Exelon Corp.

Will Market Solution be a Trick-or-Treat?

Equities

Americas
Electric Utilities

12-month rating	Neutral
12m price target	US$37.00
	Prior: US$35.00
Price	US$36.70

RIC: EXC.N BBG: EXC US

Trading data and key metrics

52-wk range	US$37.46-26.62
Market cap.	US$31.7bn
Shares o/s	864m (COM)
Free float	100%
Avg. daily volume ('000)	1,495
Avg. daily value (m)	US$50.2
Common s/h equity (12/14E)	US$23.8bn
P/BV (12/14E)	1.3x
Net debt / EBITDA (12/14E)	3.5x

EPS (UBS, diluted) (US$)

	12/14E			
	From	To	% ch	Cons.
Q1	0.62	0.62	0.00	0.62
Q2	0.51	0.51	0.00	0.51
Q3	0.71	0.78	10.66	0.78
Q4E	0.61	0.46	-24.31	0.53
12/14E	2.45	2.38	-2.94	2.38
12/15E	2.80	2.78	-0.63	2.54
12/16E	2.78	2.73	-1.77	2.63

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The treat: Shares are now at Summer highs on increasing capacity payments

After yesterday's 4% pop, shares are again approaching Summer highs despite ~$4/MWh lower power prices as we think investors continue to view Exelon as a preferred way to capture the opportunities present from the PJM capacity market as well as the support from a regulated utility. We continue to see PJM's capacity reforms as providing real value for the sector, both through the transition period and in the next '18/'19+ auction with prices hitting $200/MW-day or greater.

The trick: Energy margin offset to CP reforms could be understated offset

The potential capacity market upside for PJM generators has been well documented but the offsetting energy price compression is a potential counterbalance and is expected to disproportionately impact baseload generations like Exelon. Using PJM/Monitoring Analytics' latest estimate of energy market offset for the 2018/2019 auction of ~$3-4/MWh (albeit potentially meaningfully inflated by the recent polar vortex), more than half of EXC's uplift could be given-back as PJM units dispatch greater with less EFOR and new gas units enter the market (albeit this offset would only become clear later, as power markets reflect the impact of reforms). See math below.

EEI not expected to bring big surprises but dissecting 2017 GM regardless

While we wait for details of PJM reforms and the magnitude of the market solution in Illinois, the EEI Conference next month will be in focus, particularly 2017 gross margins at ExGen. We estimate 2017 GM of $7,650Mn, which includes $125Mn for the new Texas assets (partial year) but also a similar amount for Keystone & Conemaugh which will likely be included (divestiture closing not anticipated to close in time). With run-rate UBSe EBITDA of $130Mn and a 9x EV / EBITDA multiple, the value of the $1.4Bn Texas the new build is not immediately accretive. We also look at utilities' long-term trajectory; while '14E utilities look down, even removing storms we still see it as ~flattish.

Valuation: Increasing Price Target $2 to $37 –PJM remains the focus to upside

Valuation is based on 2017E utilities sum-of-the-parts. Following Thursday's move, we believe EXC appears to have limited upside relative to earlier this month with shares at our new PT.

Highlights (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	19,118.00	24,674.00	25,442.00	23,219.68	19,981.72	20,376.84	21,135.88	21,899.39
EBIT (UBS)	5,095.00	4,539.00	4,179.47	4,082.96	4,536.57	4,467.77	4,654.04	4,922.06
Net earnings (UBS)	2,763.00	2,326.00	2,149.47	2,050.05	2,405.31	2,361.14	2,397.04	2,578.24
EPS (UBS, diluted) (US$)	4.16	2.84	2.50	2.38	2.78	2.73	2.76	2.97
DPS (US$)	2.10	2.10	1.46	1.24	1.24	1.24	1.24	1.24
Net (debt) / cash	(12,489.00)	(18,134.00)	(18,495.00)	(19,122.81)	(19,683.33)	(21,344.34)	(21,454.19)	(21,447.24)

Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	26.7	18.4	16.4	17.6	22.7	21.9	22.0	22.5
ROIC (EBIT) %	16.4	11.8	9.1	8.6	9.2	8.6	8.6	8.8
EV/EBITDA (core) x	6.6	7.4	8.4	9.4	8.6	8.8	8.6	8.1
P/E (UBS, diluted) x	10.2	12.9	12.4	15.4	13.2	13.5	13.3	12.4
Equity FCF (UBS) yield %	2.9	1.3	3.6	(0.3)	1.2	(2.3)	2.6	3.0
Net dividend yield %	5.0	5.7	4.7	3.4	3.4	3.4	3.4	3.4

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$36.70 on 30 Oct 2014 17:42 EDT

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Investment Thesis

Exelon Corp.

12-month rating **Neutral**

12m price target **US$37.00**

Investment case

While having substantially improved its outlook following its dividend cut with 4Q13, we remain cautious as to the next direction for power prices following the recent sell-off. Meanwhile its regulated utilities should continue to see an improving profile, picking up the majority of the coverage, but not all, for its new reduced dividend. We expect the pending POM deal should benefit shares if able to gain the necessary approvals.

Upside scenario

Our upside case is based on realization of the company's expectation of $2-4/MWh power price upside and a constructive shareholder process at PJM curtailing speculative DR and transmission imports, both driving improvements in the economics of Exelon's PJM nuclear generation fleet. We estimate the ability to close the POM deal should also drive ~$0.15/sh of run-rate accretion. Should retail consolidation also lead to margin stabilization, we believe shares could trade at $42.

Downside scenario

Our downside case assumes further PJM imports and DR penetration (i.e. status quo), as well as substantial new, efficient gas-fired merchant build, further driving down economics for the company's nuclear portfolio. Failure to close the contemplated POM deal would also remove favorable accretion and drive downside. Coupled with a $1/mcf downward move in natural gas, we believe we could see a valuation of $32.

Upcoming catalysts

November 12	EEI Financial Conference
Nov '14-Jan '15	Reports from IL on economic impact of nukes

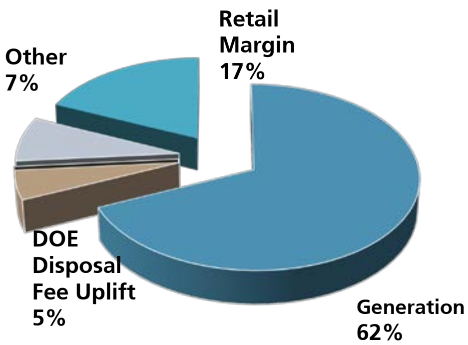
Business description

Exelon is headquartered in Chicago, Illinois and was created in 2000 by the merger of PECO Energy of Pennsylvania and Unicom Corp. of Illinois. The company is among the largest electric suppliers in the US, serving 6.6 million customers. It also has a large fleet of unregulated generating assets, primarily nuclear, an energy marketing business, and maintains a natural gas distribution operation in southeastern Pennsylvania.

Industry outlook

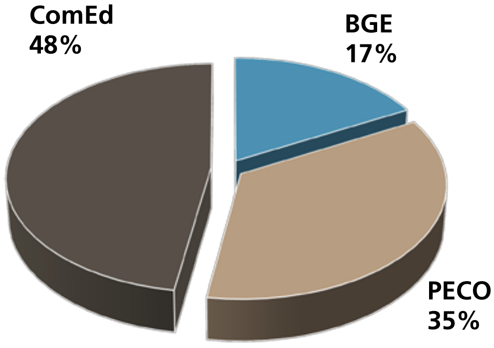
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited 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

ExGen EBITDA by Source (2017E) (%)



Source: Company Filings and UBS Estimates

Utility Net Income by Segment (2017E) (%)



Source: Company Filings and UBS Estimates

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The Power Line on EXC

We are increasing our Price Target $2 to $37, split approximately evenly between the uplift from the multi-year highs in regulated peer multiples and higher closed generation adjusted EBITDA. Exelon is one of the biggest beneficiaries of the PJM Capacity Performance proposed reforms, emphasizing the potential for added upside should the reforms drive the 'constraining' of Exelon's ComEd zone around Chicago. We warn around the potential energy offset given the magnitude of Exelon's nuclear fleet of $2-3/MWh could offset much of the uplift if truly materializing according to PJM's estimate (albeit seemingly a skewed estimate in our view). Turning to 2017 gross margin expectations, we see mgmt's decision to invest ~$1.4Bn in 2GW of Texas generation (despite the cost advantage) given our estimation of $130Mn EBITDA as implying near breakeven value to company. We attribute this investment in management's continued constructive view on this market, seeing it as a core region in which it intends to diversify. Meanwhile, we see its pending divestment of Keystone & Conemaugh for $470 Mn as implying ~7-10x EV / EBITDA (or $374/kW), an appropriate sale price we think to exit coal assets in Appalachia.

Bottom line, we suspect shares could continue to outperform with near-term datapoints on PJM reforms, but some forthcoming offsets and risk factors keep us on the sidelines. Specifically, offsets from energy market impacts (from CP reforms) alongside a reversal of the polar vortex premium embedded in 2015 winter deliveries (mostly Jan/Feb) are the most present risks (and EXC as a primarily baseload generator as among the most exposed to this thesis). With the perception that dividend-yielding utilities remain the 'safe' way to play the power sector in light of recent market volatility, we believe diversified utilities led by EXC could continue to outperform peer IPPs in the near-term (we believe Dynegy's risk-reward is more appealing). Overall the upcoming EEI conference – with discussion of the PJM reforms and demand response pull pack likely the hottest topics – should support PJM stocks.

Latest transactions do not paint a clear picture.

Links to our relevant recent research are below:

9/30/14 Doing the Texas Two Step
8/25/14 Deploying Capital, One Asset At a Time
8/4/14 Power Crossroads: Still Not Quite the Time
7/30/14 "Getting Back" to Guidance
6/24/14 Nuclear Politics
5/1/14 How to Think about EXC Beyond the Deal?

'No Bailout'

Generators begin to take stances on how to characterize the ideal solution to improve plant economics.

Exelon went the distance to clarify that it was not seeking a 'bailout' of its nuclear portfolio in Illinois, stating that a bilateral PPA or other out-of-market solution (as is being pursued in Ohio) was *entirely* against what they were otherwise seeking. We see the ongoing heat between Exelon and FirstEnergy over the right approach to address their portfolios as among the few examples of substantial in-fighting in the generation community of late. For example, management explicitly stated that it opposes FE's motion to remove demand response from previous auctions and re-run the auctions; however, does support demand response reforms.

Illinois? Market + Solution = Market Solution

But what is a 'market' based solution? While management has continued to echo that either a 'Clean' Energy standard (re-defined using the base of the state's existing Renewable Portfolio Standard, RPS), or by joining a carbon regime (such as RGGI), we continue to caution that neither of these solutions in their current form will likely be able to fill the cash flow deficit presented by the most cash-starved nuclear assets. Rather, we believe Exelon continues to search for a mechanism that could to fill the $5-6/MWh cash flow deficit (hence the need for a Market 'Solution', rather than just a market-based outcome). We do not see any silver bullets – and see the 'easiest' route forward as being simply a corresponding recovery in power and capacity prices to 'smooth over' broader concerns.

A fundamental improvement in power and capacity prices will likely be needed in addition to a market-based solution in Illinois to help fill the cash flow gap.

Exelon remains adamant it will find a solution with the state by May 2015, with noise around an initial legislative framework likely to pick up following the publication of documents from both the Illinois EPA and ICC around the value and impacts of the nuclear fleet (due out in the window between Nov 15th – Jan 15th).

Figure 1: Clinton Earnings and Cash Flow Profile

Clinton ($Mn)	2014	2015	2016	2017
Capacity Payments (Optimistic?)	9	10	11	13
Dispatch (TWh)	8.7	8.7	8.7	8.7
Power Price (Discount to NI Hub)	30	31	31	32
Ancillary Services (est.)	10	10	10	10
Energy Revenue	258	271	271	277
Revenue ($ Mn)	267	281	282	289
Nuclear Fuel ($/MWh)	6.5	6.1	6.5	6.6
Fuel Cost ($ Mn)	(57)	(53)	(56)	(58)
Non-Fuel Production Cost ($ Mn)	(216)	(216)	(216)	(216)
Taxes other than Inc.	(15)	(15)	(16)	(16)
EBITDA ($ Mn)	(20)	(3)	(5)	(0)
EBITDA Margin ($/MWh)	(2.34)	(0.34)	(0.62)	(0.03)
Est. D&A	(31)	(31)	(32)	(33)
EBIT	(51)	(34)	(38)	(33)
Taxes (Assume 37%)	19	13	14	12
Net Income	(32)	(22)	(24)	(21)
EPS	(0.04)	(0.03)	(0.03)	(0.02)
Cash Flow Adjustments:				
D&A	31	31	32	33
Addback Nuke Fuel	57	53	56	58
CFO	55	63	65	70
Maintenance Capex	(54)	(54)	(54)	(54)
Nuclear Fuel	(56)	(59)	(61)	(60)
Total Capex	(110)	(113)	(114)	(114)
Free Cash Flow	(55)	(50)	(50)	(44)
FCF per MWh	(6.3)	(5.7)	(5.7)	(5.1)

Source: Company Filings and UBS Estimates

The tricky question remains what to do if a market-fix doesn't 'work'?

Among the thorniest questions we suspect EXC could yet be faced with is if the state of Illinois ultimately does pursue a RPS fix or joins RGGI – and the revenues do not prove sufficient – will there be heat on the company if it does close one or more of the 'at-risk' sites?

Figure 2: Quad Cities Earnings and Cash Flow Profile

Quad Cities ($Mn)	2014	2015	2016	2017
Dispatch (TWh)	10.8	10.8	10.8	10.8
Power (~$5/MWh disc. to NI Hub)	27	28	28	29
Energy Revenue	294	305	305	313
Revenue ($ Mn)	294	305	305	313
Nuclear Fuel ($/MWh)	6.54	6.12	6.48	6.63
Fuel Cost ($ Mn)	(70.9)	(66.3)	(70.2)	(71.9)
Non-Fuel O&M ($/kW-yr)				
Non-Fuel Production Cost ($ Mn)	(202)	(202)	(202)	(202)
Taxes other than Inc.	(7)	(7)	(8)	(8)
EBITDA ($ Mn)	15	30	26	31
EBITDA Margin ($/MWh)	1.34	2.75	2.37	2.87
Est. D&A	(37)	(38)	(39)	(40)
EBIT	(22)	(8)	(14)	(9)
Taxes (assume 37%)	8	3	5	3
Net Income	(14)	(5)	(9)	(6)
EPS	(0.02)	(0.01)	(0.01)	(0.01)
Cash Flow Adjustments:				
D&A	37	38	39	40
Addback Nuke Fuel	71	66	70	72
CFO	94	99	101	106
Maintenance Capex	(67)	(67)	(67)	(67)
Nuclear Fuel	(70)	(74)	(81)	(81)
Total Capex	(137)	(141)	(148)	(148)
Free Cash Flow	(44)	(42)	(47)	(42)
FCF per MWh	(4.0)	(3.8)	(4.4)	(3.9)

Source: Company Filings and UBS Estimates

Saving the Day with the Capacity Performance Scheme?

We believe Exelon could yet save-face on a 'market fix', implementing both a 'Clean Energy' standard (much more palatable to Illinois' coal interests), which could drive $0.50-1.00/MWh to its nuclear portfolio, alongside a fundamental improvement in capacity prices amidst ongoing discussion of PJM capacity reforms. We suspect much (but not necessarily all) of the cash flow deficit of the plants could well be addressed through higher capacity prices (albeit offset in part by lower energy prices – elaborated on the next page).

PJM Capacity Performance uplift will be key.

New York isn't a bailout either – it's a reliability regime

We suspect management would characterize its attempts to reach a deal in New York to maintain its 580MW single-unit Ginna nuclear asset as more of a reliability construct through the period in which requisite transmission backstop could be enabled. While no formal request to close the plant has been filed with the NY-ISO (a point of contention with intervenors), we see the reliability docket before RG&E as the most logical forum for the resolution of an RMR deal to be hammered out. The question remains what will Exelon do with Ginna beyond 2018, once a deal has expired (it will likely let the plant go – rather than saving it in our view).
Case No. 14-E-0270

No material update on Ginna with 3Q results and we still do not believe that the asset has a long remaining life.

The pivotal question to this deal remains cost allocation

Among the single pinch points of retaining the plant is the substantial cost borne on regional ratepayers to handle this pricey plant. We suspect the next steps in getting a contract across the finish line will entail cost allocation across the entire state, rather than simply the Rochester Gas & Electric (RG&E) service territory.

Figure 3: EXC Net Potential PJM Capacity Performance Upside

PJM Capacity Market Upside	EXC
Nameplate Capacity (MW)	22,142
EFORd Adj. (MW)	20,794
Clearing Price in 2016/17 $/MW-Day	$59.37
Clearing Price in 2017/18 $/MW-Day	$120
$80/MW-day Sensitivity ($M)	**$607**
Impact to EPS	**$ 0.46**
PJM Energy Market Offset	
Approx. 2013 Volume (TWh)	142
Estimated Cost Reduction ($/MWh)	($3.8)
Estimated Cost Reduction ($/Mn)	($538)
Impact to EPS	**($ 0.40)**
Net Impact to EPS	**$ 0.06**
2017E EPS	**$ 2.75**
% of total 2017 UBS Estimate	**1.9%**

Source: PJM Interconnect, Company Filings, and UBS Estimates

What about the Capacity Performance (CP) scheme? No details from management yet.

Management proved particularly coy in describing any benefits from the CP scheme, emphasizing compensation under the structure remained very much in flux through the stakeholder process. While management appears excited around the prospects, there appears to be an increasingly close scrutiny by load interests over the associated costs. We suspect the industry could prove particularly shy from commenting publically around upside ahead of final FERC approval in ~February, 2015 (filing is expected in early December, after PJM stakeholder/board approval).

But is there an offset to higher capacity? Yes, in energy margins

While we still see EXC as among the primary beneficiaries of the latest scheme given the potential for the ComEd zone to (finally) break out separately with higher capacity prices, we see a potential offset from lower energy margins on its primarily baseload, nuclear portfolio. PJM's analysis indicated a roughly ~$3-4/MWh offset to the ~$60/MW-day upside it saw in capacity prices ($4-5/MWh on an equivalent basis). <u>We caution that baseload generators like EXC could be less benefitted than peers with more 'peaking' like capacity</u>.

But is PJM's energy margin offset skewed upward? Quite possibly.

We emphasize that this offset in energy margin is calculated using a <u>historical basis</u>, which includes the latest year's polar vortex (which saw record costs- and specifically uplift and forced-outage costs). It's unclear how much of this $3/MWh is skewed by simply including this latest winter's data. To emphasize, the bulk of the savings accruing from more reliable generation are due to greater expected dispatch during key times (~3-6% improvement in regional EFORd), potentially curbing the quantity of scarcity pricing events. While not garnering much attention of late, we see ongoing scarcity pricing reforms across the RTOs – and at FERC – could yet result in some offset to the contemplated savings from the CP scheme (with 'out-of-market' 'energy payments re-designed to flow through 'cleared' power prices and quoted LMPs). Further details are available from our note '**What's the Real Cost of the PJM Capacity Market Reforms**'.

The polar vortex skews this energy margin statistic – likely structurally lower.

Ongoing FERC reforms of scarcity prices also worth paying attention to

Understanding EPA's 111(d) program and nuclear plant retirements

Does closing nukes disadvantage a state from proposed carbon rules? Counterintuitively, it may not.

While we had initially thought that EPA's proposed 111(d) existing-source regime for carbon would have penalized states for letting carbon-free nuclear assets retire, our latest understanding of the proposal does not necessarily indicate such a dire outcome. Rather, the question arising from our latest discussions is whether new plants (conceivably a combination of carbon-emitting gas and renewables) would count towards the 111(d) existing source standards, or rather, would they fall under the 111(b) standards for new sources, which simply mandates that plants meet the emissions profile of a modern gas turbine. We look for clarification in the final rules on this point – as this remains a major point of potential 'leakage' in any final rules, with Exelon likely seeking to tighten the rules interpretation to ensure that nuclear retirements would prove detrimental to calculated reductions (realized aggregate emissions, outside of the accounting tricks, would clearly increase if gas were to replace retiring nuclear).

What else is on the Horizon? Nuclear license extension to 80-yrs too.

Among a wider issue we have discussed briefly of late is the question of Exelon in the long-term: what to do about its dependence on finite-lived nuclear assets, with 60-year licenses beginning to expire late in the next decade. We look towards conversations around 'subsequent' relicensing to 80-year licenses (a further 20-years) to kick off in meaningfully in 2016, with decisions in 2018. While we're biased to believe the NRC rules in favor of such extensions, the corresponding costs to retrofit plants to meet standards throughout this period could yet prove the limiting factor. Please see our corresponding note detailing this subject further in the following link

For further details, please refer to our recent note and conference call **'The Coming Carbon Bomb (Extending the Nuclear Life Limit)'**.

What's actually reflected in the gross margin guidance?

We emphasize the gross margin update provided today does not include either the Keystone/Connemaugh coal sale or the integration of the Integrys retail acquisition. <u>We do not expect either of these until these transactions close (unlikely before the EEI updates)</u>.

Figure 4: ExGen Gross Margin Analysis

Hedged Gross Margin ($Mn)	2015	2016
New Guidance (9/30/14)	$7,550	$7,600
NI Hub Down ~$0.60; $0.70	($10)	($37)
PJM W Down ~$1.37; $0.50	($7)	($16)
NY-Zone A Down ~$1.62; $0.45	($3)	($2)
Decline in Power Since 9/30	($20)	($55)
MTM + EXC Guidance	$7,530	$7,545
UBSe (10/28/14 Pricing)	$7,579	$7,515
UBSe vs EXC MTM	$49	($30)
Keystone & Conemaugh	*$155*	*$141*
Integrys Energy Services	*$25*	*$25*

Source: Company Filings, Platts, and UBS Estimates

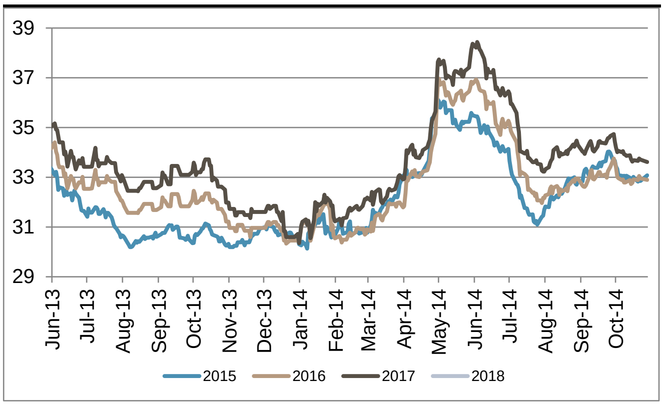
Next datapoint will focus on 2017 hedge.

We look for management to roll forward to its latest Open and Hedged gross margin at the upcoming EEI conference in two weeks. We typically see our estimates revised upwards on the back of this event, as we currently do not embed any 'hedge' value; we suspect this is likely above market in value (although not necessarily seeing forwards as having hit recent highs again).

We look for 2017 gross margin guidance of $7.6-7.7Bn at EEI which includes Keystone & Conemaugh, the new Texas assets, but excludes Integrys.

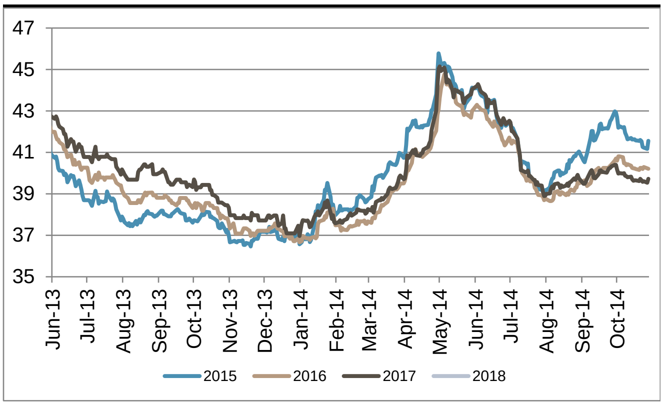
We currently estimate **$7,650Mn** for 2017E, which includes $125Mn from the new Texas assets but the guidance is likely to still include Keystone and Conemaugh as the deal is not anticipated to close before that point. Integrys Energy Services gross margin is also likely in the range of $20-30Mn (elaborated on the next page), another item that is expected to be omitted from the guidance update in November with the deal closing still pending.

Figure 5: NI Hub ATC ($/MWh)



Source: Platts

Figure 6: PJM-W ATC ($/MWh)



Source: Platts

Power prices have declined since September 30th but have moderated following the sharp volatility earlier this year.

What about the Keystone / Conemaugh sales?

Management continues to make strategic divestitures that it argues are not reflections on the underlying fundamentals of the markets but rather more asset-specific.

We estimate these plants as producing ~$130-150Mn and ~$50-70Mn in gross margin and EBITDA for 2015/2016, respectively, implying the latest sale at $470 Mn was done at a ~7-10x EV/EBITDA multiple (and implying a **$375/kW** on the 720 MW stake in Keystone and 534 MW stake in Conemaugh). While management received some pushback on the call Wednesday that it did not wait to find out the 'full' upside associated with the pending PJM market reforms, management was quick to respond that a premium on was ultimately extracted to recognize this opportunity. We see the sale price as above the ~$200-300/kW range implied in recent coal transactions, such as that implied in Dynegy's acquisition of the Duke coal/gas portfolio (although our estimate is not necessarily a 'clean' comp). We emphasize these plants are mine-mouth (likely a ~$27-28/MWh dispatch cost) with all the units poised to be fully compliant with scrubbers and SCRs shortly [PSEG discloses a mid-20's/MWh fuel cost for their ownership].

Figure 7: Projections for Keystone and Conemaugh Coal Assets

	2015	2016	
Capacity (MW)	1,256	1,256	
Capacity Factor	75%	75%	
Output (TWh)	8.25	8.25	
PJM West ATC Price ($/MWh)	40	39	
Coal Dispatch ($/MWh)	28	28	*Mid 20's per MWh per PSEG*
Dark Spread ($/MWh)	12	11	
Energy Gross Margin	**99**	**91**	
Capacity ($/MW-day)	132	91	
Capacity ($ Mn)	51	36	
O&M ($/kW-yr)	65	65	*Assume relatively high*
O&M ($ Mn)	81.64	81.64	
EBITDA	**69**	**45**	
D&A	33	33	
Net Income	**23**	**8**	*Guidance is minimal*
EPS	0.03	0.01	
$/kW Implied	*374*	*374*	
Sale Price ($ Mn)	470	470	
EV/EBITDA	**6.8**	**10.5**	

Source: Company reports, Platts, and UBS estimates

What about the Integrys retail acquisition? Will add to retail gross margin too.

Having acquired the business at ~$60 Mn, we suspect the transaction was executed at 2-3x EV/EBITDA, placing the economics at ~$20-30 of EBITDA, which is roughly equivalent to gross margin. We expect this to flow into the updated gross margin disclosures with ~4Q results for EXC in February.

What about Capacity Performance and Retail obligations?

Among the biggest sticking points for Exelon – and other retailers, including FE and PSEG – is the impact of higher transitionary capacity charges for the 2015/16, 2016/17 and 2017/18 capacity periods proposed by PJM under its new scheme. While PJM has yet to resolve how it would pass costs through (potentially through special non-bypassable tariffs from PJM/load serving entities) – or absorbed by retailers who have existing obligations. We emphasize that wholesale contracts (such as Provider of Last Resort, PLR, contracts, such as the BGS contracts in New Jersey), would seemingly not be able to adjust and reflect the higher cost of capacity. Rather, this could be a more meaningful offset to near-term upside from the transition auctions for these companies.

But retail contracts could have some openers to allow for a 'Change in Law'

Among the other avenues actively being explored is whether existing retail (rather than wholesale) contracts could yet be interpreted to allow the higher capacity costs to be passed through under the guise of a 'Change in Law' provision (as already seemingly executed by FE in some circumstances following uplift charges this past winter during the polar vortex). We understand all retail states in PJM have some form of this construct, aside NJ. We see this as a potential nuance that could garner greater interest in coming months.

We see this retail uncertainty as maintaining – or <u>widening retail margins</u>

We look for commentary in coming weeks (including potentially from EXC at EEI) around the trajectory of retail markets, which we estimate continue to show wide margins. Please see our weekly power points from Monday for the latest breakdown of FE's PLR auction outcome (with continued higher margins). We also flag EXC management's commentary around the TEG retail book, which showed solid performance this summer as well (alongside EXC's strong 3Q results given the ability to serve load cheap away from its own generation stack).

Are the new entrant economics in TX that dissimilar from peers?

Exelon has continued to advocate that its decision to invest in ERCOT was not predicated on a view of basis West vs. Houston – but rather a fundamental advantage on new entrant economics, seeing it is the first H-Class turbine commercialized by GE. We estimate the $1.4 Bn cost – or $700/kW <u>all-in</u> -- of the 2 *1GW CCGTs is an overnight cost and not directly comparable to the ~$900/kW cost of the CCGT build in Texas for the panda plants.

We also emphasize that CPV appears to be developing its own merchant CCGT in the ERCOT-Houston load pocket, having already received the air permits for its 900 MW Pandera King plant. This plant too appears poised to make use of H-Class turbines. We suspect costs, given the greater scale, could yet be sub-$900/kW. <u>Bottom line, we're not so sure that Exelon has a clear cost advantage vs. peers in new builds, seeing latest datapoints.</u>

For more on new build economics in Texas and PJM, please see our accompany note **<u>Doing the Texas Two Step</u>**.

Figure 8: New Texas Build Forward Estimates

Texas 2GW I/S ($ Mn)	2017E	2018E	2019E	2020E
Colorado Bend	155	231	233	233
Wolf Hollow	166	247	250	250
Total Energy Revenue	321	478	483	483
Capacity Revenue	0	0	0	0
Total Revenue	321	478	483	483
Colorado Bend Fuel	91	142	148	148
Wolf Hollow Fuel	105	164	171	171
Total Fuel	197	307	319	319
Gross Profit	125	171	165	165
Variable O&M	4	5	5	5
Fixed O&M	13	20	20	20
Taxes OTI	7	10	10	10
EBITDA	101	136	130	130
D&A	31	47	47	47
EBIT	70	89	83	83
Interest	32	32	32	32
EBT	38	57	51	51
Taxes	12	18	16	16
Net Income	26	39	35	35

Source: Company Filings and UBS Estimates

Monetizing TX assets via debt issuance?

Debt recapitalization is a further avenue in lieu of outright asset sale

In a further twist on management's ongoing asset monetization efforts, we see recent efforts to re-lever some assets through project level debt as effectively a debt recapitalization of the assets in lieu of sale. We read the recent ExGen Texas Power issuance of $720 Mn in proceeds as broad example of this phenomenon, opting to deploy ~$200/kW of debt on the 3.5GW portfolio in the state (1.2GW CCGT, and 2.3GW of peaking capacity).

Levering up the Genco w/o significant impact to parent debt metrics

We emphasize that the credit agencies treat this project debt as an unconsolidated entity, opting to simply account for distributions from the assets (rather than consolidate the greater leverage), akin to NEE's accounting for its more highly levered portfolios. The transition towards project level debt is relatively newer for EXC – and reflects an implicit further levering of its consolidated balance sheet (since it can only count on distributions from the entities for its credit purposes). We wouldn't doubt mgmt. pursues more of these transactions to 'lever up' its GenCo business, while maintaining its Investment Grade credit rating at Exelon Corp (and ExGen too).

And how about the utilities? Weather is a hold back

2014 has remained a challenging year for the utilities, lowering guidance by ~$0.15 EPS range, with approximately ~$0.05 of it due to one-time storm expense costs (particularly at PECO). We detail our revised 2014 estimates below:

- **PECO $0.42:** The utility is estimated to be down ~$0.05 YoY and near the midpoint of the revised range due to the elevated level of storm activities and related O&M. In the absence of any meaningful offsets, we see the negatives as meaningfully outweighing the positives.
- **ComEd $0.50:** In the absence of material help from treasury yields, we only estimate that FY14 results will improve by ~$0.01-0.02/sh due to ratebase growth
- **BGE $0.23:** BGE suffers a similar fate to PECO where higher O&M and related items of ~$0.04 offset ~$0.06 of higher distribute revenue. Currently we see earnings here as flat versus 2013 but the bias could be slightly positive.

Figure 9: Analysis of Exelon's Weather/Storm Related Items in 2014

EXC Utility Analysis		Weather/Storm Related Items					
	2013A	1Q14	2Q14	3Q14	YTD14	Adj '14	UBSe
PECO	$0.46	($0.03)		($0.02)	($0.05)	$0.41	$0.42
ComEd	$0.49	$0.02		($0.02)	$0.00	$0.49	$0.50
BGE	$0.23	($0.01)		($0.01)	($0.02)	$0.21	$0.23

Source: Company Filings and UBS Estimates

Our 2014 estimates relative the previous and revised guidance are below.

Figure 10: EXC Guidance Comparison

EXC 2014	Initial Guidance	Revised Guidance	UBSe
ComEd	$0.45-$0.54	$0.45-$0.55	$0.50
PECO	$0.35-$0.44	$0.35-$0.45	$0.42
BGE	$0.15-$0.24	$0.15-$0.25	$0.23
Gen	$1.25-$1.34	$1.25-$1.35	$1.27
Other Drag	N/A	N/A	-$0.04
EPS	$2.25-$2.55	$2.25-$2.56	$2.38
Consensus			$2.37

Source: Company Filings, FactSet, and UBS Estimates

Additionally, our longer-term estimates are also provided to reflect the latest asset transactions and mark- to-market.

Figure 11: Updated Consolidated Exelon EPS Estimates

Exelon Consolidated EPS	2014	2015	2016	2017	2018
PECO	0.42	0.47	0.48	0.51	0.53
ComEd	0.50	0.59	0.65	0.70	0.77
BGE	0.23	0.22	0.23	0.25	0.26
Exelon Generation	1.27	1.52	1.35	1.32	1.41
Other	(0.04)	(0.02)	0.01	(0.01)	0.00
Total EPS	**2.38**	**2.78**	**2.73**	**2.76**	**2.97**
Guidance	$2.30-$2.50				
Consensus	2.37	2.56	2.63	2.83	3.21
Prior UBS estimates	*2.45*	*2.80*	*2.78*	*2.78*	*2.97*
Regulated EPS	*1.15*	*1.29*	*1.37*	*1.45*	*1.56*
Regulated Guidance	*1.10-1.40*	*1.15-1.45*	*1.25-1.55*		

Source: Company Filings, FactSet, and UBS Estimates

Valuation: Increasing Price Target $2 to $37

Rolling forward to 2017 SOP

We are rolling our valuation forward to 2017 for Exelon to better reflect its announcement to build 2GW of new generation in Texas with an expected in-service date of 2017. We apply an 8x EV / EBITDA multiple to core generation earnings and maintain the discounted 2x multiple for DOE nuclear fuel earnings. As a reminder, we estimate that the new Texas generation will contribute $100Mn of EBITDA in 2017 (~2/3rds of year based on target summer 2017 in-service date).

Figure 12: Updated Exelon Sum-of-the-Parts Valuation on 2017E

All figures in US $ million except per share data		EV/EBITDA & P/E Multiple					Enterprise Value		
	2017 EBITDA	*Low*			*Base*	*High*	*Low*	*Base*	*High*
Generation	2,006	7.0x			8.0x	9.0x	14,043	16,049	18,055
DOE Nuclear Fuel Disposal Fee Uplift	150	1.0x			2.0x	3.0x	150	300	450
Hedge Value	-	7.0x			8.0x	9.0x	-	-	-
Other/Equity Investments	229	7.0x			8.0x	9.0x	1,600	1,828	2,057
Retail Margin (Power+Non-Power)	535	4.0x			5.0x	6.0x	2,142	2,677	3,213
Total / Implied	2,920	*6.1x*			*7.1x*	*8.1x*	17,935	20,855	23,775
less ExGen net debt (incl PTC/ITC benefits)		EBITDA is down ~$130Mn from						(5,291)	
less HoldCo debt		asset divestitures, offset by						(1,300)	
add Hedge Value		new Texas assets ($100Mn)						-	
Adding back the FCF drag from Potential Retirements(Clinton, Byron, Ginna, Quad Cities)	103	7.0x			8.0x	9.0x	718	821	923
NPV of Equity							12,062	15,085	18,107
Current Number of Shares outstanding							867	867	867
Merchant Generation value per share							***$ 13.91***	***$ 17.40***	***$ 20.88***
Regulated Utilities			**P/E Multiple**					**Equity Value**	
	2016 Net Income	*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	*Low*	*Base*	*High*
BGE Net Income	214	12.2x	14.7x	-1.5x	13.2x	14.2x	2,606	2,820	3,033
PECO Net Income	439	12.7x	14.7x	-1.0x	13.7x	14.7x	5,574	6,013	6,452
ComEd Net Income	609	12.2x	14.7x	-1.5x	13.2x	14.2x	7,430	8,039	8,648
Total / Implied	*1,261*	*12.4x*			*13.4x*	*14.4x*	*15,610*	*16,871*	18,133
Implied EPS	*1.45*								
Current Number of Shares outstanding							867	867	867
Regulated Utility value per share							***$ 18.00***	***$ 19.46***	***$ 20.91***
Total Equity Value per Share							**31.91**	**36.86**	**41.80**
Potential Accretion on POM Deal	*EPS*	*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	*Low*	*Base*	*High*
EPS Accretion (2017 UBSe)	$0.16	13.7x	14.7x	0.0x	14.7x	15.7x	***$ 2.13***	***$ 2.29***	***$ 2.44***

Source: Company Filings, FactSet, and UBS Estimates

Legacy Viewpoint: *What Would Our 2016 SOP Look Like?*

Below we present an illustrative 2016 sum-of-the-parts with the Texas new generation included at a discounted multiple with adjustments for capital commitments.

Figure 13: Illustrative Sum-of-the-Parts on 2016 Basis

All figures in US $ million except per share data		EV/EBITDA & P/E Multiple			Enterprise Value		
	2016 EBITDA	*Low*	*Base*	*High*	*Low*	*Base*	*High*
Generation	1,988	8.0x	9.0x	10.0x	15,907	17,895	19,884
DOE Nuclear Fuel Disposal Fee Uplift	150	1.0x	2.0x	3.0x	150	300	450
Texas 2GW (2018E)	136	4.0x	5.0x	6.0x	545	681	817
Hedge Value	(297)	8.0x	9.0x	10.0x	(2,373)	(2,670)	(2,967)
Other/Equity Investments	229	8.0x	9.0x	10.0x	1,828	2,057	2,285
Retail Margin (Power+Non-Power)	527	4.0x	5.0x	6.0x	2,107	2,633	3,160
Total / Implied	2,733	*6.6x*	*7.6x*	*8.6x*	18,163	20,896	23,629
less ExGen net debt (incl PTC/ITC benefits)						(5,534)	
less HoldCo debt						(1,300)	
add Hedge Value						297	
Adding back the FCF drag from Potential Retirements(Clinton, Byron, Ginna, Quad Cities)	141	8.0x	9.0x	10.0x	1,126	1,266	1,407
NPV of Equity					12,751	15,625	18,498
Current Number of Shares outstanding					866	866	866
Merchant Generation value per share					***$ 14.73***	***$ 18.05***	***$ 21.37***

Regulated Utilities		P/E Multiple					Equity Value		
	2016 Net Income	*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	*Low*	*Base*	*High*
BGE Net Income	203	13.0x	15.5x	-1.5x	14.0x	15.0x	2,641	2,844	3,047
PECO Net Income	418	13.5x	15.5x	-1.0x	14.5x	15.5x	5,648	6,067	6,485
ComEd Net Income	562	13.0x	15.5x	-1.5x	14.0x	15.0x	7,303	7,864	8,426
Total / Implied	*1,183*	*13.2x*			*14.2x*	*15.2x*	*15,592*	*16,775*	17,959
Implied EPS	*1.37*								
Current Number of Shares outstanding							866	866	866
Regulated Utility value per share							***$ 18.01***	***$ 19.38***	***$ 20.75***
Total Equity Value per Share							**32.75**	**37.43**	**42.12**

Potential Accretion on POM Deal	*EPS*	*Low*	*Peer*	*Prem/ Discount*	*Base*	*High*	*Low*	*Base*	*High*
EPS Accretion (2017 UBSe)	$0.16	13.7x	14.7x	0.0x	14.7x	15.7x	***$ 2.13***	***$ 2.29***	***$ 2.44***

Source: Company Filings, FactSet, and UBS Estimates

Exelon Corp. (EXC.N)

Income statement (US$m)	**12/11**	**12/12**	**12/13**	**12/14E**	*% ch*	**12/15E**	*% ch*	**12/16E**	**12/17E**	**12/18E**
Revenues	**19,118.00**	**24,674.00**	**25,442.00**	**23,219.68**	*-8.7*	**19,981.72**	*-13.9*	**20,376.84**	**21,135.88**	**21,899.39**
Gross profit	12,022.00	13,910.00	14,142.00	14,313.10	*1.2*	14,771.80	*3.2*	15,026.63	15,461.33	15,964.17
EBITDA (UBS)	**6,343.00**	**5,849.40**	**5,555.39**	**5,527.67**	*-0.5*	**6,053.52**	*9.5*	**6,060.57**	**6,326.48**	**6,678.12**
Depreciation & amortization	(1,248.00)	(1,310.40)	(1,375.92)	(1,444.72)	*5.0*	(1,516.95)	*5.0*	(1,592.80)	(1,672.44)	(1,756.06)
EBIT (UBS)	**5,095.00**	**4,539.00**	**4,179.47**	**4,082.96**	*-2.3*	**4,536.57**	*11.1*	**4,467.77**	**4,654.04**	**4,922.06**
Associates & investment income	0.00	59.00	102.00	49.00	*-52.0*	49.00	*0.0*	49.00	49.00	49.00
Other non-operating income	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Net interest	(726.00)	(945.00)	(986.00)	(1,060.25)	*-7.5*	(1,062.50)	*-0.2*	(1,058.17)	(1,192.04)	(1,195.52)
Exceptionals (incl goodwill)	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Profit before tax	**4,369.00**	**3,653.00**	**3,295.47**	**3,071.71**	*-6.8*	**3,523.07**	*14.7*	**3,458.60**	**3,511.00**	**3,775.54**
Tax	(1,606.00)	(1,316.00)	(1,132.00)	(1,013.66)	*10.5*	(1,109.77)	*-9.5*	(1,089.46)	(1,105.97)	(1,189.29)
Profit after tax	**2,763.00**	**2,337.00**	**2,163.47**	**2,058.05**	*-4.9*	**2,413.31**	*17.3*	**2,369.14**	**2,405.04**	**2,586.24**
Preference dividends	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Minorities	0.00	(11.00)	(14.00)	(8.00)	*42.9*	(8.00)	*0.0*	(8.00)	(8.00)	(8.00)
Extraordinary items	0.00	(1,159.00)	0.00	(365.72)	-	0.00	-	0.00	0.00	0.00
Net earnings (local GAAP)	**2,763.00**	**1,167.00**	**2,149.47**	**1,684.33**	*-21.6*	**2,405.31**	*42.8*	**2,361.14**	**2,397.04**	**2,578.24**
Net earnings (UBS)	**2,763.00**	**2,326.00**	**2,149.47**	**2,050.05**	*-4.6*	**2,405.31**	*17.3*	**2,361.14**	**2,397.04**	**2,578.24**
Tax rate (%)	36.8	36.0	34.4	33.0	*-3.9*	31.5	*-4.5*	31.5	31.5	31.5

Per share (US$)	**12/11**	**12/12**	**12/13**	**12/14E**	*% ch*	**12/15E**	*% ch*	**12/16E**	**12/17E**	**12/18E**
EPS (UBS, diluted)	4.16	2.84	2.50	2.38	*-4.9*	2.78	*17.1*	2.73	2.76	2.97
EPS (local GAAP, diluted)	4.16	1.43	2.50	1.95	*-21.9*	2.78	*42.6*	2.73	2.76	2.97
EPS (UBS, basic)	4.16	2.84	2.50	2.38	*-4.9*	2.78	*17.1*	2.73	2.76	2.97
Net DPS (US$)	2.10	2.10	1.46	1.24	*-14.8*	1.24	*0.0*	1.24	1.24	1.24
Cash EPS (UBS, diluted)[1]	6.03	4.44	4.10	4.05	*-1.2*	4.54	*12.0*	4.57	4.69	4.99
Book value per share	21.70	25.31	26.77	27.63	*3.2*	29.36	*6.3*	31.03	32.74	34.61
Average shares (diluted)	664.75	818.60	860.00	862.52	*0.3*	864.03	*0.2*	865.55	867.06	868.58

Balance sheet (US$m)	**12/11**	**12/12**	**12/13**	**12/14E**	*% ch*	**12/15E**	*% ch*	**12/16E**	**12/17E**	**12/18E**
Cash and equivalents	1,016.00	1,619.00	1,776.00	2,042.20	*15.0*	1,567.62	*-23.2*	1,522.62	1,625.57	1,490.49
Other current assets	4,473.40	8,495.00	8,361.00	7,889.24	*-5.6*	8,050.54	*2.0*	8,139.33	8,292.76	8,442.95
Total current assets	**5,489.40**	**10,114.00**	**10,137.00**	**9,931.45**	*-2.0*	**9,618.16**	*-3.2*	**9,661.95**	**9,918.33**	**9,933.44**
Net tangible fixed assets	32,570.00	45,149.00	47,330.00	49,095.22	*3.7*	51,390.67	*4.7*	54,451.41	55,951.63	57,413.72
Net intangible fixed assets	2,625.00	2,625.00	2,625.00	2,625.00	*0.0*	2,625.00	*0.0*	2,625.00	2,625.00	2,625.00
Investments / other assets	14,408.00	21,217.00	19,832.00	19,919.03	*0.4*	19,792.78	*-0.6*	20,001.37	20,173.67	20,369.67
Total assets	**55,092.40**	**79,105.00**	**79,924.00**	**81,570.69**	*2.1*	**83,426.61**	*2.3*	**86,739.74**	**88,668.63**	**90,341.83**
Trade payables & other ST liabilities	3,773.00	6,520.00	5,878.00	5,622.15	*-4.4*	5,889.44	*4.8*	6,012.50	6,131.48	6,199.37
Short term debt	1,216.00	1,257.00	1,850.00	1,932.20	*4.44*	1,940.10	*0.41*	2,088.68	2,108.25	2,095.19
Total current liabilities	**4,989.00**	**7,777.00**	**7,728.00**	**7,554.35**	*-2.2*	**7,829.54**	*3.6*	**8,101.18**	**8,239.73**	**8,294.55**
Long term debt	12,189.00	18,346.00	18,271.00	19,082.82	*4.4*	19,160.86	*0.4*	20,628.28	20,821.51	20,692.54
Other long term liabilities	23,526.00	31,289.00	30,985.00	31,104.00	*0.4*	31,069.00	*-0.1*	31,151.25	31,221.25	31,289.85
Preferred shares	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Total liabilities (incl pref shares)	**40,704.00**	**57,412.00**	**56,984.00**	**57,741.17**	*1.3*	**58,059.40**	*0.6*	**59,880.72**	**60,282.49**	**60,276.95**
Common s/h equity	14,388.40	21,693.00	22,940.00	23,829.53	*3.9*	25,367.21	*6.5*	26,859.02	28,386.14	30,064.88
Minority interests	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Total liabilities & equity	**55,092.40**	**79,105.00**	**79,924.00**	**81,570.69**	*2.1*	**83,426.61**	*2.3*	**86,739.74**	**88,668.63**	**90,341.83**

Cash flow (US$m)	**12/11**	**12/12**	**12/13**	**12/14E**	*% ch*	**12/15E**	*% ch*	**12/16E**	**12/17E**	**12/18E**
Net income (before pref divs)	2,763.00	1,167.00	2,149.47	1,684.33	*-21.6*	2,405.31	*42.8*	2,361.14	2,397.04	2,578.24
Depreciation & amortization	1,248.00	1,310.40	1,375.92	1,444.72	*5.0*	1,516.95	*5.0*	1,592.80	1,672.44	1,756.06
Net change in working capital	(2,490.00)	(559.00)	455.00	215.91	*-52.5*	106.00	*-50.9*	34.26	(34.45)	(82.30)
Other operating	3,332.00	4,213.60	2,362.61	2,115.16	*-10.5*	1,925.62	*-9.0*	1,842.06	1,873.29	1,849.98
Operating cash flow	**4,853.00**	**6,132.00**	**6,343.00**	**5,460.11**	*-13.9*	**5,953.88**	*9.0*	**5,830.27**	**5,908.32**	**6,101.98**
Tangible capital expenditure	(4,042.00)	(5,789.00)	(5,395.00)	(5,550.00)	*-2.9*	(5,575.00)	*-0.5*	(6,550.00)	(5,075.00)	(5,150.00)
Intangible capital expenditure	0.00	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Net (acquisitions) / disposals	2.00	1,329.00	7.00	975.00	*NM*	0.00	-	0.00	0.00	0.00
Other investing	(563.00)	(115.00)	(6.00)	(408.00)	-	0.00	-	0.00	0.00	0.00
Investing cash flow	**(4,603.00)**	**(4,575.00)**	**(5,394.00)**	**(4,983.00)**	*7.6*	**(5,575.00)**	*-11.9*	**(6,550.00)**	**(5,075.00)**	**(5,150.00)**
Equity dividends paid	(1,393.00)	(1,716.00)	(1,249.00)	(1,069.52)	*14.4*	(1,071.40)	*-0.2*	(1,073.28)	(1,075.16)	(1,077.04)
Share issues / (buybacks)	38.00	72.00	47.00	47.00	*0.0*	47.00	*0.0*	47.00	47.00	47.00
Other financing	(62.00)	(128.00)	(329.00)	85.00	-	85.00	*0.00*	85.00	85.00	85.00
Change in debt & pref shares	571.00	685.00	705.00	894.02	*26.81*	85.94	*-90.39*	1,616.01	212.79	(142.02)
Financing cash flow	**(846.00)**	**(1,087.00)**	**(826.00)**	**(43.50)**	*94.7*	**(853.46)**	*NM*	**674.73**	**(730.37)**	**(1,087.06)**
Cash flow inc/(dec) in cash	**(596.00)**	**470.00**	**123.00**	**433.60**	*252.5*	**(474.58)**	-	**(45.00)**	**102.95**	**(135.08)**
FX / non cash items	(30.00)	133.00	34.00	(167.40)	-	0.00	-	0.00	0.00	0.00
Balance sheet inc/(dec) in cash	**(626.00)**	**603.00**	**157.00**	**266.20**	*69.6*	**(474.58)**	-	**(45.00)**	**102.95**	**(135.08)**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.[1]Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Exelon Corp. (EXC.N)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	10.2	25.7	12.4	18.8	13.2	13.5	13.3	12.4
P/E (UBS, diluted)	10.2	12.9	12.4	15.4	13.2	13.5	13.3	12.4
P/CEPS	7.0	8.3	7.6	9.1	8.1	8.0	7.8	7.4
Equity FCF (UBS) yield %	2.9	1.3	3.6	(0.3)	1.2	(2.3)	2.6	3.0
Net dividend yield (%)	5.0	5.7	4.7	3.4	3.4	3.4	3.4	3.4
P/BV x	2.0	1.4	1.2	1.3	1.3	1.2	1.1	1.1
EV/revenues (core)	2.2	1.8	1.8	2.2	2.6	2.6	2.6	2.5
EV/EBITDA (core)	6.6	7.4	8.4	9.4	8.6	8.8	8.6	8.1
EV/EBIT (core)	8.2	9.5	11.1	12.8	11.5	12.0	11.7	11.0
EV/OpFCF (core)	23.9	15.7	15.9	19.3	16.9	17.9	17.3	16.1
EV/op. invested capital	1.3	1.1	1.0	1.1	1.1	1.0	1.0	1.0

Enterprise value (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	28,093.41	26,261.40	26,598.29	31,708.80	31,708.80	31,708.80	31,708.80	31,708.80
Net debt (cash)	11,931.00	15,311.50	18,314.50	18,808.91	19,403.07	20,513.84	21,399.27	21,450.71
Buy out of minorities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pension provisions/other	1,915.65	1,915.65	1,915.65	1,915.65	1,915.65	1,915.65	1,915.65	1,915.65
Total enterprise value	**41,940.06**	**43,488.55**	**46,828.44**	**52,433.36**	**53,027.52**	**54,138.29**	**55,023.72**	**55,075.16**
Non core assets	(300.00)	(300.00)	(300.00)	(315.00)	(715.00)	(715.00)	(715.00)	(715.00)
Core enterprise value	**41,640.06**	**43,188.55**	**46,528.44**	**52,118.36**	**52,312.52**	**53,423.29**	**54,308.72**	**54,360.16**

Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	-2.2	29.1	3.1	-8.7	-13.9	2.0	3.7	3.6
EBITDA (UBS)	-10.1	-7.8	-5.0	-0.5	9.5	0.1	4.4	5.6
EBIT (UBS)	1.1	-10.9	-7.9	-2.3	11.1	-1.5	4.2	5.8
EPS (UBS, diluted)	2.6	-31.6	-12.0	-4.9	17.1	-2.0	1.3	7.4
Net DPS	0.0	0.0	-30.7	-14.8	0.0	0.0	0.0	0.0

Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	62.9	56.4	55.6	61.6	73.9	73.7	73.2	72.9
EBITDA margin	33.2	23.7	21.8	23.8	30.3	29.7	29.9	30.5
EBIT margin	26.7	18.4	16.4	17.6	22.7	21.9	22.0	22.5
Net earnings (UBS) margin	14.5	9.4	8.4	8.8	12.0	11.6	11.3	11.8
ROIC (EBIT)	16.4	11.8	9.1	8.6	9.2	8.6	8.6	8.8
ROIC post tax	10.4	7.5	5.9	5.7	6.3	5.9	5.9	6.0
ROE (UBS)	19.8	12.9	9.6	8.8	9.8	9.0	8.7	8.8

Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	2.0	3.1	3.3	3.5	3.3	3.5	3.4	3.2
Net debt / total equity %	86.8	83.6	80.6	80.2	77.6	79.5	75.6	71.3
Net debt / (net debt + total equity) %	46.5	45.5	44.6	44.5	43.7	44.3	43.0	41.6
Net debt/EV	30.0	42.0	39.7	36.7	37.6	40.0	39.5	39.5
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	21.1	23.5	21.2	23.9	27.9	NM	24.0	23.5
EBIT / net interest	7.0	4.8	4.2	3.9	4.3	4.2	3.9	4.1
Dividend cover (UBS)	2.0	1.4	1.7	1.9	2.2	2.2	2.2	2.4
Div. payout ratio (UBS) %	50.5	73.9	58.2	52.2	44.5	45.5	44.9	41.8

Revenues by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	19,118.00	24,674.00	25,442.00	23,219.68	19,981.72	20,376.84	21,135.88	21,899.39
Total	**19,118.00**	**24,674.00**	**25,442.00**	**23,219.68**	**19,981.72**	**20,376.84**	**21,135.88**	**21,899.39**

EBIT (UBS) by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	5,095.00	4,539.00	4,179.47	4,082.96	4,536.57	4,467.77	4,654.04	4,922.06
Total	**5,095.00**	**4,539.00**	**4,179.47**	**4,082.96**	**4,536.57**	**4,467.77**	**4,654.04**	**4,922.06**

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+0.8%
Forecast dividend yield	3.4%
Forecast stock return	+4.2%
Market return assumption	5.5%
Forecast excess return	-1.3%

Statement of Risk

Exelon faces several risks that may either help or hinder its ability to achieve financial targets, including: 1) changes in regional temperature trends/weather patterns; 2) changing national energy demand patterns; 3) fuel price movements & fuel substitution for electric generation; 4) uncertainty surrounding the regulatory environment and specific state/national regulatory action that affect the company; 5) more stringent environmental standards (including potential carbon/GHG related legislation) and nuclear safety standards; 6) the potential inability to find new opportunities to expand it US generation portfolio over the longer term. Additionally, Exelon faces operational and financial risk from its nuclear & fossil generation assets and its energy trading operations. Going forward, we believe the company is more exposed to the volatility associated with wholesale power markets (e.g. power/energy pricing; capacity markets), especially when viewed over a multi-year time horizon. EXC has hedged a substantial portion of its future power sales and fuel costs for the next few years; however, movements in wholesale prices can still impact the company's financial results. Lastly, even with the Illinois electric settlement, Exelon continues to face significant regulatory and political risk associated with its traditional utility assets, specifically surrounding the end of electric transition periods at ComEd (which expired at the end of 2006) and PECO (which is slated to expire at the end of 2010) as well as achieving equitable rate relief (and minimizing regulatory lag) on its regulated T&D investments.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	47%	34%
Neutral	FSR is between -6% and 6% of the MRA.	42%	28%
Sell	FSR is > 6% below the MRA.	11%	21%
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 2014.
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
Dynegy, Inc.[2, 4, 5, 16]	DYN.N	Buy	N/A	US$29.62	30 Oct 2014
Exelon Corp.[4, 5, 6a, 6b, 7, 16]	EXC.N	Neutral	N/A	US$36.70	30 Oct 2014

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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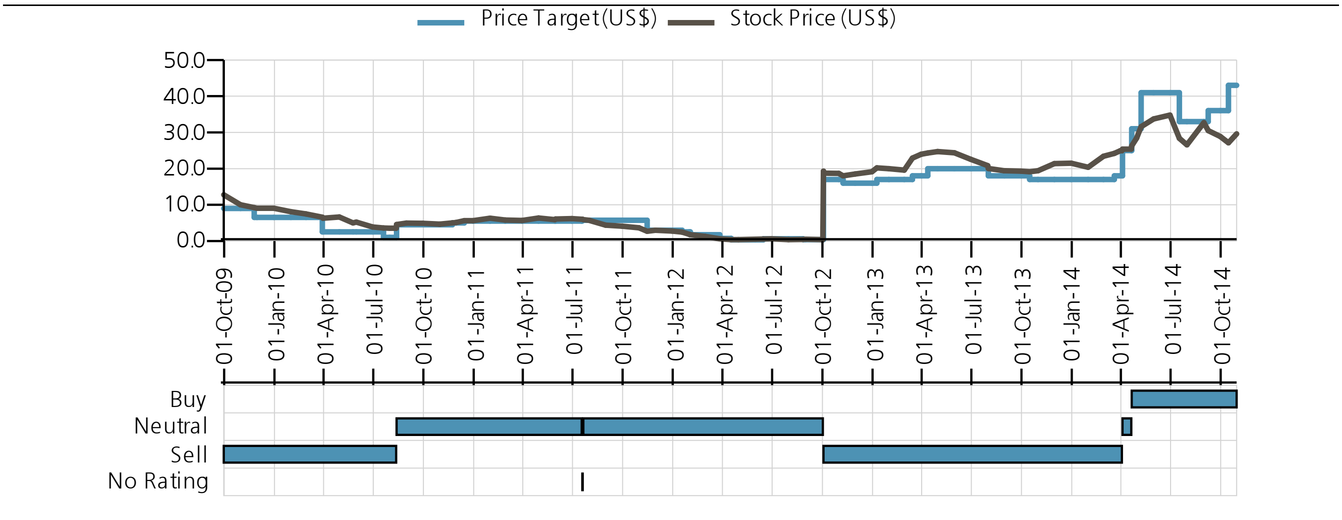
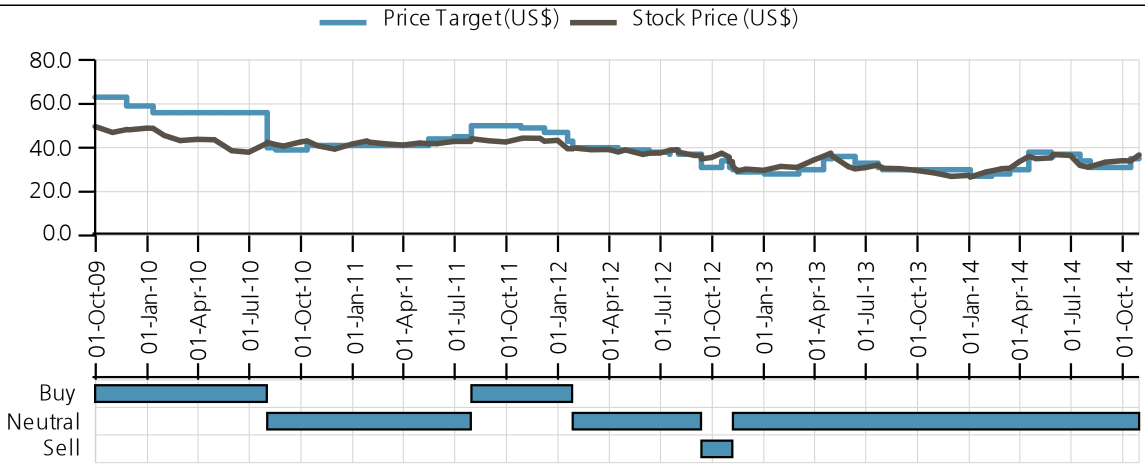
Dynegy, Inc. (US$)



Source: UBS; as of 30 Oct 2014

Exelon Corp. (US$)



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