

SunEdison Inc.

Sun Baked

Downgrade to Sell on TERP instability and lower value following shakeup

Following news of senior management replacements and corporate Board resignations at TERP, we see the entire SUNE-TERP complex now at risk. While the decision to effectively 'grab' control of TERP's balance sheet would appear to enhance SUNE's position, we see this as suggestive that ongoing liquidity concerns at SUNE remain unresolved and perhaps worse than understood. The question remains where management stands on its actual liquidity position, guidance, and confidence in the company's ability to meet going forward obligations. We remain perplexed by SUNE's decision to pull a 1Yr \$169 Mn term loan from GS at a ~15% rate in Aug to fund itself.

Further downside exists on guidance and margins

We continue to see downside to our estimates following VSLR 3Q results, seeing risk to mgmt's overall margin and MW deployment targets. We suspect a focus on underlying DevCo valuation will remain secondary to a full appreciation of SUNE's present and projected liquidity position through pending asset acquisitions. We emphasize the seeming schism between SUNE-TERP management could yet be indicative of a wider migration issue, particularly seeing datapoints of anecdotal executive departures and following the recent significant reductions in workforce executed. We emphasize this is not yet reflected in our PT. We see a catch-22 emerging as management needs to maintain its guidance to argue for fundamental solvency, but see liquidity risks around executing on this pace of project development as a significant risk.

The upside to SUNE from TERP changes: how much liquidity can it extract?

Given the changes in the governance of TERP/GLBL, we see SUNE as poised to potentially extract meaningful liquidity from its subsidiaries. The 11/24 GLBL transaction to paydown the margin loan is an example. It remains unclear whether banks will have latitude to pull commitments to TERP in light of shifts in governance structure.

Valuation: Reduce PT \$1 to \$2 on restricted cash haircut; lower TERP/GLBL value

Our PT remains based on a SOTP including: (1) -\$0.50 for lower TERP/GLBL LP value, (2) -\$0.20 for slower resi growth from Vivint, (3) -\$1.30 for the extraction of cash restricted for future development (4) offset by +\$1.50 of incremental value vs our prior assumption for retained projects not sold.

Equities

Americas

Electric Components & Equipment

12-month rating **Sell**
Prior: Neutral
12m price target **US\$2.00**
Prior: US\$3.00
Price **US\$4.12**
RIC: SUNE.N **BBG:** SUNE US

Trading data and key metrics

52-wk range	US\$32.13-2.82
Market cap.	US\$1.12bn
Shares o/s	272m (COM)
Free float	99%
Avg. daily volume ('000)	6,829
Avg. daily value (m)	US\$50.5
Common s/h equity (12/15E)	US\$1.28bn
P/BV (12/15E)	1.0x
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)	(0.91)
Q4E	0.71	(0.65)
12/15E	(1.72)	(3.83)
12/16E	(0.53)	(1.65)
12/17E	(0.33)	(1.71)

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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)	563	849	1,400	2,071
Net earnings (UBS)	64	(210)	(255)	(526)	(168)	(105)	140	550
EPS (UBS, diluted) (US\$)	0.28	(0.87)	(0.95)	(1.72)	(0.53)	(0.33)	0.44	1.72
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)	296	868	1,927	3,796
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	33.9	44.6	55.3	69.1
ROIC (EBIT) %	1.7	(8.2)	(10.3)	(0.6)	4.0	4.3	5.5	6.7
EV/EBITDA (core) x	3.0	44.3	-27.1	3.1	1.1	0.9	0.7	0.5
P/E (UBS, diluted) x	11.0	(8.8)	(20.2)	(2.4)	(7.8)	(12.4)	9.3	2.4
Equity FCF (UBS) yield %	(68.2)	(44.6)	(17.7)	(422.1)	(563.5)	(517.1)	(445.1)	(357.6)
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\$4.12 on 24 Nov 2015 19:37 EST

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PIVOTAL QUESTIONS

Q: Can SunEdison walk-away from the pending Vivint transaction?

This appears unlikely based upon the disclosed agreement in the absence of a material adverse change. If SunEdison does not close the transaction While it would appear a shift in the composition of cash and shares is reasonable (does Blackstone want SUNE shares now?), will SUNE want to give up its precious liquidity to get the deal closed on better terms?

[Please click here for our previous SunEdison report discussing Vivint.](#) →

Q: Will SunEdison face difficulty in developing projects in the future?

With the core value of SUNE tied to successful awards of new renewable contracts at the DevCo, confidence in the continued viability of the company as a credible counterparty is critical. Utilities need to be comfortable with SUNE not only as capable to execute on commitments to develop assets through the typical ~1-year construction cycle (and potentially up to ~4-5 year total development cycle) but also as an eventual owner of the assets. With SUNE shares continuing to experience substantial volatility and with the market cap now below \$1Bn (a fraction of peers), we see this as an emerging risk to the story. On the margin, we suspect guidance will be more challenging to achieve. In the near term with 5.5GW of backlog already booked, project development remains more of an execution issue.

[Please click here for a discussion of the development cycle for SunEdison.](#) →

Q: How does the recent debt activity impact the cost of capital?

During August 2015 SunEdison entered into a \$169Mn one-year second-lien term loan at a cost of 9.25% plus a 5.3% origination fee, one of the more expensive financings we have seen. Furthermore, the various convertible debt offerings have traded sharply lower with the 2020/2022/2023/2025 convertible notes all trading below 50.

[Please click here for our discussion of borrowing costs for SunEdison.](#) →

UBS VIEW

Shares to remain under pressure: We continue to see downside to our estimates following VSLR 3Q results, seeing risk to mgmt's overall margin and MW deployment targets. We suspect a focus on underlying Devco valuation will remain secondary to a full appreciation of SUNE's present and projected liquidity position through pending asset acquisitions

EVIDENCE

Solar/renewables industry is facing rising cost of capital and increasing competition: Recent disclosures from SunEdison, SolarCity, NRG Energy, and other developers points towards elevated competition to develop new projects and a corresponding decrease in realized margins. In our recent Evidence Lab report [\[here\]](#) also confirms a sharp increase in hiring of solar sales professionals.

WHAT'S PRICED IN?

Investors assign no/minimal value for YieldCo IDRs: After TerraForm Power and TerraForm Global have declined 70%+ YTD, the probability of realizing material general partnership value is now remote.

[Please click here for more details on what is priced in for SunEdison.](#) →

UPSIDE / DOWNSIDE SPECTRUM



[Please click here for our upside/downside analysis.](#) →

COMPANY DESCRIPTION

SunEdison is a global developer of renewable projects for utility, commercial & industrial, and residential consumers. The Company focuses primarily on solar but has expanded into wind recently.

[Please click here for a more detailed company description.](#) →

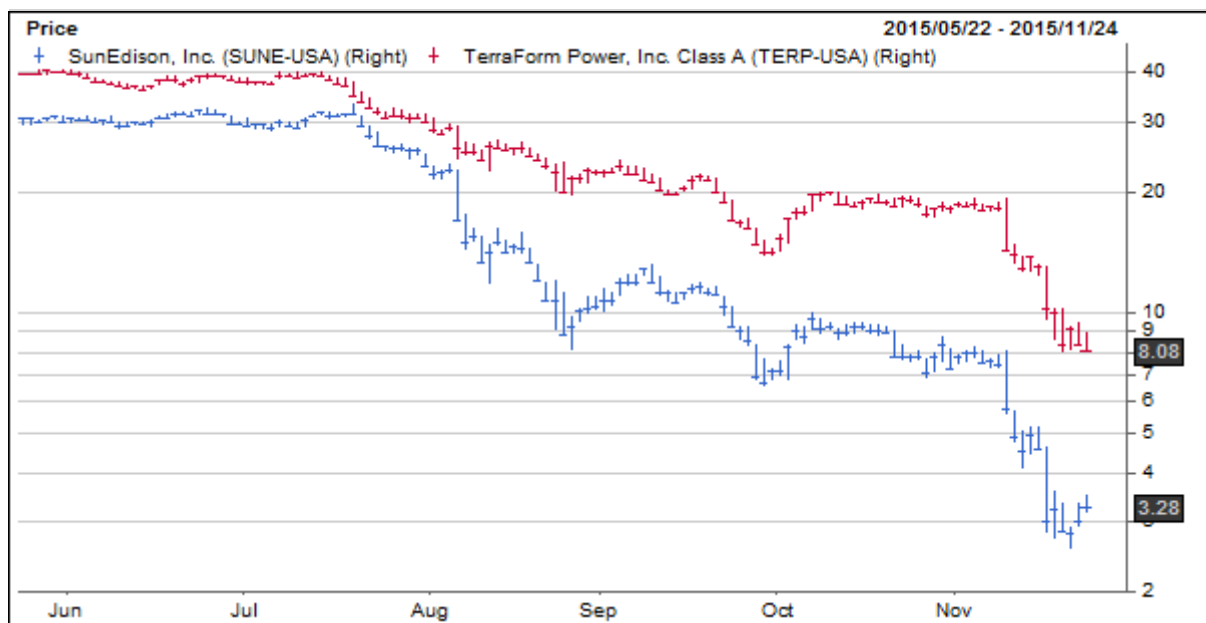
Shifting Focus

Our focus on SUNE remains on execution on the development plan in tandem with several leading indicators that raise continued focus on liquidity concerns. With limited equity value remaining we expect shares to remain exceptionally volatile. We see datapoints on liquidity as key to the story, driving fluctuations up and down daily, but with a wider macro-trend towards under-performance non 2016 guidance commitments driving a broader secular trajectory down. While our liquidity analysis using basic mgmt. discloses would suggest a liquidity runway into 206 leveraging its various warehouses, and ability to scale back on Devco aspirations, we see recent datapoints as indicating the company is more actively distressed (GLBL asset sale, GS Term loan at ~15% for 1-year maturity, and shift in corporate structure to reduce governance protections at TERP). Without an ability to tap debt or equity markets at palatable prices (in contrast to the past few months), we suspect avenues for liquidity sources will shift towards TERP under existing VSLR 5-year drop-down structure among other potential liquidity sources from the structure. The primary 'upside' driver remains a renegotiation of VSLR deal terms, however, this would appear insufficient to change fundamental trajectory of the company. As a final point, we emphasize refinancing of various maturities remain a significant risk, with entirely unpalatable uptick in interest expense.

How did we get here?

The SunEdison and TerraForm Power stories have evolved dramatically in 2015, particularly since the summer when shares have lost substantially all of their value. Below we provide a snapshot on what happened month-by-month and show the key highlights as the story has turned for the worse.

Figure 1: SUNE and TERP Trailing Six Month Performance



Source: FactSet

As the share price for TERP and GLBL declined through the months, our prior SUNE valuations were eroded by reduced LP and GP values.

- **July:** The most readily identifiable catalyst for the decline in SUNE and TERP is the Vivint Solar acquisition announcement on July 20. This deal sparked concerns about the quality of underlying cash flows, the premiums being paid for portfolios, and underlying discounted cash flow assumptions. Furthermore, as originally contemplated the Vivint (and previous transactions) were based upon significant capital markets issuances. Compounding concerns about access to the capital markets was the IPO of TerraForm Global (GLBL) which priced 45.5Mn shares at \$15 versus a previously disclosed regulatory filing seeking to sell 56.6Mn shares at \$19-\$21.
- **August:** SunEdison and TerraForm reported 2Q earnings on August 6th where the 'forgone' margins on drops to TERP implied 12.5% versus then management target for utility-scale guidance of 18%. While management attributed this to the specific UK assets sold during the quarter broader negative datapoints in the solar industry contributed to investor pessimism. Around the earnings release other obligations took focus such as the FirstWind earn-out payments, the interest obligations to GLBL, and operating expenses rising faster than expected. Importantly at the time SUNE articulated a plan that it would sacrifice margin to support the YieldCos, a position it would subsequently reverse. As the value of its stake in TERP decline, management indicated to us (no 8K at the time) that a margin call had been made against its \$410Mn margin loan securitized SUNE's TERP LP and GP interest. Towards the end of the month SUNE raised \$650Mn (\$626Mn after offer costs) with a 6.75% yield.
- **September:** Shares of both companies stabilized but continued to drift lower. This month was focused on SUNE looking to prove-out that it did not need its YieldCos to finance its strategy as it inked deals with Dominion to partner on assets and was able to attract more warehouse investors.
- **October:** SUNE held an off-cycle update call lowering its guidance for 2016 development volume and run-rate opex. At this point SUNE pivoted on its previous plans to sacrifice margin to make accretive transactions with its YieldCos and instead stated that it did not plan to make drop-downs into its YieldCo in 2016 (or beyond). At the time the reduction in operating expense was a positive development but was counterbalanced by lowered expectations for the value of the GP stake given a weakening TERP. Financing of completed projects would increasingly fall to the warehouse structures which we view as effectively sales.
- **November:** Third quarter results for SunEdison were highlighted again by lower margins on retained projects than expected (\$0.26/W vs 2016 expectation of \$0.36/W), a \$150Mn notice of arbitration around the Latin AmericaPower assets, additional O&M refunds to TERP on higher than budgeted costs for FirstWind, among other concerns. On TERP's separate earnings call it would not reaffirm its previously provided 2016+ dividend per share guidance given the uncertainty around the financing for the pending Vivint and Invenergy transactions. To close the Invenergy warehouse TERP management still has to raise over \$1Bn of capital (\$726Mn of project level debt and \$300Mn from outside investors). Pro-forma 9/30 cash (\$796Mn) plus undrawn revolver (\$658Mn) appears sufficient to meet the obligations for the Vivint and Invenergy assets (\$961Mn) but will stress the balance sheet in a way that we had not envisioned for a YieldCo. VSLR's 3Q15 results showed installs and bookings going down QoQ, costs going up, and the company needing to

install over 120 MW in 4Q15 just to hit the initial guidance of 523 MW to be purchased by TERP by FY15. On November 23rd SUNE and TERP announced that majority of its independent Board's conflict committee was reassigning along with its CEO and CFO, the majority of whom are being replaced by individuals with SunEdison relationships. The following day (November 24th) SUNE disclosed that it was entering into a transaction with its Global YieldCo, the proceeds of which were used to satisfy SUNE's margin loan as the value of TERP deteriorated further.

SUNE restructuring may be trickier than we once thought?

With the risk of limited real equity value potentially left in shares, we see the window for a proactive restructuring as closing. Restructuring could indeed simply result in convertible lenders owning the equity of the company. A proactive effort today to leave existing shareholders with a de-minimus level of equity value could prove to be 'the trick' to enable an orderly transition to creditors to maintain confidence in the company from counterparties.

Indigestion: What to make of all the deal-making?

With multiple transactions still pending for SUNE, we see a potential incentive for management to seek Chapter 11 relief rather than restructuring given the significant liquidity implications arising of pending transactions. Transactions include the acquisition of Renova from LIGHT (albeit this could be met with shares, effectively a non-cash transaction), remaining payments for FirstWind, and Vivint. We emphasize other pending transactions to close on pending GBL deal would appear to necessitate cash as well.

Figure 2: List of Initial GLBL portfolio assets – lots of pending transactions still

Project Name	Net Capacity (MW)	Status	PPA Counterparty	Remaining PPA (yrs)	COD
Brazil					
Hydro					
ESPRA	41.8	Pending	Eletrobras	13	2008
India					
Wind					
Hanumanhatti	50.4	Pending	HESCOM	16	2011
Gadag	31.2	Pending	BESCOM	14	2008
Bhakrani	20	Pending	JVVNL	24	2014
Honduras					
Wind					
Cerro de Hula	126	Pending	ENE	22	2011
Solar					
Choluteca	82	Pending	ENE	20	2015
Uruguay					
Solar					
Alto Cielo	26.4	Pending	UTE	28	2015
South Africa					
Wind					
Klipheuwel	17.6	Pending	Eskom	19	2014
Solar					
Aries ⁽¹²⁾	7.5	Pending	Eskom	19	2014
Konkoonsies ⁽¹²⁾	7.5	Pending	Eskom	19	2014
Costa Rica					
Wind					
Orosi ⁽⁷⁾⁽¹⁰⁾	50	Pending	ICE	19	2015
PESRL ⁽⁷⁾	24	Pending	ICE	6	1996
Peru					
Hydro					
LAP-Junin ⁽¹⁴⁾	39.1	Pending	MINEM	20	2014
LAP-HSC ⁽¹⁴⁾	33.4	P	MINEM	16	2009
Nicaragua					
Wind					
Eolo ⁽⁷⁾	44	Pending	DD	18	2012

Source: Company reports

How will shares trade? The question remains the very short-term

While unclear what will transpire in the near-term, we expect that management will largely focus on defense to address liabilities and shore up confidence in liquidity. We still do not see a takeout as likely given the significant risk to existing guidance, with counterparties likely more interested in picking through the backlog and specific projects versus the consolidated company given the leverage/uncertainty. We remain surprised by the quantum of shares traded for what appears a high-risk context; we suspect volume will abate on shares in the weeks ahead as reality sets in around the largely exhausted equity value. While several initial media reports have proven unsubstantiated of late – and drive substantial volatility in shares – we would not doubt M&A talk to accelerate around equities given their highly depressed equity value. We reiterate our view there will be no saviour for SUNE; this could yet prove a different case for TERP should a potential buyer get comfortable on associated liabilities. That said, with SUNE incentivized to maintain board control to effectuate any liquidity transfers back to the parent, we do not see them as a willing seller yet.

Counterparty Confidence? Implications of Board changes at TERP are far reaching.

We suspect the removal of the independent board could yet drive counterparties to accelerate payments where possible given the latest signs of SUNE's tight liquidity. We maintain our focus on counterparty confidence as critical to continued execution of SUNE's growth ambitions, with largely utility-counterparties likely anxious to take on SUNE's tenuous credit position as a counterparty.

Revisiting the Drop-downs

The day following the TERP and GLBL executive/board restructuring SUNE disclosed it has agreed to sell its equity interests in a 425MW Indian solar portfolio to GLBL for \$231Mn (subject to change). \$150Mn has been paid up front, of which \$95Mn has been used to pay down the margin loan (\$5Mn principal remains outstanding). In the filing it is noted that if the parties are not able to agree on the terms of the remaining \$81Mn, the initial \$150Mn will be refunded and the deal terminated. The agreement comes after Reuters reported that SUNE was looking to sell ~400MW for ~\$350Mn, so we conclude that SUNE was not able to reach an agreement with a third party and the portfolio was instead sold to GLBL at a discount to the reported asking price. At first glance, the deal looks accretive to GLBL, and points to SUNE's potential cash shortage, given the *immediate* need to pay down the margin loan with upfront cash proceeds, and the lack of liquidity to fund this internally. We see this datapoint as only further emphasizing our focus on liquidity beyond existing cash disclosures, with an emphasis on truly unrestricted (accessible) cash to address mandates such as the margin call.

Assumptions: We provide three separate scenarios, with the base-case being CAFD/W of \$0.15, which is the average metric that we have seen for comparable deals, without netting out the parent debt. The \$0.07/W assumes parent debt is netted out, and \$0.20/W is the upside and is based on an initial calculation of the CAFD/W on the current operating portfolio in the GLBL vehicle, without netting out parent debt.

Figure 3: SUNE-GLBL Terms

Disclosed Deal Metrics		
Portfolio Size (MW)	425	
Price Paid by GLBL (\$mn)	\$231	
CAFD/W Assumptions		
<i>Downside</i>	<i>Base</i>	<i>Upside</i>
\$0.07	\$0.15	\$0.20
CAFD (\$mn)		
<i>Downside</i>	<i>Base</i>	<i>Upside</i>
\$30	\$64	\$85
Yield		
<i>Downside</i>	<i>Base</i>	<i>Upside</i>
13%	28%	37%

Source:

Valuation: Reducing PT \$1 to \$2

Needless to say, the latest blow to investors' confidence has de-facto ended its strategy for general partnership upside at the YieldCos, leaving no IDR-related upside. We see the downside case zero, with liquidation value likely a meaningful haircut to creditors. We have reduced our PT \$1/sh to account for several new adjustments:

1. **--\$0.75/sh** lower TERP/GLBL value (using MtM values)
2. **--\$0.25/sh** reduced residential solar growth from Vivint, with a new assumption of only 500 MW vs 600 previously for 2016. Seeing the VSLR deal announced mid-3Q and the decelerating trend already exhibited, we suspect even this 500 MW could well be ahead of what is realistically achievable without a meaningful infusion back in employee retention and marketing efforts.
3. **--\$1.50/sh** for the extraction of \$431M of cash restricted for future development. In our sum of the parts below, we now assume only \$1.031B of cash in our sum of the parts vs 1.462B previously.

Figure 4: Pro-Forma SUNE Cash Walk, 3Q15

Pro-Forma SUNE Cash Walk	3Q15
SUNE total cash (A; from 3Q presentation)	\$ 1,380
SUNE consolidated restricted cash (B)	697
TERP restricted cash (C)	90
GLBL restricted cash (D)	176
SUNE Devco restricted cash (E=B-C-D)	431
SUNE Devco unrestricted cash (A-E) <i>removed --></i>	949
Vivint Solar Cash	82
Proxy for 3Q15 Pr-Forma Net Cash	\$ 1,031

Source: Company filings, UBS Estimates

4. **~+\$1.50/sh** of incremental value from 402 MW of completed projects retained by SUNE at \$0.15 of CAFD per watt, valued at a 10% yield (about where YieldCos besides TERP trade). This includes the projects that management discloses as operating IPP and on the call right lists for TERP/GLBL. It is unclear the source of the 425MW of India (i.e. whether all the assets are completed). We also include \$150Mn proceeds from the first piece of the GLBL transaction announced on 11/24. *We emphasize recent disclosures about MWs 'in progress' adds to the transparency of on-balance sheet MWs, adding to the incremental value of the story.*

Figure 5: SUNE Full Sum-of-the-Parts Valuation (Figure 1 of 2)

SunEdison Valuation UBSe	Downside	Base	Upside
TERP LP Ownership Interest at \$8/sh			
Shares Ow ned (Mn), 2015e	63.0	63.0	63.0
TERP Pow er Current Price Price (\$/sh) - [10% Dow n/Up Scenarios]	<u>\$7.20</u>	<u>\$8.00</u>	<u>\$8.80</u>
Equity Value (\$ Mn)	\$454	\$504	\$554
TERP LP Value to SUNE	\$1.37	\$1.52	\$1.67
TERP GP Ownership Interest			
TERP GP Value to SUNE	\$0.00	\$0.00	\$1.79
GLBL LP Ownership Interest at \$5.03/sh			
Shares Ow ned (Mn), IPO	60.3	60.3	60.3
TERP Global Current Price Price (\$/sh) - [10% Dow n/Up Scenarios]	<u>\$4.53</u>	<u>\$5.03</u>	<u>\$5.53</u>
Equity Value (\$ Mn)	\$273	\$303	\$333
GLBL LP Value to SUNE	\$0.82	\$0.91	\$1.01
GLBL GP Ownership Interest			
GLBL GP Value to SUNE	\$0.00	\$0.00	\$0.13
DevCo Value --> Step-up Value as Dropped from SUNE to TERP			
Utility-Scale Capacity Built (MW) - 2016	3,000	3,000	3,000
\$/Watt Costs	2.00	2.00	2.00
Gross Margin (%)	12.0%	16.0%	17.5%
Guidance Range (%)		15-20%	
Implied Utility-Scale Margin (\$/Watt)	0.24	0.32	0.35
Utility-Scale Gross Margin (\$ Mn)	720	960	1,050
Resi/DG Capacity Built (MW) - 2016	100	500	600
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 dow n to reflect 2017 stepdow n	\$0.30	\$0.50	\$0.50
Implied DG Margin (%)	10%	19%	19%
DG Gross Margin (\$ Mn)	30	250	300
Total Gross Margin (\$ Mn)	750	1,210	1,350
Weighted Avg Margin (\$/W)	0.24	0.35	0.38
Mgmt Guidance		0.35	
Weighted Average Margin	11.9%	16.4%	17.7%
Total MWs	3,100	3,500	3,600
Total Guidance for 2016		3300-3700	
Opex	(595)	(595)	(595)
Opex \$/W Guidance		0.17	
EBITDA	155	615	755
Implied Gross Margin (\$/W)	0.05	0.21	0.25
EV/EBITDA-> 4-6x Range	5.0x	5.0x	5.0x
Implied Value	775	3,075	3,775
Value to SUNE	\$2.34	\$9.27	\$11.38

Source: Company Filings and UBS Estimates

Figure 6: SUNE Full Sum-of-the-Parts Valuation (Figure 2 of 2)

Solar and Wind Servicing			
	2015 (Today)	2017	2017 Upside
Capacity (MW)	5,000	14,523	14,523
Revenue @ \$20/kW-yr	100	290.46	290.46
EBITDA Margin %	16%	20%	25%
EBITDA	16	58	73
EV/EBITDA	9.0x	9.0x	9.0x
Implied Value	144	523	654
Implied Value (\$/kW-yr)	3	4	5
Value to SUNE	\$0.43	\$1.58	\$1.97
Completed Projects Retained by SUNE			
Capacity (MW)	402	402	402
CAFD/Watt (\$)	\$0.13	\$0.15	\$0.18
CAFD (\$M)	52	60	72
Third party transaction yield assumption	\$0.10	\$0.10	\$0.10
Market Value of Equity to SUNE	\$523	\$603	\$724
Shares Outstanding	332	332	332
Value to SUNE	\$1.58	\$1.82	\$2.18
Parent Obligations			
Convertible senior notes due 2018 (2.00%)	\$300	\$300	\$300
Convertible senior notes due 2020 (0.25%)	\$600	\$600	\$600
Convertible senior notes due 2021 (2.75%)	\$300	\$300	\$300
Convertible senior notes due 2022 (2.375%)	\$460	\$460	\$460
Convertible senior notes due 2023 (2.625%)	\$450	\$450	\$450
Convertible senior notes due 2025 (3.375%)	\$450	\$450	\$450
Convertible senior notes <u>to be</u> issued for Vivint Acquisition	\$350	\$350	\$350
Convertible preferred stock (6.75%)	\$0	\$0	\$0
Total Converts	\$2,910	\$2,910	\$2,910
Other Credit Facilities	\$266	\$266	\$266
Solar Energy recourse financing	\$8	\$8	\$8
Goldman Term Loan (2016 @ 9.25% plus 5.3% orig cost)	\$169	\$169	\$169
Assumption of Vivint Long-Term Debt	\$209	\$209	\$209
Total Recourse Debt	\$3,562	\$3,562	\$3,562
Gross Margin Loan due 2017 collateralized w / TERP Shares (Offset by Cash)	\$410	\$410	\$410
Initial payment from GLBL for 425MW Indian Solar	(\$150)	(\$150)	(\$150)
Exchangeable Notes due 2020 (3.75%) collateralized w / TERP Shares	\$328	\$328	\$328
Total Debt Securitized by TERP Stake (First Wind Acquisition)	\$588	\$588	\$588
Non-Recourse 1st Lien Term Loan from Vivint Acquisition (Prospective)	\$500	\$500	\$500
GLBL Interest Obligations	\$203	\$203	\$203
Earnout Payments to First Wind (NPV of \$510Mn over three years)	\$472	\$472	\$472
Interest Payment Due to GLBL's Orosi Project Credit Facilities - 3/31/2015	\$78	\$78	\$78
Grand Total Obligations	\$5,402	\$5,402	\$5,402
3Q DevCo Unrestricted Cash (SUNE+VSLR-TERP-GLBL sub cash)	(1,031)	(1,031)	(1,031)
Net Debt	\$4,371	\$4,371	\$4,371
Obligation of SUNE	(\$13.18)	(\$13.18)	(\$13.18)
SUNE Equity Value per Share	\$0	\$2	\$7
Upside/(Downside)	-100%	-53%	69%

Source: Company Filings and UBS Estimates

PIVOTAL QUESTIONS

[return](#) ↑**Q: Can SunEdison walk-away from the pending Vivint transaction?**

UBS VIEW

This appears unlikely based upon the disclosed agreement in the absence of a material adverse change. While it would appear a shift in the composition of cash and shares is reasonable (does Blackstone want SUNE shares now?), will SUNE want to give up its precious liquidity to get the deal closed on better terms?

EVIDENCE

The recent management restructuring at TERP points directly to the VSLR deal, with SUNE looking to finalize the acquisition even with VSLR not upholding their end of the bargain regarding delivering 523 MW of operating assets to TERP by FY15 (have installed ~400 MW of operating assets through 3Q15). Even with the lack of execution at VSLR, TERP still owes \$922mn to SUNE for whatever volume of assets VSLR is able to deliver. TERP and SUNE management have been adamant in their message that the deal will close in 4Q15 or 1Q16, and the lack of material adverse change means that there are likely no options for SUNE to back out of it. What is more plausible is that TERP/ SUNE will look to attempt to restructure the deal based on updated expectations of execution by VSLR.

WHAT'S PRICED IN?

We expect the VSLR deal will be closed by SUNE, which has many implications for both SUNE and TERP. On the TERP level, not only will the company be obligated to purchase the first bucket of operating assets from VSLR through SUNE, but the interim agreement in the contract states that TERP will purchase up to 450 MW of VSLR assets in 2016 from SUNE, and up to 500 MW per year for the next 4 years thereafter. This interim agreement is highly dilutive for TERP in our analysis.

PIVOTAL QUESTIONS

[return](#) ↑**Q: Will SunEdison face difficulty in developing projects in the future?**

UBS VIEW

With the core value of SUNE tied to successful awards of new renewable contracts at the DevCo, confidence in the continued viability of the company as a credible counterparty is critical. Utilities need to be comfortable with SUNE not only as capable to execute on commitments to develop assets through the typical ~1-year construction cycle (and potentially up to ~4-5 year total development cycle) but also as an eventual owner of the assets. With SUNE shares continuing to experience substantial volatility and with the market cap now below \$1Bn (a fraction of peers), we see this as an emerging risk to the story. On the margin, we suspect guidance will be more challenging to achieve. In the near term with 5.5GW of backlog already booked, project development remains more of an execution issue.

EVIDENCE

Between 2Q15 and 3Q15, SUNE decreased guidance for 2016 development from 4.2-4.5 GW to 3.3-3.7 GW, with the company stating that the new plan is to grow at a slower and more sustainable rate. Given the more recent liquidity concerns, we see it as incrementally more difficult for SUNE to fund the development efforts, specifically beyond 2016. To this point, we see the funding of development efforts as the pertinent issue relative to SUNE, given our view that there is high demand for renewable assets.

WHAT'S PRICED IN?

We expect SUNE to come in at the midpoint of development guidance, at 3.5 GW, and we assume that the company would hypothetically be able to monetize the DevCo assets at ~16% margin.

PIVOTAL QUESTIONS

[return](#) ↑**Q: How does the recent debt activity impact the cost of capital?**

UBS VIEW

During August 2015 SunEdison entered into a \$169Mn one-year second-lien term loan at a cost of 9.25% plus a 5.3% origination fee, one of the more expensive financings we have seen. Furthermore, the various convertible debt offerings have traded sharply lower with the 2020/2022/2023/2025 convertible notes all trading below 50. We believe that as the company is required to pay down short-term obligations, the cost of capital will spike given the liquidity concerns and SUNE's distressed need for capital.

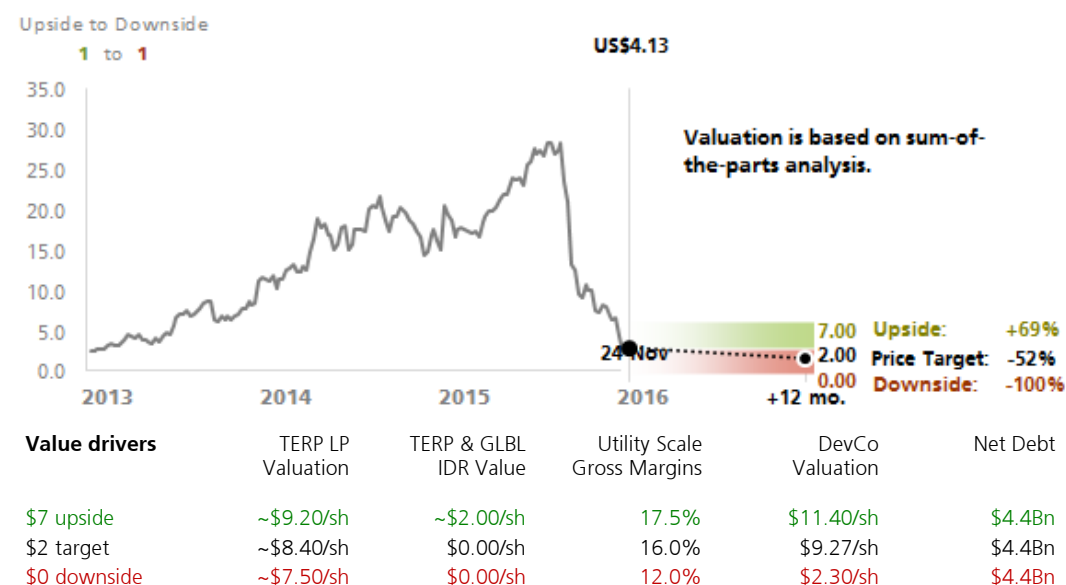
EVIDENCE

SUNE recently sold a 425 MW PV portfolio located in India to GLBL for a disclosed \$231mn, at least \$100mn below the reported price that SUNE was shopping in the 3rd party market per Reuters. \$150mn was paid upfront, of which \$95mn was used to pay down a margin loan. Initial calculations indicate that the deal is accretive for GLBL but raises concerns about (1) whether SUNE can continue to offer such high margins to its YieldCo and (2) why SUNE entered into the transaction on November 24th versus an earlier date – the need to satisfy the margin loan appears to be a catalyst.

WHAT'S PRICED IN?

We flag that the cost of capital associated with the term loan and GLBL portfolio sales will be the relative norm for SUNE going forward given the liquidity concerns surrounding SUNE that are permeating in the market.

UPSIDE / DOWNSIDE SPECTRUM

[return](#) ↑

Risk to the current share price is skewed to the downside on a probability-weighted basis.

While the downside case can naturally only skew to \$0, we highlight that our mathematically downside is negative -\$7/sh indicating that the probability of downside is greater.

Upside (\$7): Our upside case is premised on the YieldCos increasing in value and SUNE realizing incentive distribution right value from its General Partnership interests. The other key driver relates to the Development Company (DevCo) where stronger margins can help SUNE

Base (\$2): Our base case is premised on the current market values for the YieldCos, no IDR value given the current stock prices for the YieldCos making accretive transactions challenging, and the lower-end of the gross margin guidance for utility-scale projects based on competitive pressures.

Downside (\$0): The most significant driver of the downside case relates to weakness at the DevCo where inability to achieve its gross margin guidance would materially reduce EBITDA and cash flows.

WHAT'S PRICED IN?

[return](#) ↑

Investors assign no/minimal value for YieldCo IDRs: After TerraForm Power and TerraForm Global have declined 70%+ YTD, the probability of realizing material general partnership value is now remote.

Substantially all of the equity value for SUNE is premised on investors belief that it can generate positive cash flows in the future.

Consummation of Vivint transaction appears to be consensus: While investors continue to ask whether this obligation can be cancelled/renegotiated, most appear to have priced in this deal.

Margin erosion and future capacity construction are wildcards: Management recently reduced guidance for 2016 capacity construction and investors are mixed on whether further reductions are likely. We continue to believe that both capacity and margins will face pressure.

COMPANY DESCRIPTION

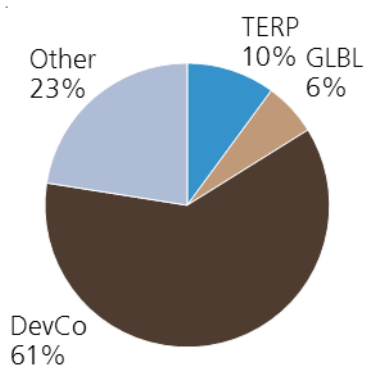
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Market Cap	US\$1.12bn
Shares Outstanding	272m (COM)
Industry and outlook	Electric Components & Equipment
Region	Americas
Website	www.sunedison.com

SunEdison is a global developer of renewable projects for utility, commercial & industrial, and residential consumers. The Company focuses primarily on solar but has expanded into wind recently. SUNE consolidates its ownership in its two YieldCos, TERP and GLBL, which were created to own contracted assets.

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 slow mid-decade. Solar companies will face headwinds from expiring tax credits and increased competition for project development opportunities.

Valuation Components: Excluding Parent Drag

Parent drag represents an -87% offset.

Forecast returns

Forecast price appreciation	-51.5%
Forecast dividend yield	0.0%
Forecast stock return	-51.5%
Market return assumption	5.9%
Forecast excess return	-57.4%

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 competition 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\$4.12	24 Nov 2015
TerraForm Power, Inc. ^{2, 4, 5, 6, 16}	TERP.O	Neutral	N/A	US\$8.83	24 Nov 2015

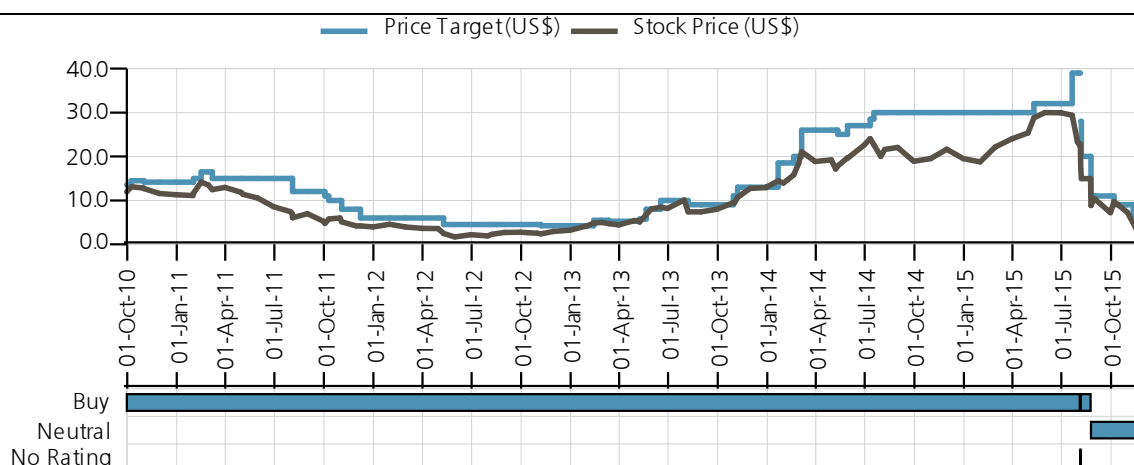
Source: UBS. All prices as of local market close.

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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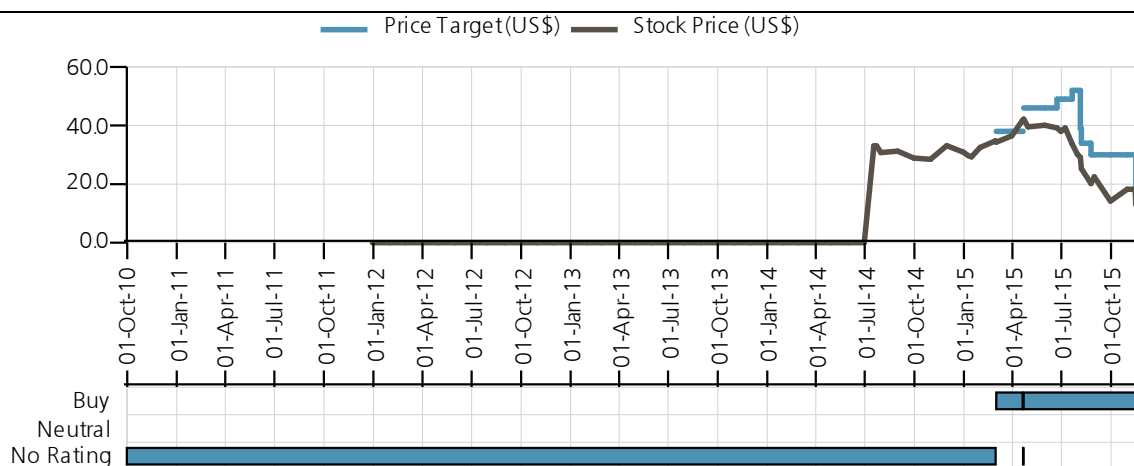
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

SunEdison Inc. (US\$)



Source: UBS; as of 24 Nov 2015

TerraForm Power, Inc. (US\$)



Source: UBS; as of 24 Nov 2015

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