SunEdison Inc.
Explaining the Weakness

Equities

Americas
Electric Components & Equipment

12-month rating	Neutral
12m price target	US$6.00
	Prior: US$9.00
Price	US$5.77

RIC: SUNE.N **BBG:** SUNE US

Trading data and key metrics

52-wk range	US$32.13-5.77
Market cap.	US$1.57bn
Shares o/s	272m (COM)
Free float	99%
Avg. daily volume ('000)	5,727
Avg. daily value (m)	US$57.0
Common s/h equity (12/15E)	US$1.28bn
P/BV (12/15E)	0.7x
Net debt / EBITDA (12/15E)	0.5x

EPS (UBS, diluted) (US$)

	12/15E	
	UBS	Cons.
Q1	(0.76)	(1.36)
Q2	(0.88)	(0.93)
Q3E	(0.84)	(0.69)
Q4E	0.71	(0.75)
12/15E	(1.72)	(3.80)
12/16E	(0.48)	(2.06)
12/17E	(0.09)	(2.41)

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What's going on with SUNE? Lots from 3Q results; we stay on sidelines.
While forward development guidance was maintained, we attribute weakness to five key factors including: 1) lower margins on retained projects than expected ($0.26/W) vs. overall 2016 margin expectations of $0.36/W; 2) Mgmt confidence on the pending VSLR deal, emphasizing it simply had not had time to close the deal; recall a potential renegotiation of the deal would be perceived quite positively, however, mgmt was adamant in asserting there was no walking. Other cautious angles incl: 3) LAP arbitration risk, with the counterparty seeking $150 Mn in damages, 4) O&M refunds to TERP on higher than budgeted costs on FirstWind portfolio, and 5) higher 3Q Opex cost trends, albeit with some adjustments ($361 Mn in total 3Q15 opex includes $66M of '1x and other' incl stock comp and UK wind-down, $54 Mn from the IPO, and $65 Mn in restructuring/impairments). This higher opex compares vs. original FY15 guidance of $590Mn and vs. 2Q16 run-rate target of $150 Mn).

Breaking up is hard: LAP pursues arbitration after SUNE cancels deal
SUNE was name in a request for arbitration by the owners of LAP (BTG, P2Brasil, and GMR) on Nov. 6th, with the LAP parties requesting SUNE pay damages of no less than $150mn due to the cancellation of the deal. With both parties citing that the blame is on the counterparty, we see the filing as a negative to shares. Many investors had wondered whether the unilateral abandonment of the deal would be met without resistance from sellers. Deployment of proceeds at GLBL remains the key question.

Where are margins? At lower end of guidance, but trend improving QoQ
Mgmt noted that the foregone margin on the utility-scale development of 534 MW in the quarter was ~$0.26/W (15%), with actual margin on the YieldCo drops at $0.71/W or 24%. Conversion weighted development engine visibility dipped 100MW to 15.6GW QoQ, along with conversion weighted CAFD declining -$200Mn QoQ. Admittedly, higher backlog could well have driven stress around financing capacity but is disconcerting to investors focused more on the growth angle vs strict recovery,

Valuation: Maintain Neutral rating and drop PT to $6/sh via SOTP analysis
We look for comfort on margin improvement (reiterated by mgmt) to shore up shares. Details on VSLR deal execution and close on LIGHT deal remain near-term focus.

Highlights (US$m)	12/12	12/13	12/14	12/15E	12/16E	12/17E	12/18E	12/19E
Revenues	2,870	2,556	2,484	1,403	1,663	1,906	2,530	2,996
EBIT (UBS)	40	(226)	(540)	(51)	579	929	1,445	1,992
Net earnings (UBS)	64	(210)	(255)	(526)	(152)	(28)	185	473
EPS (UBS, diluted) (US$)	0.28	(0.87)	(0.95)	(1.72)	(0.48)	(0.09)	0.58	1.48
DPS (US$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	(279)	414	27	(222)	309	943	2,019	3,742

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	-3.6	34.8	48.7	57.1	66.5
ROIC (EBIT) %	1.7	(8.2)	(10.3)	(0.6)	4.2	4.6	5.7	6.5
EV/EBITDA (core) x	3.0	44.3	-27.1	4.0	1.4	1.1	0.9	0.6
P/E (UBS, diluted) x	11.0	(8.8)	(20.2)	(3.3)	(12.0)	(64.8)	9.9	3.9
Equity FCF (UBS) yield %	(68.2)	(44.6)	(17.7)	(301.4)	(401.4)	(364.3)	(315.0)	(260.3)
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$5.77 on 10 Nov 2015 19:37 EST

What's our view on shares now?

*We are still on the sidelines. We have reduced our target to **$6**/sh to reflect margins at $0.35/W (vs. our prior estimates at $0.38/W), alongside mark-to-markets of TERP and GLBL share prices (and still including ~$2/sh of upside potential from GP value). We suspect the latest decision to fund the bulk of the equity contribution from TERP to its latest warehouse (rather than seeking additional capital providers) will only add to scrutiny of the execution plan into 2016 to access adequate capital. While project economics appear intact and demand for renewables seemingly insatiable for stable projects, we perceive that concerns around funding SUNE-specific warehouse structures could remain (although improving terms for investors in these structures could yet enable added comfort). We see the primary swing factor for shares as being whether execution is fulfilled on pending VSLR deal. Despite the pullback and investor confusion, we suspect further stumbles on guidance execution could result in further downside revisions.*

Why could margins improve into 2016? It's about legacy PPAs.

Mgmt is adamant the QoQ improving trend in margins will continue into 2016

For exactly the same reasons both SPWR and FSLR are poised to post peak margins in 2016, we see reason to believe that margins could yet improve back to posted levels for SUNE, with PPA prices already locked in backlog, while costs to execute on contract build continue to decline. Should prices on panels and BoS decline each a further ~$0.05/W, prices could very well achieve these levels vs 3Q15 margins registered at ~15%. The question remains whether the $0.35/W margins (on a weighted average basis between utility-scale and DG) contemplated in 2016 will prove sustainable. Rather, we suspect margins could yet compress back to levels seen in recent quarters, without a successful global diversification strategy away from the US. For context, we had expected mgmt to press forward with among the best contracts possible for development in the quarter, attempting to illustrate the improving margin profile.

The proposed new TERP warehouse is worth close scrutiny.

It's not just about margins – warehouse is the other concern

Given the impending close of the Invenergy deal in November Terraform Power appears to have elected to use its own equity to fund acquisitions into the Warehouse. Mgmt explicitly stated it would seek to invest $388Mn in the structure with a further $300 Mn from a private equity entity (supported by further project level debt). Seeing that TERP will not collect any cash distributions from this latest investment, we see this as a poor precedent to establish in the TERP structure, particularly should mgmt resort to pulling its revolver to fund the acquisition (adding to risk, and limiting any further avenues to acquire assets through near-term capital market freeze). Mgmt notes this equity injection into the revolver could be temporary as it seeks a more permanent structure, with additional outside capital.

What are the broader implications of latest warehouse structure?

It puts some pressure on whether mgmt. will be able to find buyers of its third-party sales, hence concerns articulated yesterday. This in turn leads to focus on the continued viability of the warehouse structure with TERP forced to inject the bulk of the equity in the form of its own (limited liquidity). Further, issues on completing latest warehouse for TERP raises questions as to whether TERP Global will succeed in raising a warehouse of its own.

Dividend growth limited for TERP by the drop-down.

We suspect TERP shares were pressured yesterday as the $388 Mn liquidity draw increases leverage at the entity without corresponding CAFD distributions (consistent with previous guidance on warehouse structures). A full writeoff of this value from TERP would translate to ~$2.75/sh. We suspect mgmt at SUNE and TERP opted to continue to pursue the transaction due to the likelihood of fulfilling the balance of the financing and ultimately backstopping from a further source of equity capital or selling assets on to third-parties not dropped into TERP immediately.

TERP warehouse equity injection will *not* produce cash to fund div despite liquidity burn

Reflecting our Latest SOP.

We include our latest SOP valuation, where we reflect a modest reduction in our margin assumptions as well as latest MtM impact of stock prices. Our reduction is consistent with the latest move in shares. We don't necessarily see the company as an acquisition target at current valuations despite its meaningful pullback in shares given substantial leverage (-$12/sh). *We also note that we are not updating our formal estimates, where we continue to reflect modest EPS. The key question for shares remains execution. If management can meet management guidance through 2016, we suspect shares could well improve. Further slippage on volume and targets due to either financing pressures and/or execution on margins remains a downside risk.*

What is the risk/reward?

We emphasize while we see an upside case back into the mid-teens, the current low share price (versus our downside skew to zero) does not appropriately reflect the real risk of operating with limited equity value. We suspect continued pressure on shares could yet place pressure on mgmt to execute on the development business given related counterparty issues

Excluding any GP value and margin slippage, we see further downside. Should investors fully strip out GP value, we see downside to ~$4/sh. Further, should mgmt see current margins persist at ~15% on on devco margins, we see a further ~$2-4/sh in downside.

Figure 1: SUNE Full SOP (1/2)

SunEdison Valuation UBSe	Downside	Base	Upside
TERP LP Ownership Interest - Using UBS Price Target			
Shares Owned (Mn), 2015e	63.0	63.0	63.0
Current Share Price	$14.43	$14.43	$14.43
Equity Value ($ Mn)	$909	$909	$909
TERP LP Value to SUNE	**$2.74**	**$2.74**	**$2.74**
TERP GP Ownership Interest			
	Thru 2017	Thru 2018	Thru 2020
NPV of IDRs & Terminal Value @ 15x CF	$1.79	$1.79	$6.24
TERP GP Value to SUNE	**$1.79**	**$1.79**	**$6.24**
GLBL LP Ownership Interest			
Shares Owned (Mn), IPO	60.3	60.3	60.3
TERP Global Current Price Price ($/sh) - [10% Down/Up Scenarios]	$6.50	$7.22	$7.94
Equity Value ($ Mn)	$392	$435	$479
GLBL LP Value to SUNE	**$1.18**	**$1.31**	**$1.44**
GLBL GP Ownership Interest			
	Thru 2017	Thru 2018	Thru 2020
NPV of IDRs & Terminal Value	$0.13	$0.68	$0.68
GLBL GP Value to SUNE	**$0.13**	**$0.68**	**$0.68**
DevCo Value --> Step-up Value as Dropped from SUNE to TERP			
Utility-Scale Capacity Built (MW) - 2016	2,900	2,900	2,900
$/Watt Costs	2.00	2.00	2.00
Gross Margin (%)	**12%**	**16.0%**	**19%**
Guidance Range (%)		15-20%	
Implied Utility-Scale Margin ($/Watt)	0.24	0.32	0.38
Utility-Scale Gross Margin ($ Mn)	**696**	**928**	**1,102**
Resi/DG Capacity Built (MW) - 2016	200	600	700
Resi Guidance for 2016 - Pending update		*800*	
DG Guidance for 2016		*1100-1300*	
Build Costs ($/W) - VSLR Implied Guidance	2.70	2.70	2.70
Margin ($/Watt) - Weighted down to reflect 2017 stepdown	0.30	$0.50	0.70
Implied DG Margin (%)	10%	19%	26%
DG Gross Margin ($ Mn)	**60**	**300**	**490**
Total Gross Margin ($ Mn)		**1,228**	
Weighted Avg Margin ($/W)		0.35	
Mgmt Guidance		0.35	
Weighted Average Margin	11.9%	16.4%	20.3%
Total MWs		3,500	
Total Guidance for 2016		*3300-3700*	
Opex	(595)	(595)	(595)
Opex $/W Guidance		0.17	
EBITDA	**161**	**633**	**997**
Implied Gross Margin ($/W)		*0.22*	
EV/EBITDA-> 4-6x Range	**5.0x**	**5.0x**	**5.0x**
Implied Value	**805**	**3,165**	**4,985**
Implied Value ($/W-yr)	55.52	1.09	344
Value to SUNE	**$2.43**	**$9.54**	**$15.03**

Source: Company Filings, UBSe

Figure 2: SUNE Full SOP (2/2)

Solar and Wind Servicing			
Value to SUNE	**$0.43**	**$1.58**	**$2.36**
Non-TERP Projects Sold to Third Parties in 2015			
Value to SUNE	**$0.25**	**$0.34**	**$0.42**
Parent Obligations			
		Outstanding	Convert/Equity
Convertible senior notes due 2018 (2.00%)		**$300**	$0
Convertible senior notes due 2020 (0.25%)		$600	$0
Convertible senior notes due 2021 (2.75%)		**$300**	$0
Convertible senior notes due 2022 (2.375%)		$460	$0
Convertible senior notes due 2023 (2.625%)		$450	
Convertible senior notes due 2025 (3.375%)		$450	
Convertible senior notes **to be** issued for Vivint Acquisition		$350	
Convertible preferred stock (6.75%)		**$0**	**$650**
Total Converts		**$2,910**	**$650**
Other Credit Facilities		$266	
Solar Energy recourse financing		$8	
Assumption of Vivint Long-Term Debt		$209	
Total Recourse Debt		**$3,393**	
Margin Loan due 2017 collateralized w / TERP Shares		$410	
Exchangeable Notes due 2020 (3.75%) collateralized w / TERP Shares		$328	
Total Debt Securitized by TERP Stake (First Wind Acquisition)		**$738**	
Non-Recourse 1st Lien Term Loan from Vivint Acquisition *(Prospective)*		$500	
GLBL Interest Obligations		$203	
Earnout Payments to First Wind (NPV of $510Mn over three years)		$472	
Interest Payment Due to GLBL's Orosi Project Credit Facilities - 3/31/2015		$78	
Grand Total Obligations		**$5,383**	
3Q Cash Outstanding (SUNE+VSLR-TERP- & GLBL sub cash)		(1,532)	
Net Debt		**$3,851**	
Obligation of SUNE	**($11.61)**	**($11.61)**	**($11.61)**
SUNE Equity Value per Share	**$0**	**$6**	**$17**
Upside/(Downside)	**-100%**	**10%**	**200%**

Source: Company Filings, UBSe

Forecast returns

Forecast price appreciation	+4.0%
Forecast dividend yield	0.0%
Forecast stock return	+4.0%
Market return assumption	5.9%
Forecast excess return	-1.9%

Statement of Risk

Risks to SunEdison include but are not limited to: liquidity and failure to meet liabilities and other obligations as due, potential failure to close the pending Vivint Solar and other contemplated M&A transactions, inability to transact with its YieldCo entities in an accretive fashion, inability to transact with third parties in an accretive fashion, increasing cost structure and competition pressuring realized margins, unfavorable international, federal, state, or local legislation/regulation, natural disasters, increased completion for project development opportunities, adverse changes to tax subsidies for solar and wind generation, unfavorable weather (wind and solar resource generation), below-average customer demand. 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. Swings in value can be driven by shifts in TERP shares and corresponding ability to realize Incentive Distribution Rights (IDRs). Moreover, developer margins are highly cyclical off a large fixed operating cost structure.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	49%	33%
Neutral	FSR is between -6% and 6% of the MRA.	40%	26%
Sell	FSR is > 6% below the MRA.	12%	18%
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 September 2015.
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.
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UBS Securities LLC: Julien Dumoulin-Smith; Michael Weinstein; Paul Zimbardo.

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
SunEdison Inc.[13, 16]	SUNE.N	Neutral	N/A	US$5.77	10 Nov 2015
TerraForm Global Inc[16]	GLBL.O	Not Rated	N/A	US$7.22	10 Nov 2015
TerraForm Power, Inc.[2, 4, 5, 6, 16]	TERP.O	Buy	N/A	US$14.43	10 Nov 2015

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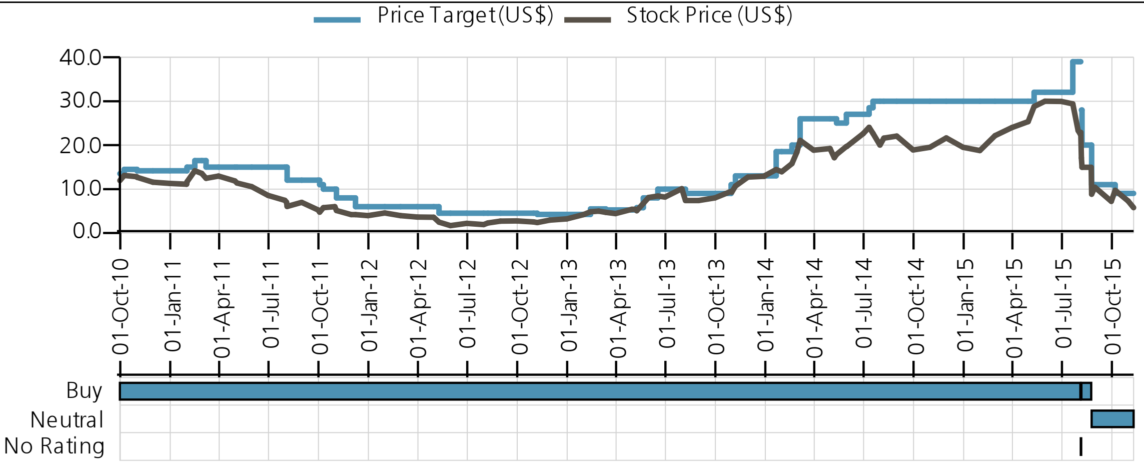
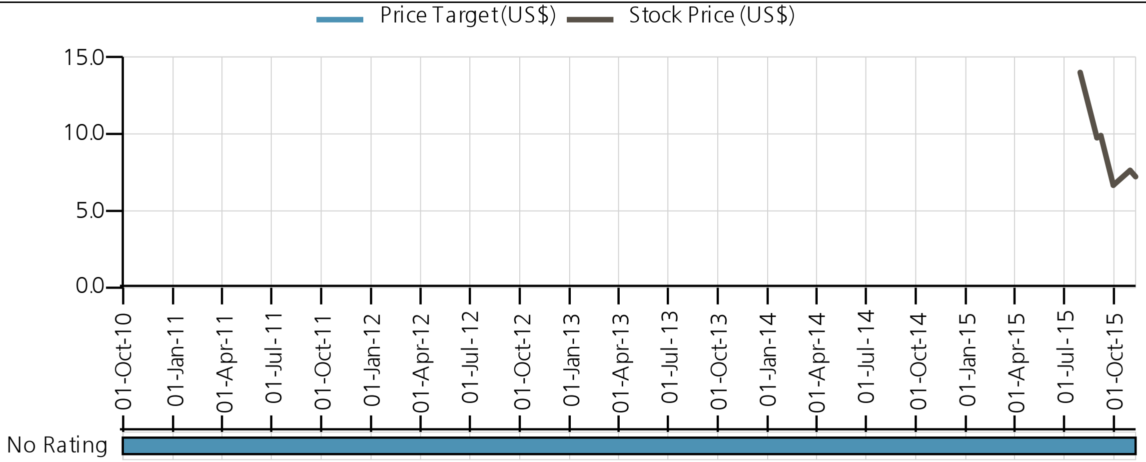


Source: UBS; as of 10 Nov 2015

TerraForm Global Inc (US$)



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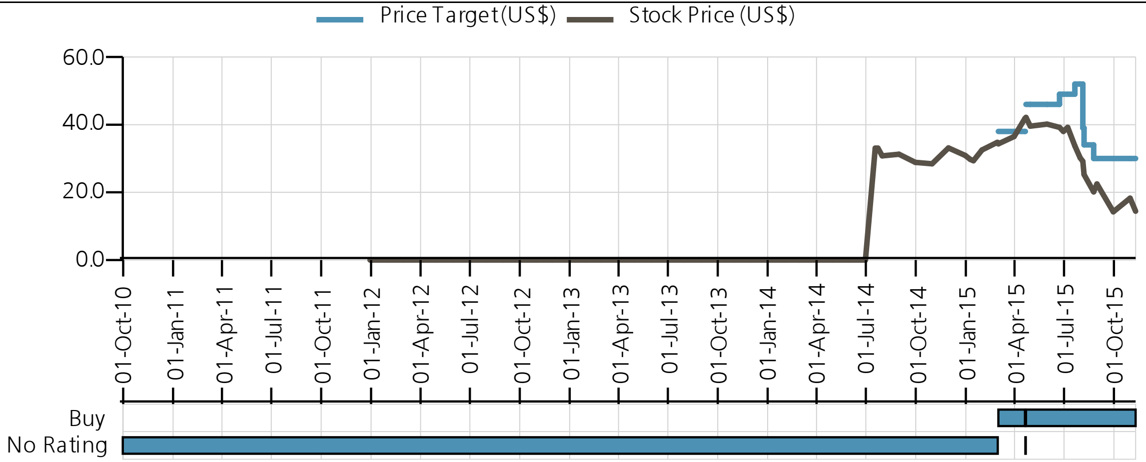

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