares, emphasizing numerous remaining levers. We expect re-rating on shares higher will increasingly be linked to fundamental developments rather than M&A activity following the two latest deals.

Equities

Americas
Electric Utilities

12-month rating **Buy**

12m price target **US\$36.00**
Prior: **US\$33.00**

Price **US\$31.00**

RIC: DYN.N BBG: DYN US

Trading data and key metrics

52-wk range	US\$36.14-18.50
Market cap.	US\$3.10bn
Shares o/s	100m (COM)
Free float	100%
Avg. daily volume ('000)	262
Avg. daily value (m)	US\$8.1
Common s/h equity (12/14E)	US\$2.24bn
P/BV (12/14E)	1.4x
Net debt / EBITDA (12/14E)	2.9x

EPS (UBS, diluted) (US\$)

	12/14E			
	From	To	% ch	Cons.
Q1	(0.41)	(0.41)	0.00	(0.41)
Q2	0.17	(1.23)	-813.26	(1.23)
Q3E	0.44	0.22	-49.23	0.29
Q4E	0.39	1.73	348.46	0.04
12/14E	0.59	0.34	-42.20	(0.27)
12/15E	0.13	0.35	166.39	0.15
12/16E	0.27	0.30	10.35	0.51

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Highlights (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,585	1,293	1,466	2,865	2,328	1,961	1,975	2,039
EBIT (UBS)	(44)	(97)	(309)	133	168	188	175	233
Net earnings (UBS)	(1,645)	(224)	(359)	34	36	31	(35)	1
EPS (UBS, diluted) (US\$)	(13.48)	(2.24)	(3.59)	0.34	0.35	0.30	(0.34)	0.01
DPS (US\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(1,442)	(1,067)	(1,149)	(1,071)	(978)	(898)	(864)	(1,027)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	-2.8	-7.5	-21.1	4.7	7.2	9.6	8.9	11.4
ROIC (EBIT) %	(0.9)	(2.8)	(8.9)	3.8	4.9	5.5	5.3	6.9
EV/EBITDA (core) x	15.9	27.7	14.9	11.7	10.7	10.4	10.8	9.5
P/E (UBS, diluted) x	(0.4)	(2.3)	(5.9)	91.2	89.0	NM	(92.3)	NM
Equity FCF (UBS) yield %	(57.1)	(62.8)	6.9	2.5	3.0	2.6	1.1	(5.3)
Net dividend yield %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. UBS adjusted EPS is stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement. Valuations: based on an average share price that year, (E): based on a share price of US\$31.00 on 05 Sep 2014 15:11 EDT

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Investment Thesis

Dynegy

Investment case

Dynegy shares are likely to be driven by moves in gas and power prices as well as by announcements with respect to financial restructuring/M&A considerations as peer coal and gas generators weigh selling their coal portfolios. Equity valuation is driven in part by option value to either a power recovery or ability to repurchase sufficient quantities of mandatory Shares may yet outperform as the strategy is executed by the new management at the helm, led by Bob Flexon who previously served as NRG Energy's CFO/COO.

Upside scenario

Our upside case is based upon Dynegy successfully completing its pending Duke Energy/ECP acquisition with a higher degree of synergies than originally disclosed. The possibility of further M&A could also serve as a positive catalyst for shares. If our valuation expanded by 1x-turn EV / EBITDA to 10x, we could see shares trading at \$43.

Downside scenario

The downside scenario includes fewer synergies on the deal as well as a continued overhang from the future equity issuance and Franklin Advisers selling-down its position. If the EV / EBITDA multiple were to contract 1x-turn to 8x, shares could trade down to \$28. If the contemplated transaction fails to materialize, shares could drop back into the low \$20 range.

Upcoming catalysts

Nov 6	Expected 3Q14 Earnings Announcement
1Q15	Expected DUK/ECP Transaction Closing

12-month rating

Buy

12m price target

US\$36.00

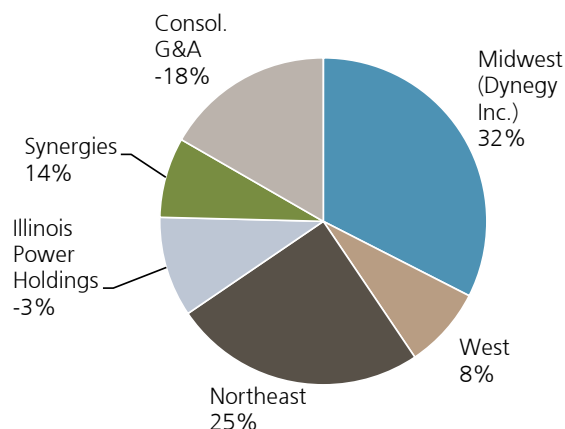
Business description

Dynegy, Inc. provides wholesale power, capacity, and ancillary services to utilities, cooperatives, municipalities, and other energy companies in six states in key US regions of the Midwest, the Northeast, and the West Coast. The company's power generation portfolio consists of over 13,100 megawatts of base-load, intermediate, and peaking power plants fueled by a mix of coal, fuel oil, and natural gas. Dynegy completed the acquisition of Illinois Power Holdings in 2013. Dynegy is in the process of acquiring assets from Duke Energy and Energy Capital Partners for \$6.25bn.

Industry outlook

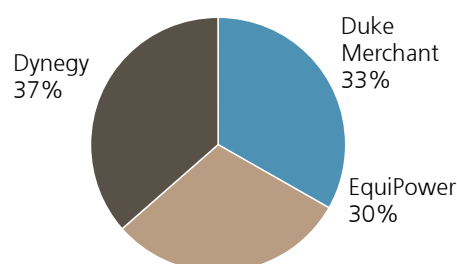
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited projected demand growth, growth of subsidized renewables, and potential for only modest further retirements. At regulated utilities, we believe rising interest rates and robust valuations are a challenge to the sector, particularly as earnings growth stalls once EPA-mandated growth capex slows mid-decade. We expect cost-cutting and strategic planning to be a key theme across both regulated and competitive companies, with M&A at modest (at best) premiums designed to extract cost synergies. We believe utilities with high parent leverage will disproportionately suffer, as they are unable to recoup from rising interest rates.

Adjusted EBITDA % by Segment (2015E)–Standalone DYN



Source: Company Filings and UBS Estimates

Run-Rate EBITDA by Fleet (2016E)



Source: Company Filings and UBS Estimates

The Power Line on DYN:

We are increasing our PT \$3 to \$36 and reiterating our Buy Rating, reflecting credit for its improved FCF profile and tax benefits versus our initial cut of the acquisitions. Additionally we incorporate \$20Mn of incremental operational synergies to reflect our expectation for benefits above management's initial disclosures. Shares have contracted over five percent the past week despite some improvement in power prices and a host of catalysts on the horizon. In short, we still like the name and think there is still room left to run, with an opportunity to own into the upcoming share offering.

While correlation of the stock is likely to rise with the group as it more tightly trades with power peers, we suspect its greater exposure to New England will enable further positive EBITDA revisions – and provide the story with an enhanced set of catalysts.

For our initial thoughts on the Dynegy transaction, please refer to our note ['Marrying Up the Power Business'](#) from the day of the announcement.

Looking beyond the transaction, the question turns to what is the next catalyst?

1. Synergy upside to current deals. The most likely upside area is clearly via a higher degree of synergies than announced with the deal. Dynegy disclosed only \$40Mn of operational synergies and \$200Mn of balance sheet synergies from the 12.4GW transaction, essentially \$3/kW. While we do not anticipate synergies even close to the magnitude of the Ameren deal, we embed an additional \$20Mn of operational synergies in our valuation. Even if there are no real synergies from the ECP fleet, this is still a modest \$10/kW on just Duke's assets (~\$5/kW on total). We emphasize that Dynegy significantly updated its targeted synergies from its Ameren deal upon close.

2. Consolidation argument remains. With the ink barely dry on Dynegy's latest acquisition, we would expect Dynegy to remain hungry in the power M&A space. While a large scale acquisition may be unlikely in the near-term, clearly there are few limits to management's creativity. We see clear latitude to gaining an eventual foothold in Texas, with both CPN and NRG largely 'maxed out' on ownership. Moreover, we see a deal with DPL (whether via AES or directly with creditors) as somewhat inevitable (albeit likely a 2016 development). Moreover, with AEP clearly poised to divest (2015 development in our view), we think there is clearly still a role for DYN to play as IPP consolidator.

However, with the company having achieved 'critical mass' after acquiring ~16.5GW of its pro-forma 26GW, we don't see it 'necessary' as it was before to execute immediately on a deal. We would expect shares to begin to normalize to a more normal pro-forma multiple to reflect the fact it has largely 'deployed' its balance sheet on recent transactions – and has already deployment but we still do not think management is done as it seeks to gain scale and crack into the big three power generators by moving past Calpine with Exelon in its sights. Perhaps PPL & Riverstone's Talen fit Dynegy's criterion? We have taken a breather on embedding further M&A into Dynegy's valuation but with the speed of the power markets' M&A of late that could change rather quickly.

Increasing our PT to \$36 for Dynegy

Run-Rate Synergy Expectations:
\$40Mn base operational
\$20Mn base B/S efficiencies
\$20Mn incremental synergies

M&A could once again be a catalyst...

...but not like it was in the past year

3. Equity Overhang will come to end? A further speed bump for shares could be that many investors may not want to get too bullish on shares ahead of the potential \$1-1.1Bn of **public equity expected to be issued** in the next ~six months. We actually see the offering as a *positive* datapoint for shares to have this overhang addressed. All-in-all we continue to see value to Dynegy with upside catalysts present that do not appear to be fully reflected in shares today.

A large equity issuance could temper investor optimism in the short-term

4. Fundamental story re-oriented towards New England, and that's a good thing. As we highlighted in a recent note, the **New England power market** is poised to go from Good to Great with the outlook here the best since the market restructured for generators given the gas constraints that are expected to persist. Out of the ~12GW of capacity acquired in the latest deal, 3.4GW is in New England (1.9GW ex-Brayton Point) which is on top of the 540MW Casco Bay CCGT already owned by Dynegy. Following the expected retirements of Vermont Yankee and Brayton Point, the region is expected to see even higher capacity payments and could clear above \$300/MW-day in 2018/2019, up from \$231/MW-day in 2017/2018 auction.

Well positioned in markets with strong upside potential

Staying in the Northeast, Dynegy also owns the 1,064MW Independence CCGT in NYISO which should benefit from *nascent conversations in New York about related capacity performance as potentially also constructive for the pricing outlook*. While we suspect pricing in New York could prove under-pressure in coming year, we see this as a relative low versus improvement projected later in the decade (benefitting from higher capacity price trends in both adjacent markets, New England and PJM).

5. Street is still coming to terms with MISO capacity price upside. transaction datapoints remain robust with both Dynegy and CMS Energy commenting that they have signed deals in excess of \$3/kW-month range lately, among other parties. We continue to anticipate pricing will improve over time in the Illinois zone of MISO (Zone 4), particularly given its concentration. We flag that Illinois state rules have yet to force hard choices around potential further rationalization of the Ameren portfolio (potentially EBITDA positive event).

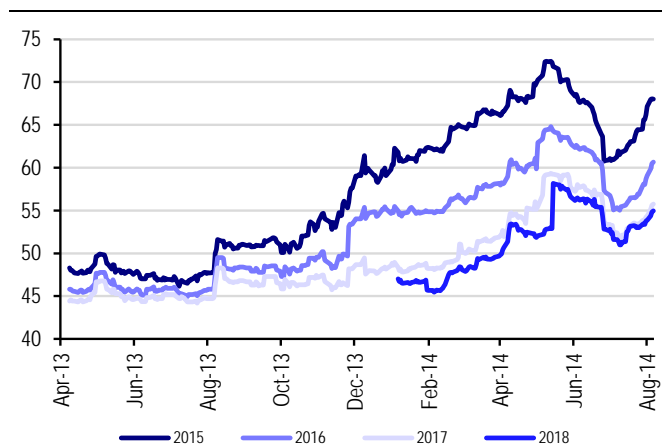
CMS commenting on its latest earnings call about its "confidence that prices in the \$4.50 and \$7.50 range may be likely."

Beyond the basic arguments for tightness in MISO, we emphasize a broader shift westwards in future EPA regulations, which could yet drive additional PRB units out of the market late in the decade (with details on the come). We also emphasize continued opportunities to export into PJM, shifts in the exact definition of Zone 4 could also provide upside to pricing, and ultimately even the potential for all of Illinois to join PJM.

Larger Dynegy Rides Power Curves Even Harder

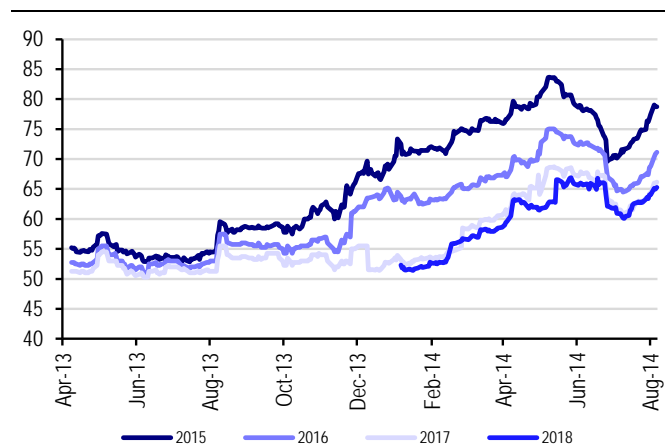
We have taken a closer review of our estimates across Dynegy, Energy Capital Partners (ECP), and Duke's fleets and are now slightly above guidance following the recent (positive) power moves (illustrated below). We reiterate our confidence in recovery of this market as expectations for improving gas supply into New England dwindle on the back of a protracted NESCOE process and NIMBY issues.

Figure 1: Mass Hub ATC (\$/MWh)



Source: Platts

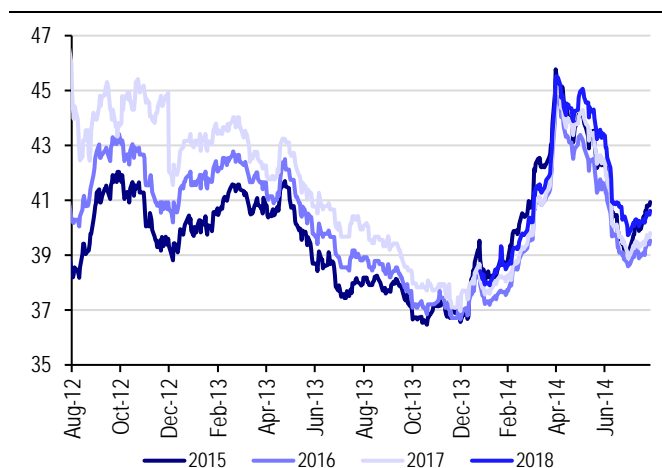
Figure 2: Mass Hub On-Peak (\$/MWh)



Source: Platts

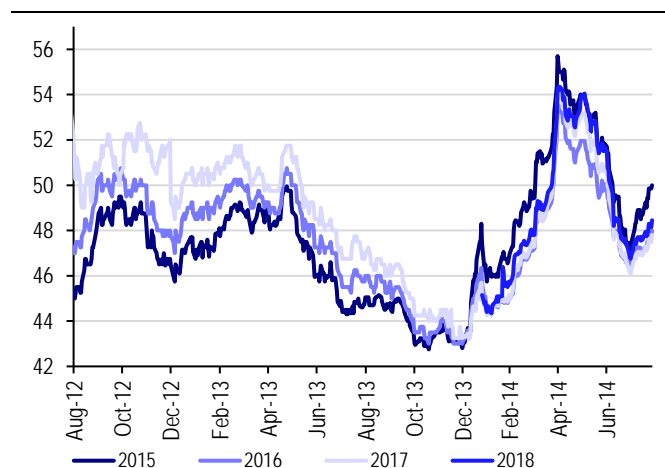
Mass Hub power prices have recovered 5-6% since the pro-forma guidance was given (effective August 15th) while PJM-West has recovered 1-2% over the same period.

Figure 3: PJM-West ATC (\$/MWh)



Source: Platts

Figure 4: PJM-West On-Peak (\$/MWh)



Source: Platts

Our ECP estimates below include Brayton Point in 2014-2017 but do not include any synergies (included in Figure 9). Our 2015E is now above the \$500Mn of guidance following the late August power movement; however, when using power prices as of mid-August (in accordance with management guidance) we saw 2015E of \$485Mn. We note that the depreciable life on Brayton is essentially ~two years which can complicate modelling assumptions given the limited remaining life

We estimate that 2016 adjusted EBITDA will decline by ~\$125Mn YoY due to declining power/capacity prices; however, we see 2017 recovering by \$40Mn assuming that Brayton Point will run hard in 1H17 and capture the winter.

Most recent New England power rebound pushes us above 2015E EBITDA guidance for ECP fleet

Figure 5: ECP Portfolio Estimates – Reflecting Latest MtM

ECP Portfolio (\$Mn)	2014	2015	2016	2017	2018
Energy Margin (\$Mn)	\$391	\$455	\$378	\$283	\$214
Capacity Revenue (\$Mn)	\$218	\$284	\$236	\$369	\$339
O&M (\$Mn)	\$226	\$226	\$226	\$226	\$144
EBITDA	\$383	\$513	\$388	\$426	\$409
Guidance (as of August 15th, 2014)		\$500			

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 6: ECP Portfolio Estimates – As of August 15th pricing to provide apples-to-apples comparison with guidance

ECP Portfolio (\$Mn) - PRE-MTM	2014	2015	2016	2017	2018
Energy Margin (\$Mn)	\$391	\$425	\$332	\$260	\$202
Capacity Revenue (\$Mn)	\$218	\$284	\$236	\$331	\$339
O&M (\$Mn)	\$226	\$226	\$226	\$198	\$144
EBITDA	\$383	\$483	\$341	\$393	\$397

Source: Company Filings, Platts, SNL, and UBS Estimates

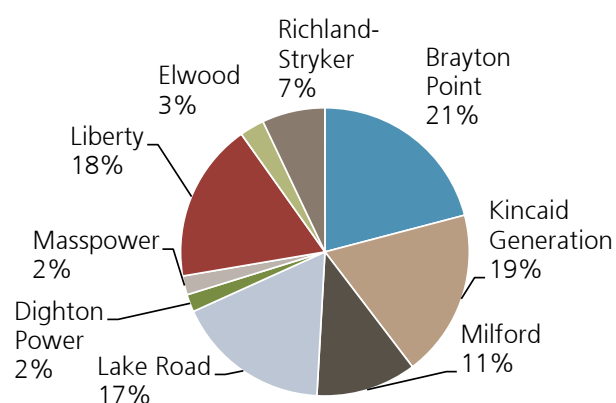
Below we present a summary of the asset-by-asset EBITDA for the ECP portfolio with the full breakdown at the end of the note. A disproportionate amount of the EBITDA is derived via the PJM units (Kincaid and Liberty in particular). Out of the New England fleet, the 856MW Lake Road CCGT steals the show with nearly \$100Mn of EBITDA by 2017, essentially matching the contribution from the balance of the ISO-NE fleet combined (ex-Brayton Point).

Figure 7: Breakdown of ECP Portfolio EBITDA

Brayton Point	2014	2015	2016	2017	2018
EBITDA	106	114	81	81	-
Kincaid Generation	2014	2015	2016	2017	2018
EBITDA	65	96	73	75	79
Milford Generation	2014	2015	2016	2017	2018
EBITDA	45	59	44	60	77
Lake Road	2014	2015	2016	2017	2018
EBITDA	69	85	67	94	122
Dighton Power	2014	2015	2016	2017	2018
EBITDA	6	10	8	15	21
Masspower	2014	2015	2016	2017	2018
EBITDA	6	10	8	20	31
Liberty	2014	2015	2016	2017	2018
EBITDA	73	81	69	58	57
Elwood	2014	2015	2016	2017	2018
EBITDA	9	23	11	11	11
Richland Stryker	2014	2015	2016	2017	2018
EBITDA	5	35	27	11	10

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 8: Breakdown of ECP Portfolio EBITDA (2016E)



Source: Company Filings, Platts, SNL, and UBS Estimates

We have also updated our Duke Midwest generation estimates to reflect the latest pricing as well as the retirement of the Beckjord unit. Duke announced at the end of last week that it would be retiring Beckjord Units 5 and 6 (~400MW Duke ownership) effective September 1st, the same plant that had a diesel fuel spill earlier in August. These last two units will join Units 1-4 in retirement and

effectively end Duke's Midwest merchant operations following the Dynegy deal closing. Duke management stated that the fuel spill was not a direct cause of the accelerated retirement of the units but offered a convenient opportunity to wind-down operations. While Duke owns 100% of Unit 5, Unit 6 is jointly owned with AEP (12.5%) and AES' Dayton Power and Light (50%).

Figure 9: Duke Midwest Generation EBITDA Estimates

Duke Energy OH & NA	2012A	2013E	2014E	2015E	2016E	2017E	2018E
<u>Duke Energy Ohio - Commercial Power Generation (GWh)</u>							
Coal	16,164	18,548	14,485	14,952	15,186	14,485	14,485
Gas	17,122	13,784	12,635	11,946	11,257	10,568	9,878
Total	33,286	32,332	27,120	26,898	26,443	25,053	24,363
Guidance		35,000					
Energy Margin	351	381	273	348	327	325	333
Hedge Value		6					
Guidance		350					
Capacity Revenues	140	51	169	284	197	204	258
Guidance		50					
Gross Margin							
O&M	299	295	242	239	238	235	234
Property and Other Taxes	26	24	23	21	20	20	20
Duke Energy Retail (Not in historicals)		24	24	24	24	24	24
Total EBITDA	92	143	202	396	290	298	362

Source: Company Filings, Platts, and UBS Estimates

Our consolidated Dynegy EBITDA estimates for both the standalone entity (Dynegy & Illinois Power Holdings) as well as for the pro-forma transaction are below.

Figure 10: Stand-Alone and Pro-forma Adjusted EBITDA Estimates

Pro-Forma Dynegy-Ameren Estimates	2012A	2013A	2014E	2015E	2016E	2017E	2018E
Midwest (Dynegy Inc.)	12	50	155	195	181	179	183
West	111	95	49	48	53	10	10
Northeast	1	137	186	149	124	124	152
Illinois Power Holdings (Standalone)		12	81	59	70	100	122
PRIDE Reloaded (Mostly Gross Margin/Not O&M)				48	85	85	85
Consolidated G&A	(90)	(76)	(100)	(100)	(100)	(100)	(100)
Pro-Forma DYN-DUK-ECP Open EBITDA Estimates							
Duke Energy Ohio		143	202	396	290	298	362
Duke Operational Synergies				22	48	48	48
Energy Capital Partners		-	383	513	388	431	409
ECP Operational Synergies		-	-	8	12	12	12
Balance Sheet Efficiencies		-	-	20	20	20	20
Options Drag (4Q11-2012)	(157)						
Adj. Pro-Forma Combined Deal EBITDA	(123)	362	957	1,358	1,171	1,206	1,303
Adj. EBITDA (Standalone DYN + IPH)		219	372	399	414	397	452

Source: Company Filings and UBS Estimates

Valuation: Increase Price Target \$3 to \$36

Our revised price target is based upon a sum-of-the-parts analysis. We continue to apply a 9x EV / EBITDA multiple to the business after adjusting for Dynegy's West peaking assets as well as ECP's Brayton Point which is slated to retire in 2017. Additionally we give credit for the incremental cash flow generation through 2016 and the NPV of the tax benefits as well as Brayton Point's last stub year of operations (we still expect the plant to be able to capture a majority of the year's exposure given its location).

Our updated valuation includes \$20Mn of operational synergies above the \$40Mn of operational synergies disclosed as well as \$200Mn of balance sheet efficiencies (\$20Mn at a ~10% cost of capital) to reflect our expectation of management's ability to further unlock value. While unlocking synergies to the magnitude of the Ameren transaction appears unlikely, we do not believe the aforementioned ~\$5-10/kW is an unrealistic expectation for the fleet. Previously our valuation was based on an M&A scenario with Duke weighted 50% M&A /50% standalone Dynegy.

Every \$10Mn of incremental synergies is worth approximately \$0.65/sh of incremental value.

We are now valuing Dynegy across all of its segment at the same 9x EV/EBITDA multiple employed for its IPP peers. Following the two latest transactions, we expect shares will increasingly trade more 'inline' with peer fluctuations.

Figure 11: Updated Dynegy Valuation

DYN Accretion Calcs. (\$Mn)	Duke	Merchant	EquiPower	Dynegy	Combined	Guidance
2016 Adjusted EBITDA		\$338	\$400	\$414	\$1,151	
Plus: Run-Rate Synergy Uplift		\$16	\$4	\$20	\$40	
Less: West Peaking and Brayton Point		\$0	-\$81	-\$45	-\$126	
Run-Rate 2016 EBITDA Estimate		\$354	\$323	\$388	\$1,065	
Consolidated						
EV / EBITDA		8x	9x	10x		
Enterprise Value		\$8,518	\$9,583	\$10,647		
Less: Pro-Forma Debt		(6,194)	(6,194)	(6,194)		
Plus: FCF 2015 & 2016		994	994	994		
Plus: NPV of Taxes & '17 Brayton FCF		554	554	554		
Plus: EBITDA of West Peaking + Brayton		126	126	126		
Equity Value		\$3,999	\$5,063	\$6,128		
Equity Issuance		\$1,250	\$1,250	\$1,250		
Shares Outstanding (~\$31/sh issuance)		142	142	142		
Valuation		\$28.21	\$35.72	\$43.23		
Every \$10Mn of incremental synergies ≈ \$0.65/sh incremental value						

Source: Company Filings, ThomsonReuters, and UBS Estimates

What about further M&A? Coming home to Texas?

We think the focus remains expanding its Ohio footprint in potential future deals.

The most likely potential candidates in our view include Duke's partners in the Midwest fleet: American Electric Power (AEP) and AES' Dayton Power & Light but AES has firmly stated in recent months that it plans to retain the business and AEP will likely wait to see the outcome of potential merchant recontracting in Ohio.

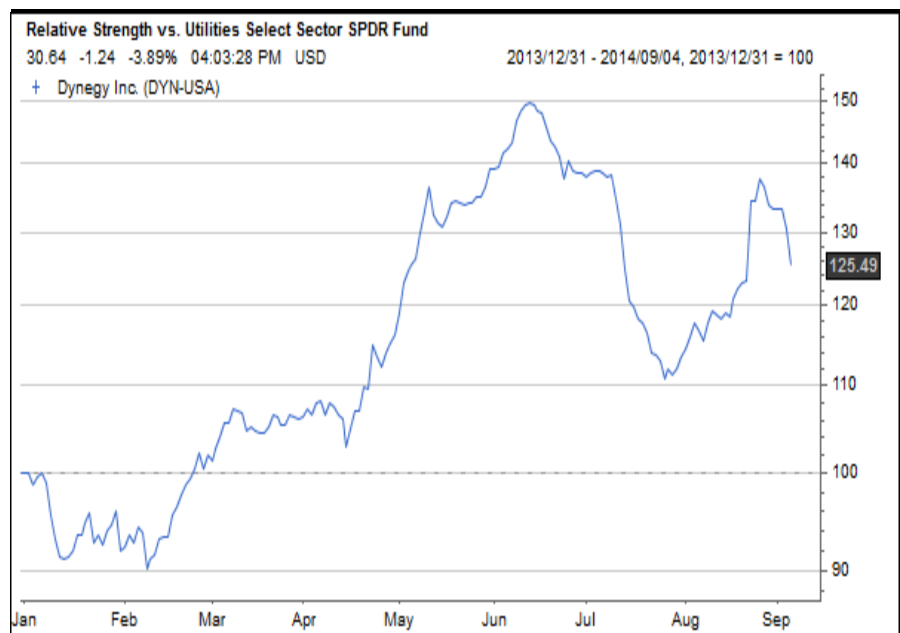
Expanding to Texas too? Perhaps down the line.

Dynegy CEO Bob Flexon commented earlier this month that the EFH fleet could be a good fit for the firm. Specifically Flexon told the Houston Business Journal that "if there ever were portfolios for sale in Texas, that could one day be something that Dynegy would have an interest in." It remains to be seen how willing Dynegy is to engage in wide-scale M&A while it is executing on its current \$6.3Bn transaction which might reduce the probability of interest in EFH. We see this as unlikely, with one-off transactions are more likely (especially if market valuations of ERCOT assets remain depressed given the weak summer 2014 weather).

Shareholder overhang declining too

Dynegy has been extremely volatile as of late with shares briefly retouching the \$36 level on the morning of the acquisition before declining back down towards \$31. Franklin Advisers continues to hold a sizable portion of shares but has slashed its holdings by nearly 40% since October of last year. This summer Franklin was seemingly selling blocks every week and as Franklin continues to wind-down its position, yet another overhang for the stock should be diminished.

Figure 12: Dynegy Relative Performance YTD



Source: FactSet

Threat of continued Franklin selling continues to decline as position grows smaller

Figure 13: Franklin Ownership

Franklin Ownership (Mn)	
Date	Position
9/30/2013	29.93
12/31/2013	28.93
3/31/2014	25.87
6/30/2014	18.93

Source: Factset

Figure 14: ECP and Duke Portfolios

Portfolio	Plant	MW	Fuel/Type	Market
EquiPower	Brayton Point ¹	1,493	Coal ST	ISO-NE
EquiPower	Kincaid Generation	1,108	Coal ST	PJM-RTO
EquiPower	Milford	579	Gas CCGT	ISO-NE
EquiPower	Lake Road	856	Gas CCGT	ISO-NE
EquiPower	Dighton Power	187	Gas CCGT	ISO-NE
EquiPower	Masspower	280	Gas CCGT	ISO-NE
EquiPower	Liberty ²	600	Gas CCGT	PJM-EMAAC
EquiPower	Elwood	780	Gas CT	PJM-RTO
EquiPower	Richland-Stryker	466	Gas CT	PJM-ATSI
Duke	Killen ²	198	Coal ST	PJM-RTO
Duke	Stuart ²	900	Coal ST	PJM-RTO
Duke	Zimmer ²	622	Coal ST	PJM-RTO
Duke	Fayette	640	Gas CCGT	PJM-RTO
Duke	Miami Fort Station 7 & 8 ²	653	Coal ST	PJM-RTO
Duke	Washington	637	Gas CCGT	PJM-RTO
Duke	Hanging Rock	1,274	Gas CCGT	PJM-RTO
Duke	Lee Energy Facility	640	Gas CT	PJM-RTO
Duke	Dicks Creek	136	Gas CT	PJM-RTO
Duke	Conesville 4 ²	312	Coal ST	PJM-RTO
	Gas Subtotal	7,075		
	Coal Subtotal	5,286		
	Total	12,361		

1 Scheduled to retire in May 2017
2 Co-owned assets

Source: Company Filings and SNL

A Deeper Dive Into the ECP Assets:

Figure 15: Brayton Point

Brayton Point	2014	2015	2016	2017	2018
Capacity	1,493	1,493	1,493	1,493	-
Capacity Factor, UBSe	30%	30%	30%	15%	15%
Mass-Hub On-Peak (\$/MWh)	77	78	71	67	66
Bias for Super-Peak ~0%	0	0	0	0	0
Variable Cost (Coal & Dispatch)	(41)	(41)	(41)	(41)	(41)
Energy Margin (\$/MWh)	36	37	30	26	25
Generation (TWh)	3.9	3.9	3.9	2.0	-
Energy Margin (\$Mn)	142	145	117	50	-
ISO NE Capacity Payment (\$/kw)	3	3	3	7	11
Capacity Revenue (\$Mn)	46	50	46	113	-
O&M (\$/kW-yr), UBSe	55	55	55	55	55
O&M (\$Mn)	82	82	82	82	-
EBITDA	106	114	81	81	-

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 16: Kincaid Generation

Kincaid Generation	2014	2015	2016	2017	2018
Capacity	1,108	1,108	1,108	1,108	1,108
Capacity Factor, UBSe	55%	55%	55%	55%	55%
PJM-W ATC (\$/MWh)	38	41	39	39	40
<i>Bias for Super-Peak ~10%</i>	4	4	4	4	4
Variable Cost (Coal & Dispatch) (\$/MWh)	(27)	(27)	(27)	(27)	(27)
Energy Margin (\$MWh)	15	17	16	16	17
Generation (TWh)	5.3	5.3	5.3	5.3	5.3
Energy Margin (\$Mn)	80	93	86	86	91
PJM RTO Capacity Payment (\$/MW-day)	85	132	91	95	95
Capacity Revenue (\$Mn)	34	53	37	38	38
O&M (\$/kW-yr), UBSe	45	45	45	45	45
O&M (\$Mn)	50	50	50	50	50
EBITDA	65	96	73	75	79

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 17: Milford Generation

Milford Generation	2014	2015	2016	2017	2018
Capacity	579	579	579	579	579
Capacity Factor, UBSe	75%	75%	75%	75%	75%
Mass-Hub ATC (\$/MWh)	69	68	61	56	55
<i>Bias for Super-Peak ~10%</i>	7	7	6	6	6
<i>Heat Rate, Company Filings</i>	7,077	7,077	7,077	7,077	7,077
Variable Cost (\$/MWh)	(62)	(57)	(53)	(50)	(52)
Energy Margin (\$MWh)	14	17	14	11	9
Generation (TWh)	3.8	3.8	3.8	3.8	3.8
Energy Margin (\$Mn)	53	65	52	42	34
ISO NE Capacity Payment (\$/kw-month)	3	3	3	7	11
Capacity Revenue (\$Mn)	18	20	18	44	69
O&M (\$/kW-yr), UBSe	45	45	45	45	45
O&M (\$Mn)	26	26	26	26	26
EBITDA	45	59	44	60	77

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 18: Lake Road

Lake Road	2014	2015	2016	2017	2018
Capacity	856	856	856	856	856
Capacity Factor, UBSe	60%	60%	60%	60%	60%
Mass-Hub ATC (\$/MWh)	69	68	61	56	55
<i>Bias for Super-Peak ~10%</i>	7	7	6	6	6
<i>Heat Rate, Company Filings</i>	7,179	7,179	7,179	7,179	7,179
Variable Cost (\$/MWh)	(63)	(58)	(54)	(51)	(52)
Energy Margin (\$MWh)	13.16	16	13	10	8
Generation (TWh)	4.5	4.5	4.5	4.5	4.5
Energy Margin (\$Mn)	59	73	58	46	36
ISO NE Capacity Payment (\$/kw-month)	3	3	3	7	11
Capacity Revenue (\$Mn)	26	29	27	65	102
O&M (\$/kW-yr), UBSe	20	20	20	20	20
O&M (\$Mn)	17	17	17	17	17
EBITDA	69	85	67	94	122

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 19: Dighton Power

Dighton Power	2014	2015	2016	2017	2018
Capacity	187	187	187	187	187
Capacity Factor, UBSe	45%	45%	45%	45%	45%
Mass-Hub On-Peak (\$/MWh)	77	78	71	67	66
<i>Bias for Super-Peak ~0%</i>	0	0	0	0	0
Heat Rate, Company Filings	7,573	7,573	7,573	7,573	7,573
Variable Cost (\$/MWh)	(66)	(61)	(57)	(54)	(55)
Energy Margin (\$/MWh)	11.17	17	14	12	10
Generation (TWh)	0.7	0.7	0.7	0.7	0.7
Energy Margin (\$Mn)	8	12	10	9	7
ISO NE Capacity Payment (\$/kw-month)	3	3	3	7	11
Capacity Revenue (\$Mn)	6	6	6	14	22
O&M (\$/kW-yr), UBSe	45	45	45	45	45
O&M (\$Mn)	8	8	8	8	8
EBITDA	6	10	8	15	21

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 20: Masspower

Masspower	2014	2015	2016	2017	2018
Capacity	280	280	280	280	280
Capacity Factor, UBSe	25%	25%	25%	25%	25%
Mass-Hub On-Peak (\$/MWh)	77	78	71	67	66
<i>Bias for Super-Peak ~0%</i>	0	0	0	0	0
Heat Rate, Company Filings	8,321	8,321	8,321	8,321	8,321
Variable Cost (\$/MWh)	(72)	(67)	(62)	(59)	(61)
Energy Margin (\$/MWh)	4.66	11	8	7	5
Generation (TWh)	0.6	0.6	0.6	0.6	0.6
Energy Margin (\$Mn)	3	7	5	4	3
ISO NE Capacity Payment (\$/kw-month)	3	3	3	7	11
Capacity Revenue (\$Mn)	9	9	9	21	34
O&M (\$/kW-yr), UBSe	20	20	20	20	20
O&M (\$Mn)	6	6	6	6	6
EBITDA	6	10	8	20	31

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 21: Liberty

Liberty	2014	2015	2016	2017	2018
Capacity	600	600	600	600	600
Capacity Factor, UBSe	65%	65%	65%	65%	65%
PJM-W ATC (\$/MWh)	38	41	39	39	40
<i>Bias for Super-Peak ~10%</i>	4	4	4	4	4
Heat Rate, Company Filings	6,997	6,997	6,997	6,997	6,997
Variable Cost (\$/MWh)	(29)	(27)	(28)	(30)	(32)
Energy Margin (\$/MWh)	13.21	17	15	13	13
Generation (TWh)	3.4	3.4	3.4	3.4	3.4
Energy Margin (\$Mn)	45	59	51	44	43
PJM EMAAC Capacity Payment (\$/MW-day)	182	155	139	120	120
Capacity Revenue (\$Mn)	40	34	30	26	26
O&M (\$/kW-yr), UBSe	20	20	20	20	20
O&M (\$Mn)	12	12	12	12	12
EBITDA	73	81	69	58	57

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 22: Elwood

Elwood	2014	2015	2016	2017	2018
Capacity	780	780	780	780	780
Capacity Factor, UBSe	1%	1%	1%	1%	1%
PJM-W On-Peak (\$/MWh)	45	49	48	47	48
<i>Bias for Super-Peak ~0%</i>	0	0	0	0	0
Heat Rate, Company Filings	10,387	10,387	10,387	10,387	10,387
Variable Cost (\$/MWh)	(43)	(41)	(42)	(45)	(47)
Energy Margin (\$/MWh)	2.17	9	5	2	1
Generation (TWh)	0.1	0.1	0.1	0.1	0.1
Energy Margin (\$Mn)	0	1	0	0	0
PJM RTO Capacity Payment (\$/MW-day)	85	132	91	95	95
Capacity Revenue (\$Mn)	24	38	26	27	27
O&M (\$/kW-yr), UBSe	20	20	20	20	20
O&M (\$Mn)	16	16	16	16	16
EBITDA	9	23	11	11	11

Source: Company Filings, Platts, SNL, and UBS Estimates

Figure 23: Richland Stryker

Richland Stryker	2014	2015	2016	2017	2018
Capacity	466	466	466	466	466
Capacity Factor, UBSe	1%	1%	1%	1%	1%
PJM-W On-Peak (\$/MWh)	45	49	48	47	48
<i>Bias for Super-Peak ~0%</i>	0	0	0	0	0
Heat Rate, Company Filings	11,734	11,734	11,734	11,734	11,734
Variable Cost (\$/MWh)	(49)	(46)	(48)	(51)	(53)
Energy Margin (\$/MWh)	(3.44)	3	(0)	(4)	(5)
Generation (TWh)	0.0	0.0	0.0	0.0	0.0
Energy Margin (\$Mn)	(0)	0	(0)	(0)	(0)
PJM ATSI Capacity Payment (\$/MW-day)	85	261	215	118	118
Capacity Revenue (\$Mn)	14	44	37	20	20
O&M (\$/kW-yr), UBSe	20	20	20	20	20
O&M (\$Mn)	9	9	9	9	9
EBITDA	5	35	27	11	10

Source: Company Filings, Platts, SNL, and UBS Estimates

Forecast returns

Forecast price appreciation	+16.1%
Forecast dividend yield	0.0%
Forecast stock return	+16.1%
Market return assumption	5.5%
Forecast excess return	+10.6%

Statement of Risk

Risks to our investment thesis include: 1) actual commodity prices differing significantly from our assumptions; 2) political and regulatory intervention to change the structure of competitive markets in response to high power prices and insufficient new build; 3) the current state of credit markets that has limited the companies' flexibility to return excess cash to shareholders; and 4) unknown impact from a potential carbon legislation. Other investment risks include abrupt changes in weather pattern, sharp slowdown in economic demand, interest rate risks, and disruption of trading activity in power markets.

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Sell	FSR is > 6% below the MRA.	11%	23%
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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%
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Source: UBS. Rating allocations are as of 30 June 2014.

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Duke Energy ^{2, 4, 6, 16}	DUK.N	Buy	N/A	US\$74.90	05 Sep 2014
Dynegy, Inc. ^{5, 16}	DYN.N	Buy	N/A	US\$31.03	05 Sep 2014

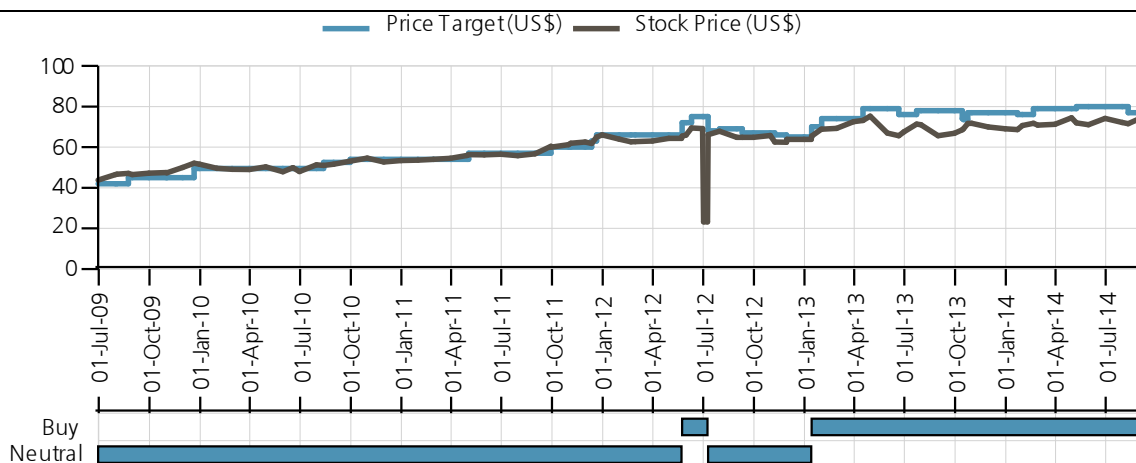
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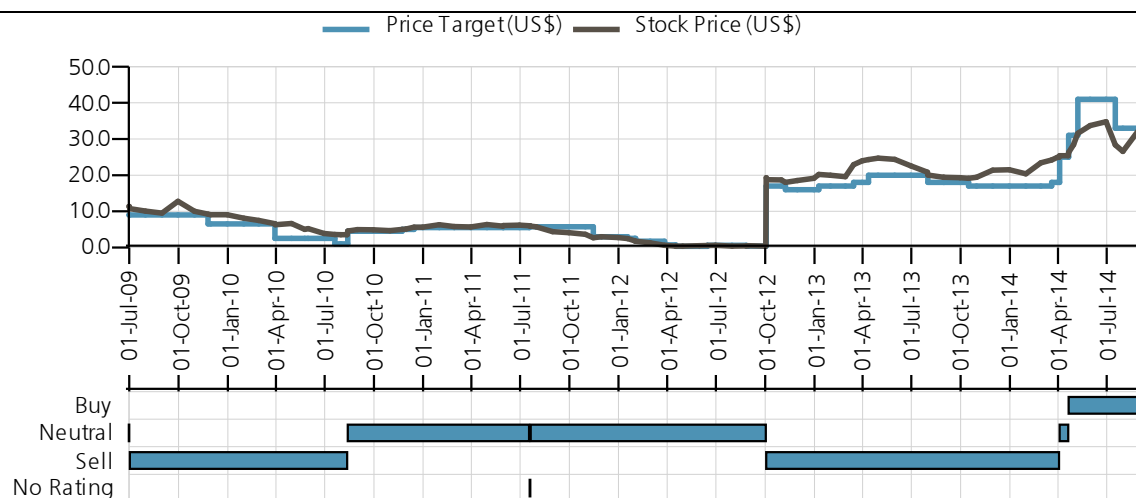
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Duke Energy (US\$)



Source: UBS; as of 05 Sep 2014

Dynegy, Inc. (US\$)



Source: UBS; as of 05 Sep 2014

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