

First Read

TerraForm Power, Inc.

Getting Exclusive

TERP Takes Itself Out of the Market, For Now

On Jan 20, TERP and Brookfield entered into an exclusivity agreement where TERP will negotiate exclusively with Brookfield for a possible takeout/sponsorship, as a follow up to the previously announced offer with four options, which we wrote about [here](#). Key among the differences is a further reduced cash proposal. Initially, Brookfield suggested \$13/sh was its expected offer, which was reduced to \$12.50/sh including the controlling interest in GLBL, and subsequently reduced to \$12/sh on Jan 20 (disclosed today). The previously announced \$11.50 standalone price was not updated since negotiations are ongoing for a controlling sponsorship in both entities. TERP and GLBL will have until Feb 21 and March 6th, respectively, to negotiate with Brookfield.

Why Exclusive? What happened to the other bidders?

Despite previous media reports ([1](#), [2](#), [3](#)) of other interested parties in the TERP assets, the company's decision to enter exclusive talks with an offer ~\$1/sh below initial indications strikes us as curious. We suspect Brookfield's existing ownership and parallel yieldco-like platform (Brookfield Renewable Energy Partners) played into the decision, though it would suggest potential for further price reduction if there have been no additional firm offers for the TERP assets, which are not required to be disclosed. Additionally, this would appear to make further corporate actions such as leveraging the Canadian assets or changing any portfolios more difficult, though exact restrictions on such are unclear from the company disclosures.

SUNE Could be Settled as Well

One of the larger questions for TERP has been what SUNE creditors will do, and we view the settlement discussions disclosed today as a step in the right direction with the nonbinding agreement to settle intercompany claims between SUNE, TERP, and GLBL relating to the SUNE Bankruptcy. However, a final agreement must be reached by Jan 27 and jointly approved by April 1st, 2017 (can be extended to April 15).

Valuation: \$11.50, Low Confidence on Firm Price Following Declines

Multiple offers below the trading price for TERP leave us cautious on the eventual takeout price, though \$11.50 would seem the likely floor. Our PT is based on a DCF with 9.1% discount rate. We see this as a positive for the balance of the sector.

Equities

Americas
Electric Utilities

12-month rating

Sell

12m price target

US\$11.50

Price

US\$11.70

RIC: TERP.O BBG: TERP US

Trading data and key metrics

52-wk range	US\$14.59-7.44
Market cap.	US\$1.03bn
Shares o/s	87.8m (COM)
Free float	87%
Avg. daily volume ('000)	757
Avg. daily value (m)	US\$9.7
Common s/h equity (12/16E)	US\$3.07bn
P/BV (12/16E)	0.3x
Net debt / EBITDA (12/16E)	5.1x

EPS (UBS, diluted) (US\$)

	12/16E	
	UBS	Cons.
Q1	(0.01)	(0.01)
Q2E	(1.34)	(0.14)
Q3E	(1.09)	(0.09)
Q4E	4.26	(0.33)
12/16E	1.58	(0.88)
12/17E	1.74	0.04
12/18E	1.89	0.67

Julien Dumoulin-Smith

Analyst

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

Jerimiah Booream, CFA

Associate Analyst

jerimiah.booream@ubs.com
+1-212-713 4105

Mark Piorkowski, CPA

Associate Analyst

mark.piorkowski@ubs.com
+1-212-713 1033

Highlights (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	17	126	470	729	856	863	871	879
EBIT (UBS)	5	6	6	378	466	474	482	491
Net earnings (UBS)	0	(36)	(80)	126	138	150	163	176
EPS (UBS, diluted) (US\$)	(0.01)	(1.17)	(1.00)	1.58	1.74	1.89	2.05	2.21
DPS (US\$)	0.00	0.27	1.35	0.00	0.80	0.80	0.80	0.80
Net (debt) / cash	(436)	(1,130)	(3,956)	(3,144)	(2,814)	(2,556)	(2,285)	(2,001)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	29.3	4.9	1.2	51.8	54.4	54.9	55.4	55.9
ROIC (EBIT) %	1.8	0.4	0.1	5.7	7.5	8.0	8.5	9.0
EV/EBITDA (core) x	-	62.1	36.2	7.7	5.9	5.4	5.4	5.3
P/E (UBS, diluted) x	-	(25.3)	(28.2)	7.4	6.7	6.2	5.7	5.3
Equity FCF (UBS) yield %	-	(148.3)	(190.4)	79.0	43.0	36.0	37.2	38.5
Net dividend yield %	-	0.9	4.8	0.0	6.8	6.8	6.8	6.8

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$11.70 on 23 Jan 2017 12:15 EST

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What About the Sponsorship and Dividend Option?

Below we present our scenario around potential sponsorship arrangement, which would be separate and distinct from a full takeout offer (included in the options under consideration). Under our analysis, other shareholders could receive a dividend in the \$8-9.3/sh range depending on the inclusion of Appaloosa's shares. One area of potential difference would arise from the treatment of swaps (potential that the dividend is reduced by the proportionate share from 11.6M swaps). Additionally, we are including class B shares within the analysis, which would imply there are no issues with subordination of dividends (also unclear in this specific case).

Figure 1: What Could the Dividend

TERP Sponsorship	
Original Shares (MM)	140
New Shares Issued (MM)	<u>94.6</u>
Pro-Forma Shares (MM)	234.1
Off Price (\$/sh)	<u>\$11.5</u>
Total Offer (\$ Mn)	\$1,088
Dividend back to shareholders	
Original Shares Held by Other investors (MM) (Class A & B)	116.85
\$/sh received by other Investors	<u>\$9.31</u>
Brookfield Shares (11.075 Class A Shares and 11.6M Swaps)	22.7
Brookfield's shares post deal	117.2
Brookfield's ownership post deal	50.1%

If 8.7M Appaloosa Shares Included	
Original Shares (MM)	140
New Shares Issued (MM)	<u>77.2</u>
Pro-Forma Shares (MM)	216.7
Off Price (\$/sh)	<u>\$11.5</u>
Total Offer (\$ Mn)	\$888
Dividend back to shareholders	
Original Shares Held by Other investors (MM) (Class A & B)	108.15
\$/sh received by other Investors	<u>\$8.21</u>
Brookfield Shares (11.075 Class A Shares and 11.6M Swaps)	31.4
Brookfield's shares post deal	108.6
Brookfield's ownership post deal	50.1%

Source: UBSe, Company Reports

Forecast returns

Forecast price appreciation	-1.7%
Forecast dividend yield	3.4%
Forecast stock return	+1.7%
Market return assumption	6.2%
Forecast excess return	-4.5%

Valuation Method and Risk Statement

Risks to our investment thesis include but are not limited to: 1) corporate conduct as many board members are also on SunEdison's board; 2) contract risks as contracted assets comprise all of the portfolio; 3) reliance on wind power could create variability in generation output and thus potentially negatively affect earnings and distributions; 4) inability to access the capital markets on attractive terms; 5) declines in commodity prices and foreign exchange rates; 6) adverse political/legal/regulatory changes; 7) negative outcome from the audit over the financial statements and internal controls; 8) liquidity and failure to meet liabilities and other obligations as due; 9) SunEdison's liquidity and failure to meet liabilities and other obligations as due; 10) potential liabilities from Vivint Solar and other contemplated M&A transactions; 11) natural disasters; 12) inability to re-contract assets after contract expiration; 13) acceleration of obligations based upon SEC filings not being made in timely manner; 14) increase in required capital expenditures; 15) change in dividend policy; 16) delisting of common shares; 17) restrictions on ability to distribute cash flows; 18) other risks discussed in the note; and 19) and other unforeseen changes.

TERP valuation is based on discounted cash flow analysis.

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Buy	FSR is > 6% above the MRA.	45%	29%
Neutral	FSR is between -6% and 6% of the MRA.	39%	27%
Sell	FSR is > 6% below the MRA.	15%	16%
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 December 2016.

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UBS Securities LLC: Julien Dumoulin-Smith; Jeremiah Booream, CFA; Mark Piorkowski, CPA.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
TerraForm Power, Inc. ^{4, 6, 16}	TERP.O	Sell	N/A	US\$12.17	20 Jan 2017

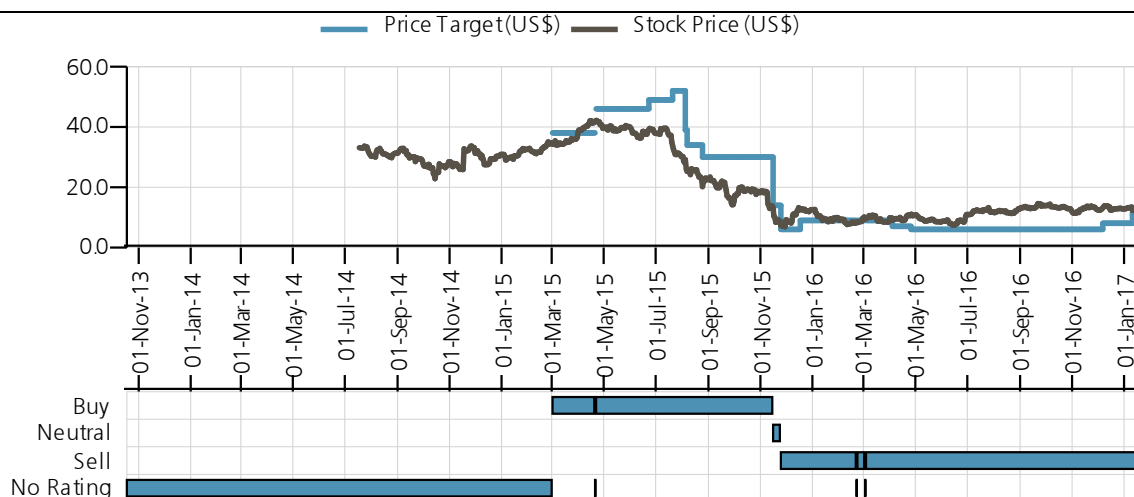
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TerraForm Power, Inc. (US\$)



Date	Stock Price (US\$)	Price Target (US\$)	Rating
2013-10-18	NaN	-	No Rating
2015-03-02	34.3	38.0	Buy
2015-04-21	41.68	-	No Rating
2015-04-22	42.15	46.0	Buy
2015-06-23	39.18	49.0	Buy
2015-07-21	33.71	52.0	Buy
2015-08-05	29.18	39.0	Buy
2015-08-07	25.24	34.0	Buy
2015-08-25	20.16	30.0	Buy
2015-11-16	13.13	14.0	Neutral
2015-11-25	7.27	6.0	Sell
2015-12-18	12.82	9.0	Sell
2016-02-22	8.57	-	No Rating
2016-02-23	8.55	9.0	Sell
2016-03-03	9.48	-	No Rating
2016-03-04	9.84	9.0	Sell
2016-04-04	9.07	7.0	Sell
2016-04-26	10.97	6.0	Sell
2016-12-07	13.19	8.0	Sell
2017-01-11	12.38	11.5	Sell

Source: UBS; as of 20 Jan 2017

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