

First Read

SunEdison Inc. Making the YieldCo Case

How did the results compare vs expectations?

On the DevCo side, SUNE delivered 404 MW in 2Q15 vs guidance in the 300-340 MW range. This correlates to 359 MW retained and \$63M in CAFD. The pipeline has been increased by 1 GW to 8.1 GW, with 800 MW added to the backlog which now reaches 5.6 GW. Additionally, SUNE's development guidance for 2016 has been maintained at 4.2-4.5 GW, reflecting DG efforts and wind platform wins. TERP delivered \$65M of CAFD in 2Q15, with DPS of \$0.335/sh—maintained 2015 DPS of \$1.35/sh.

What were the most noteworthy areas? Attempting to disclose value prospects

In an effort to 'show' the value proposition, mgmt provided the value created from recent deals in order to reinsert confidence in story (emphasizing multiple avenues for value around VSLR deal). Articulates spread of TERP acquisitions vs. WACC of 1.56%, seeing recent deals done at weighted average yield of 8.3% vs. WACC of 6.64%. Overall, we suspect the higher IRRs should address concerns returns were much lower across Street; look for discussion of IDRs in context of drop-down yield to convince investors of prospective growth.

Has the company's outlook/guidance changed? Liquidity and backlog updates

The total conversion weighted development opportunity at SUNE now reaches \$2.5 Bn (15.7 GW), up from \$2.2 Bn prior qtr. 2Q cash balance was predictably higher to \$1.998 Bn from \$919 Mn, reflecting recent converts issuance. With addt'l liquidity of ~\$1 from warehouse, \$178 mn from w/c facility, and \$750 Mn from future equity revolver, addt'l liquidity stands at ~\$2 Bn. Relative to 2016, total w/c cash needs are stated at \$383 Mn, suggesting mgmt can fully execute on plan as it stands. Given concerns over cash funding w/o drops to TERP for time, mgmt appears able to persist as a developer for quite some time should equity market remain depressed.

Valuation: Looks constructive, with focus on IDRs likely the key controversy

Mgmt categorically appears to have addressed much of recent skepticism, however, conf call remains the critical update. Critical to the SUNE story will be convincing investors TERP can continue even as reaches higher split levels for IDRs. Secondary, will be a discussion of recent GLBL IPO, and ability to grow this vehicle given latest debt and equity spreads achieved. Mgmt call at 8am ET today. PT derived via SOP across Devco and GP/LP values from YieldCo subsidiaries.

Equities

Americas
Electric Components & Equipment

12-month rating **Buy**

12m price target **US\$28.00**

Price **US\$22.87**

RIC: SUNE.N BBG: SUNE US

Trading data and key metrics

52-wk range	US\$32.13-14.30
Market cap.	US\$6.23bn
Shares o/s	272m (COM)
Free float	99%
Avg. daily volume ('000)	1,999
Avg. daily value (m)	US\$57.3
Common s/h equity (12/15E)	US\$1.54bn
P/BV (12/15E)	4.0x
Net debt / EBITDA (12/15E)	NM

EPS (UBS, diluted) (US\$)

	12/15E	
	UBS	Cons.
Q1E	(0.30)	(1.36)
Q2E	(0.25)	(0.55)
Q3E	(0.21)	(0.51)
Q4E	(0.22)	(0.70)
12/15E	(0.98)	(3.09)
12/16E	0.23	(1.41)
12/17E	0.57	(1.28)

Julien Dumoulin-Smith

Analyst
julien.dumoulin-smith@ubs.com
+1-212-713 9848

Michael Weinstein

Associate Analyst
michael.weinstein@ubs.com
+1-212-713 3182

Paul Zimbardo

Associate Analyst
paul.zimbardo@ubs.com
+1-212-713 1033

Highlights (US\$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	2,870	2,556	2,484	1,403	1,663	1,906	2,530	2,996
EBIT (UBS)	40	(226)	(540)	217	845	1,249	1,900	2,487
Net earnings (UBS)	64	(210)	(255)	(266)	76	185	510	822
EPS (UBS, diluted) (US\$)	0.28	(0.87)	(0.95)	(0.98)	0.23	0.57	1.58	2.53
DPS (US\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(279)	414	27	206	433	1,287	2,561	4,376
Profitability/valuation	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
EBIT margin %	1.4	-8.9	-21.8	15.5	50.8	65.5	75.1	83.0
ROIC (EBIT) %	1.7	(8.2)	(10.3)	2.4	5.8	5.5	6.4	7.0
EV/EBITDA (core) x	3.0	44.3	-27.1	8.6	3.8	3.0	2.4	1.8
P/E (UBS, diluted) x	11.0	(8.8)	(20.2)	(23.3)	97.4	39.9	14.5	9.0
Equity FCF (UBS) yield %	(68.2)	(44.6)	(17.7)	(68.4)	(124.6)	(125.4)	(84.1)	(69.3)
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\$22.87 on 05 Aug 2015 19:38 EDT

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Forecast returns

Forecast price appreciation	+22.4%
Forecast dividend yield	0.0%
Forecast stock return	+22.4%
Market return assumption	5.7%
Forecast excess return	+16.7%

Statement of Risk

SunEdison is exposed to supply/demand imbalances which are heavily impacted by local and national government incentives. Demand for solar is still dependent on government subsidies such as tax rebates or feed-in tariffs. Any material change in an individual country's position on support for solar energy could have a negative impact on the growth of the solar market. SunEdison's expansion plans are also driven by expected cost reductions in renewable energy system equipment. Additionally, adoption of renewable energy generation is associated with the costs of incumbent generation sources and will be heavily impacted by any large swing in the costs of these energy sources.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	45%	36%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
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.	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 2015.

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

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
SunEdison Inc. ^{13, 16}	SUNE.N	Buy	N/A	US\$22.87	05 Aug 2015

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

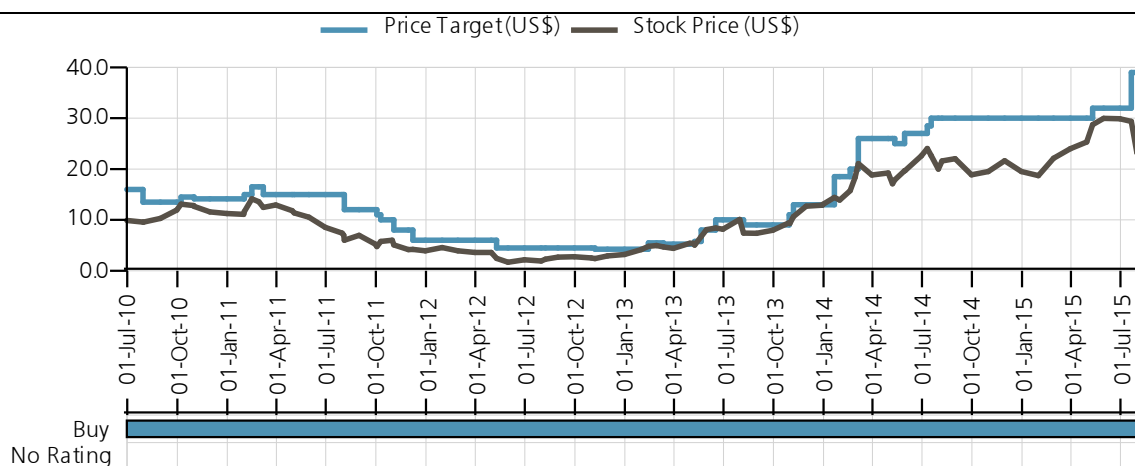
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SunEdison Inc. (US\$)



Source: UBS; as of 05 Aug 2015

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