

# TECO Energy Inc.

## Tampa Thunder: Upgrade to Buy

### Even in a volatile market, we see value in another SMid

We are increasing our price target by \$3 to \$22 and upgrading TECO to Buy, another beneficiary of our 'SMid Bid' thesis [\[link here\]](#), with its above-average growth profile (5-7% ratebase, which should largely drive EPS in line, if not towards the top end). The reduced base price for TECO Coal is a negative as is the weaker electric sales forecast for 2015, but we believe the reaction in the share price is overdone. The stock was down ~3% after reporting earnings Monday and has shed 6% in the past two days. Following the divestiture of the coal business, we believe TECO should trade at a premium given its favorable jurisdictions and lack of rate cases on the horizon. Furthermore, we think TECO's above-average growth rate and size makes it a potential M&A target, with slower-growth large-cap utilities looking to use their premium currencies.

### We still expect articulation of gas ratebasing opportunity this year

Mgmt. continues to hint at gas ratebasing and we expect a formal update later in '15, with TE capitalizing on declining natural gas prices. TE is conservatively waiting to see the guidelines for NextEra's FP&L, which are expected in March. Similar to FP&L, a pilot program would start out as immaterial (~\$0.01 EPS) but could grow to over \$0.25/sh over time. Not only does TE have more upside exposure from this thesis, but it also offers a degree of protection from *potential* ROE erosion in the next ratecase.

### Confidence on finally closing the coal chute

Cambian Coal began its financing process on 2/6 and mgmt. expressed confidence in Cambian securing financing to close the revised deal ahead of the March 13<sup>th</sup> deadline. The lower proceeds do not negatively impact equity plans and TE appears committed to divesting the asset to a third party if the current transaction falls through.

### Valuation: Increase PT \$3 to \$22 and upgrade to Buy

We have rolled our valuation forward to 2017E and have transitioned to a regulated P/E methodology. We now apply a multiple to the parent EPS drag versus netting the debt; this is consistent with our treatment of companies transitioning to fully regulated after divesting merchant operations (ex. AEE, PPL, and CMS).

Highlights (US\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	3,343	2,997	2,851	2,566	2,859	2,932	3,081	3,134
EBIT (UBS)	632	567	480	540	624	661	726	757
Net earnings (UBS)	273	246	204	230	256	276	306	327
EPS (UBS, diluted) (US\$)	1.27	1.14	0.95	1.03	1.10	1.19	1.32	1.41
DPS (US\$)	0.85	0.88	0.88	0.88	0.88	0.88	0.88	0.88
Net (debt) / cash	(3,029)	(2,772)	(2,736)	(3,603)	(3,800)	(3,864)	(3,623)	(3,162)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	18.9	18.9	16.8	21.0	21.8	22.5	23.6	24.2
ROIC (EBIT) %	13.2	12.1	10.4	10.4	10.7	11.0	12.1	13.2
EV/EBITDA (core) x	7.4	7.5	8.0	9.2	8.4	8.2	7.6	7.0
P/E (UBS, diluted) x	14.4	15.5	18.4	19.9	18.5	17.2	15.5	14.5
Equity FCF (UBS) yield %	7.6	7.6	3.7	(4.1)	(2.4)	3.0	9.5	14.3
Net dividend yield %	4.6	5.0	5.1	4.3	4.3	4.3	4.3	4.3

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\$20.44 on 09 Feb 2015 18:42 EST

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### Equities

Americas  
Electric Utilities

**12-month rating** **Buy**  
*Prior: Neutral*

**12m price target** **US\$22.00**  
*Prior: US\$19.00*

**Price** **US\$20.44**

**RIC:** TE.N **BBG:** TE US

### Trading data and key metrics

**52-wk range** US\$21.98-16.30

**Market cap.** US\$4.67bn

**Shares o/s** 228m (COM)

**Free float** 99%

**Avg. daily volume ('000)** 592

**Avg. daily value (m)** US\$12.0

**Common s/h equity (12/14E)** US\$2.57bn

**P/BV (12/14E)** 1.8x

**Net debt / EBITDA (12/14E)** 4.2x

### EPS (UBS, diluted) (US\$)

	12/14E			
	From	To	% ch	Cons.
<b>Q1</b>	0.23	0.23	0.00	0.23
<b>Q2</b>	0.28	0.28	0.00	0.28
<b>Q3</b>	0.32	0.32	0.00	0.32
<b>Q4E</b>	0.19	0.20	5.54	0.21
<b>12/14E</b>	1.02	1.03	0.84	1.04
<b>12/15E</b>	1.10	1.10	0.18	1.12
<b>12/16E</b>	1.19	1.19	-0.29	1.19

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# Investment Thesis

## TECO Energy Inc.

### Investment case

The outlook for TECO's Florida regulated entities appears strong, and we think the NMGC deal provides exposure to a stable growth region and synergies will prove accretive. The fundamental growth at the core Florida utilities remain best in class and we believe will support a premium valuation. We think the TECO coal sale is a positive even though the revised \$80mn base sale price was lower than expected. Although management has highlighted an additional potential \$60mn if coal prices achieve certain benchmarks over the next 5 year, we think it will be hard to realize much of that incremental amount given that current coal contracts are significantly out of the market. Our Price Target is derived from our 2017 EPS estimate.

### Upside scenario

The sale of TECO Coal will remove a large drag on shares even though sale price was lower than what most investors had expected. Synergies from NMGC will help the Florida utilities deliver at the top-end of the ROE range through the settlement period. The ability to maintain the growth at the regulated entities would also push shares higher. We see further upside to ~\$25/sh with TECO being a prime candidate for M&A and supportive of an even greater premium vs peers. The potential to ratebase gas is a further positive development for shares. Ultimately this could be worth ~\$0.30 of EPS (over a number of years), or ~\$5/sh.

### Downside scenario

Lagging sales at Tampa Electric could increase the discount for shares. Furthermore, the high degree of leverage at the parent company reduces financial flexibility and could further pressure shares assuming interest rates continue to creep higher. A failure to capture and retain synergies from the NMGC deal would be negative as well. Our downside case implies value of ~\$19/sh.

### Upcoming catalysts

February 27	10K Filing with Capex Updates
March 4	UBS Power & Utilities Conference
March 13	Updated Closing Deadline for TECO Coal
Mid/Late March	Decision on FP&L Gas Investment Framework

12-month rating

Buy

12m price target

US\$22.00

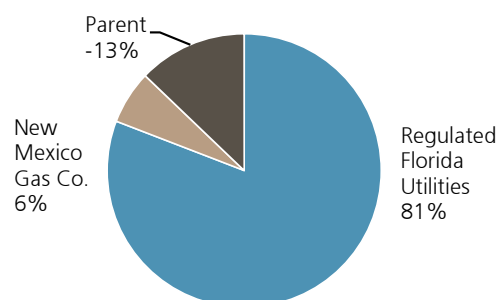
### Business description

The largest subsidiary of TECO Energy (headquartered in Tampa, Florida) is Tampa Electric Company, whose Tampa Electric division provides retail electric services to ~700,000 customers in West Central Florida, while its Peoples Gas System unit is a local natural gas distribution company that supplies natural gas to over 330,000 customers throughout Florida. Additionally, TECO Coal has 11 subsidiaries in KY, TN, and VA. TECO plans to divest its coal subsidiary.

### Industry outlook

The outlook for TECO's Florida regulated entities appears strong, and we think the NMGC deal provides exposure to a stable growth region and synergies will prove accretive. We think the TECO coal sale is a positive even though the \$80mn base sale prices was lower than expected. Although management has highlighted an additional potential \$60mn if coal prices achieve certain benchmarks over the next 5 year, we think it will be hard to realize much of that incremental amount given that current coal contracts are significantly out of the market. Our Price Target is derived from our 2017 EPS estimates

### 2015E TECO Operating EPS by Segment



Source: Company Filings and UBS Estimates

### TECO Gas Ratebase Upside Potential (Over many years)

TECO Gas Ratebase Opportunity	Pilot	Full Program
Gas Ratebase Investment	\$50	\$1,333
Equity Ratio	54%	54%
Authorized ROE	10%	10%
Incremental Net Income (\$Mn)	\$3	\$73.80
Incremental EPS	\$0.01	\$0.32
<b>Incremental Value per Share</b>	<b>\$0.19</b>	<b>\$5.12</b>
Upside Potential	1%	24%

Source: Company Filings and UBS Estimates

## The Power Line on TE:

*As part of our broader SMid-bid thesis in the sector, we see TECO as a beneficiary of a capital flight, particularly with TECO a direct read-through from regulatory efforts kicked off by NEE including potential to put ratebase natural gas investment (awaiting a mid-March decision from the Florida PSC) as well as putting forward solar into ratebase (possibly in lieu of its planned 2020 gas peaking plant). Bottom line, we think growth will remain towards the upper end of its targeted range through the forecast period and beyond, supported by a clear opportunity for renewables build and potential vertical integration to limit consumer price inflation.*

*From a demographic perspective, we suspect Florida will remain positively positioned, particularly through the medium term on the back of a normalization in relations with Cuba. Politically, with the Gubernatorial election behind it, we see risk to the regulatory paradigm as minimal. With rates settled through 2017, we see concerns around its authorized ROE of 10.25% (9.25-11.25% range) at Tampa Electric as relatively benign.*

*Turning to consolidation, our SMid-bid thesis is fundamentally underpinned by an expectation for modestly growing large-cap utilities to continue to grow acquisitively via levered transactions, designed to bolster their underlying EPS growth. While TECO's parent leverage remains healthy (~\$1Bn, or 20% of market cap), we suspect the wider sector may still benefit following NEE's bid for HE earlier in the year. Through 4Q reporting season, we flag that the likes of SO and XEL among others have only continued to beat the drum of potential consolidation – driving up expectations, particularly for those companies with better EPS growth profiles, like TECO.*

*Trading at a slight discount to the peer group on 2017E (15.4x vs. 15.6x on 2017E P/E), we see few other equities in the smid-cap space still with positive skew upwards in both multiple and estimates on future spend. We suspect coal could remain a modest overhang, but emphasize at \$80 Mn – and with no real EPS contributions (and still discontinued) this is just a ~\$0.30/sh swing factor either way. **The bottom line is TECO offers a favorable risk/reward proposition, a statement that can be said about a diminishing number of peers.***

*Please refer to reports below for further background information:*

[2/9/15 Feeling The Weight of Coal \(First Read\)](#)

[11/3/15 Coal Payout Limited but Utilities Matter Most Now](#)

[10/20/14 Washing Off The Coal](#)

[8/1/14 Synergy Step-Up](#)

## After NMGC, there is room for a different kind of gas investment: Ratebasing reserves

We anticipate an announcement in 2015 and despite having gas consumption needs 'only' ~1/6<sup>th</sup> of the scale of NextEra, this would be a more material component of earnings for the regulated-only TECO. Look for updates as early as mid-year assuming a favorable outcome for FP&L but likely skewed towards the back-half of the year.

Thus far TECO has opted for conservatism and is waiting for rule finalization for NextEra before proposed its own gas investment pilot.

**Figure 1: Gas Ratebase Opportunity – Follow the Leader?**

TECO Gas Ratebase Opportunity	Pilot	Full Program
Gas Ratebase Investment	\$50	\$1,333
Equity Ratio	54%	54%
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Upside Potential	1%	24%

Source: Company Filings and UBS Estimates

Further details are available in our NextEra Energy note, '[A Windy, Gassy, Yieldy Opportunity Set](#)'.

## 2015 guidance not so much weak, as realistic

We maintain our 2015E EPS estimate and although the guidance range left less upside than we had anticipated (\$1.08-\$1.11 vs \$1.05-\$1.15), the upper-end of our contemplated range was likely out of the realm of realistic possibility, thus management opted to set more realistic expectations.

**Figure 2: TECO 2015 EPS Walk – Maintaining our estimate at the high end of range**

2015 Earnings Walk	EPS	Additional Commentary
2014E Adjusted EPS	\$1.03	
<b>Florida Utilities</b>		
Return to Normal Weather vs 2014	\$0.01	
Ratebase Growth at Electric/Gas	\$0.05	\$300M-\$350M capex minus \$100M depreciation
D&A	(\$0.02)	Normal increase in depreciation
O&M	\$0.01	Expectation for flat to slightly favorable trend
Interest Expense	\$0.01	Increase from NMGC acquisition offset by Parent Refinance
TECO Coal	\$0.00	Removed from Operating EPS; GAAP Loss expected
New Mexico Gas Co. (NMGC)	\$0.05	Slightly accretive in 2015
Dilution	(\$0.04)	16.7Mn shares issued around July 8th
<b>2015E Adjusted EPS</b>	<b>\$1.10</b>	
<b>Consensus</b>	<b>\$1.11</b>	
2015 Guidance	\$1.08-\$1.11	Previous 2015 Projected Guidance (UBSe): \$1.05-\$1.15

Source: Company Filings, FactSet, and UBS Estimates

## SMid Bid Criteria: How Does TECO Stack-up?

- **Underlying Ratebase Growth:** TECO's 5-7% ratebase growth is above average and would help augment the profile of most acquirers with synergies offering upside.
- **EPS growth and secondary equity needs:** TECO's ratebase growth largely falls to the bottom line due to cost control and synergies from its NMGC deal. While management is not forecasting equity needs now, if it executes on an ambitious gas ratebase plan it could require equity financing.
- **Parent leverage:** This is the primary concern with the TECO SMid bid thesis; however, the ~\$1Bn of parent debt is not overly onerous to scare off a determined buyer.

**Figure 3: TECO Finance Profile**

TECO Finance Debt Profile			Pre-Tax
Maturity	Size, \$ Mn	Rate (%)	Interest Exp
2015	191.2	6.90%	13
2016	250.0	4.20%	11
2017	300.0	7.30%	22
2020	300.0	5.30%	16
<b>Total</b>	<b>1,041.2</b>	<b>5.91%</b>	<b>61</b>

Source: Company Filings

- **Jurisdiction Breath:** Single jurisdiction utilities are ideal, but Florida is viewed positively by the investment community. New Mexico could be more challenging with the ink barely dry on TECO's purchase of NMGC – we could envision a scenario where the Public Service Commission is concerned about changing ownership again in such a short time span.

## Who could be interested? Start with the Sunshine State

The natural assumption is always to look at Florida neighbors, starting with NextEra. We view a NextEra deal as lower probability with the Hawaii acquisition pending. Following management's comments on its recent earnings call, we believe that **Southern Company** could be a potential candidate. Southern already has a footprint in Florida via Gulf Power and a below average growth rate. If any of these large companies were to acquire TECO it could drive not only operational, but also financial accretion via refinancing all of the parent debt.

Further details are available in our [note](#) and [video](#) on the topic.

## What are the risks?

- **Failing to close TECO Coal sale:** While Coal is only worth ~\$0.35 in our valuation, we would expect a negative market reaction if the current deal with Cambian does not materialize. In such an event we believe TECO would move towards its 'Plan B' and move to sell the business even if at a materially lower price. The real risk is if the deal collapses and management opts to retain the business as that would draw attention away from the strong core growth story.
- **ROEs under pressure in the next ratecase: We highlighted this in our recent NextEra note** and the concerns are the same for TECO. Tampa's authorized ROE in the 2013 rate case settlement is 9.25%-11.25%, which could come down due to interest rate pressure. This remains a key risk but, fortunately, is still far enough on the horizon that investors are likely to focus on more tangible rate cases for peers.
- **Utilities group turning over:** TECO offers the highest yield of utilities we follow at 4.4%, this should help insulate from concerns about rising interest rates. The negative side being that we do not anticipate any material dividend increases with the payout currently at ~80% for 2015E vs 60-70%. Despite the above-average payout, the dividend is safely supported by regulated operations and is not at risk. Available net operating losses (NOLs) makes the cash payout ratio look healthier than on a GAAP basis.

**Figure 4: Regulated Utility Peer Universe**

			Market Cap.	Price	Price	Dividend	P/E multiple				
	Ticker	Rating	(\$ in millions)	2/9/2015	Target	Yield	2014E	2015E	2016E	2017E	2018E
REGULATED INTEGRATED UTILITIES											
Ameren Corp.	AEE	Neutral	10,239	42.20	44.00	3.89%	17.8	16.7	15.8	14.6	13.3
Alliant Energy Corp.	LNT	Not Rated	7,171	64.64	NA	3.40%	18.7	17.8	16.8	16.1	15.2
Avista Corp	AVA	Neutral	2,168	34.84	34.00	3.79%	18.4	17.7	16.9	16.0	15.4
CMS Energy Corporation	CMS	Buy	9,767	35.37	42.00	3.28%	20.0	18.8	17.5	16.3	14.9
DTE Energy Co.	DTE	Buy	15,028	84.91	92.00	3.25%	18.8	18.6	17.0	15.8	15.1
Duke Energy	DUK	Neutral	58,493	82.70	90.00	3.85%	18.1	17.6	16.6	16.0	15.4
Edison International	EIX	Neutral	20,888	64.11	65.00	2.60%	14.9	18.6	16.4	15.2	14.2
Empire District Electric Company	EDE	Sell	1,150	26.47	28.00	3.93%	17.0	17.0	15.7	15.2	15.7
Great Plains Energy	GXP	Not Rated	4,260	27.64	NA	3.55%	17.6	16.5	14.9	14.2	13.2
Hawaiian Electric Industries	HE	Not Rated	3,421	33.36	NA	3.72%	19.5	18.5	17.8	16.3	na
PG&E Corporation	PCG	Neutral	26,496	55.77	50.00	3.26%	15.8	15.9	15.6	15.8	15.1
Pinnacle West Capital Co.	PNW	Neutral	7,345	66.50	74.00	3.58%	18.1	17.2	16.7	16.0	14.7
PNM Resources Inc.	PNM	Not Rated	2,284	28.68	NA	2.79%	19.4	18.3	15.5	15.2	14.3
SCANA Corp.	SCG	Neutral	8,573	60.14	59.00	3.49%	15.8	16.3	15.1	14.3	13.7
Southern Company	SO	Sell	43,002	47.79	47.00	4.39%	17.1	17.0	16.4	15.9	15.2
TECO Energy Inc.	TE	Buy	4,797	20.44	22.00	4.40%	20.1	18.6	17.1	15.4	14.4
Westar Energy, Inc.	WR	Neutral	5,287	40.44	41.00	3.46%	16.7	16.7	16.1	15.5	14.9
Wisconsin Energy Corp.	WEC	Neutral	11,864	52.61	48.00	3.21%	20.1	19.1	18.5	17.9	17.5
Xcel Energy Inc.	XEL	Neutral	17,871	35.34	40.00	3.40%	17.4	16.9	16.0	15.1	14.5
Average						3.54%	18.0	17.6	16.4	15.6	14.8

Source: Company Filings and UBS Estimates. FactSet for Unrated Companies

## Valuation: Increase Price Target \$3 to \$22

We have rolled our valuation forward to 2017E and are transitioning to a regulated-only P/E approach with the TECO Coal sale expected in the upcoming month. Following the reduction in the base sales price to \$80Mn from \$120Mn and management's confidence on the call, we believe this approach is prudent. Management plans to fully refinance the 2015 maturity, but indicated that it is open to possibly retiring at least a portion of the remaining debt. In our recent CMS initiation we use a P/E multiple approach to the parent debt and have moved to a similar approach for PPL following its announcement that it will spin off its merchant operations.

**TECO is one of only a few regulated integrated Buy Names**

### What has changed in our valuation?

- Changing parent and other methodology: Applying a multiple on the parent expense rather than subtracting the net debt improves our valuation by ~\$1/sh. This also accounts for the \$40Mn reduction in base sales proceeds.
- Rolling our valuation forward to 2017E: The step-up in earnings associated with Polk in-service drives \$1/sh, exclusive of appreciation in the multiple.
- Improvement in the regulated peer multiple: Since our last refresh in November drives regulated utilities have marched forward, contributing another ~\$0.50-\$1.00 to our valuation.

Figure 5: Updated TECO Energy Valuation

TECO Valuation (UBSe)			Low Case		Base Case			High Case		
Business Segment	Valuation Metric	2017	Valuation Multiple	(\$ MM) Value	Base Valuation Multiple	(\$ MM) Value	Valuation Multiple	(\$ MM) Value		
Regulated Entities										
					Peer Multiple	Prem. to Peer	Base Multiple			
Tampa Electric & Peoples Gas	P/E	\$1.38	14.6x	\$4,689	15.6x	0.5x	16.1x	\$5,171	18.1x	\$5,813
New Mexico Gas	P/E	\$0.13	14.6x	\$426	15.6x	0.5x	16.1x	\$470	18.1x	\$529
Regulated, Equity Value (\$Mn)				\$5,116				\$5,641	\$6,342	
Regulated, Equity Value (\$/sh)				\$22.04				\$24.30	\$27.32	
Unregulated and Parent Businesses										
Coal	Trans.	\$80	N/A	\$60	N/A	N/A	N/A	\$80	N/A	\$80
Parent & Other Drag	P/E	(\$0.19)	16.6x	(\$729)	15.6x	0.0x	15.6x	(\$685)	14.6x	(\$642)
Unregulated, Equity Drag (\$Mn)				(\$669)				(\$605)	(\$562)	
Unregulated, Equity Drag (\$/Sh)				(\$2.88)				(\$2.61)	(\$2.42)	
TECO Equity Value				\$4,446				\$5,036	\$5,780	
Fully Diluted Outstanding Shares (2017E)				232				232	232	
TECO Equity Value per Share				\$19.16				\$21.70	\$24.90	
Implied Multiple: Consolidated UBSe 2017 EPS & UBS Price Target Premium/(Discount) to Peers								16.4x	0.8x	
Implied Multiple: Consensus 2017 EPS & Market Price Premium/(Discount) to Peers								15.7x	0.1x	

Source: Company Filings, FactSet, and UBS Estimates

## Risk/reward skews positively compared with peers

Our base case implies ~6% upside versus current trading levels with a similar amount of downside embedded in our low case; however, we view the skew strongly to the positive side from a SMid bid thesis with support from the gas ratebasing opportunities. Other recent regulated transactions have frequently been in the ~20% upside territory and we do not think TECO would be materially different. Even if M&A does not materialize, there is a healthy upside opportunity available from gas investments with potentially being worth a few percentage points in the forecast horizon if management is able to execute.

TECO is trading at a 15.7x based on consensus 2017E and our valuation embeds a 16.4x P/E, or a ~80bp premium. We believe that our valuation is still on the conservative side as an argument could be made that the utilities deserve a larger premium (particularly on the gas side). Assuming a productive use of the TECO Coal base proceeds such as paying down the parent debt maturing in 2016 or 2017 would also be incrementally positive. Lastly we assume that TECO does not realize any of the contingency payments from its Coal contract, potentially worth another \$60Mn. We do not expect TECO to receive the contingency payments based on where coal is trading relative to the benchmarks, but this is essentially a free option.

## Maintaining EPS Estimates

Our EPS estimates are largely unchanged following 4Q results. The Tampa Electric sales guidance of +30bp is weaker than we expected, but we still see the segment earnings at the top end of its ROE range, consistent with guidance. Our estimates do not embed any contribution from gas or ratebase solar. We anticipate refining our estimates further with the updated capex disclosures in the 10K expected to

**Another SMid bid calculated risk-- even if M&A does not materialize the company has core strengths with enough positive catalysts to support an investment thesis.**

be released on February 27<sup>th</sup>. We include several more considerations around estimates below

- NMGC: Slight upside to estimates around earning full 10% ROE in NM. The company has historically earned closer to the ~9% range, however, expects with the synergies obtained from the deal to trend towards this higher level in future years (2015+). This could add ~\$0.01-0.02 to our estimates.
- Refinancing: 2017 refinancing \$300 Mn maturity of 7.3% Notes could drive a \$0.02-0.03 tailwind to our estimates assuming 2-3% interest cost savings.
- 2016 cost savings 'gap' in Florida: The question for 2016 will remain whether TE can manage to maintain its cost structure to continue earnings it ROE. While mgmt appears confident (as does NEE which is poised to do the same), this is a source of uncertainty for shares.

**Figure 6: Updated TECO EPS by Segment**

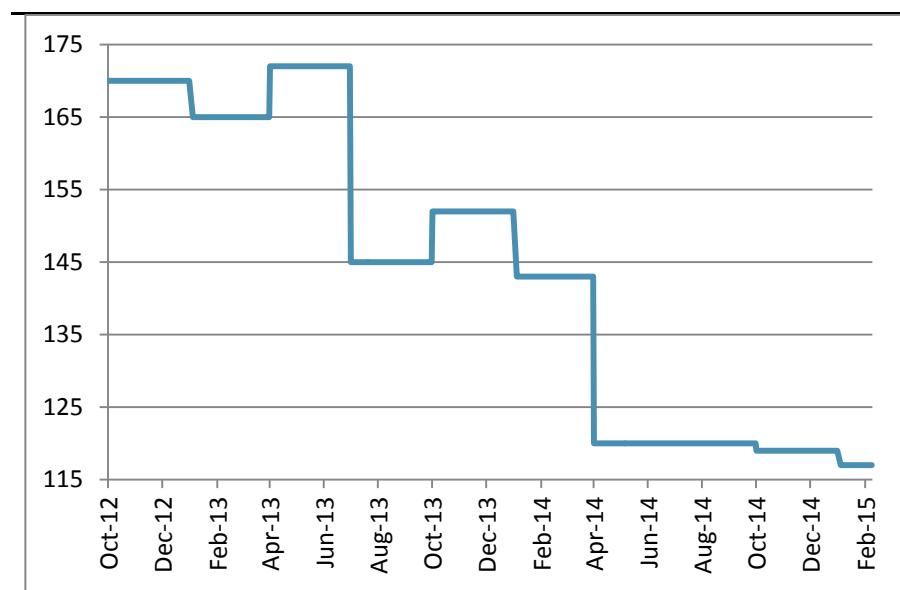
TE Earnings by Segment	2013A	2014A	2015E	2016E	2017E	2018E
Regulated Florida Utilities	\$1.05	\$1.17	\$1.20	\$1.27	\$1.38	\$1.45
New Mexico Gas Co.	\$0.00	\$0.03	\$0.09	\$0.11	\$0.13	\$0.15
Parent	(\$0.18)	(\$0.16)	(\$0.19)	(\$0.19)	(\$0.19)	(\$0.19)
<b>Total</b>	<b>\$0.95</b>	<b>\$1.03</b>	<b>\$1.10</b>	<b>\$1.19</b>	<b>\$1.32</b>	<b>\$1.41</b>
<b>Prior UBS Estimates</b>	<b>\$0.95</b>	<b>\$1.02</b>	<b>\$1.10</b>	<b>\$1.19</b>	<b>\$1.33</b>	<b>\$1.42</b>
<b>Consensus (2/9/15)</b>		<b>\$1.03</b>	<b>\$1.11</b>	<b>\$1.18</b>	<b>\$1.30</b>	
<b>Guidance (4Q14 update)</b>	<b>\$0.90-\$1.00</b>	<b>\$1.00-\$1.05</b>	<b>\$1.08-\$1.11</b>			

Source: Company Filings, FactSet, and UBS Estimates

## Can't count on coal contingent consideration

Below we present the relevant index prices, which have deteriorated further another \$2 since the deal's initial October announcement. The modified agreement under the second amendment lowers the base sale price from to \$80Mn from \$120Mn while increasing the contingency component to \$60Mn from \$45Mn.

**Figure 7: Seaborne Hard Coking Coal Contract Prices (\$/metric tonne): current contract prices: \$117/t**



Source: Bloomberg

**Forecast returns**

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Forecast price appreciation	+7.6%
Forecast dividend yield	4.3%
Forecast stock return	+11.9%
Market return assumption	5.7%
Forecast excess return	+6.2%

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**Statement of Risk**

Factors that could prevent TECO Energy from achieving our earnings, cash flow, and/or price target objectives include: adverse weather conditions, including tropical storm activity; availability of and unscheduled generation outages or unplanned maintenance; unanticipated changes in all matters related to fuel procurement; changes in state and / or Federal regulatory policy; more stringent environmental legislation; interest rate and / or capital market risk(s); timely completion and reasonable recovery of power plants under construction; continuation of labor relationships with unionized employees; changes in accounting policies by the standard setting bodies; economic conditions that affect both customer growth and demand; permitting issues with surface mine operation; coal industry regulations (mine and safety; Black Lung, workers compensation, various environmental laws) coal production levels and operation of the same; commodity price risks; sovereign risk associated with its Latin American electricity operation; foreign currency, translation, and repatriation issues, among others items.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
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 31 December 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.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term 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
<b>TECO Energy Inc.</b> <sup>5, 16</sup>	TE.N	Neutral	N/A	US\$20.44	09 Feb 2015

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

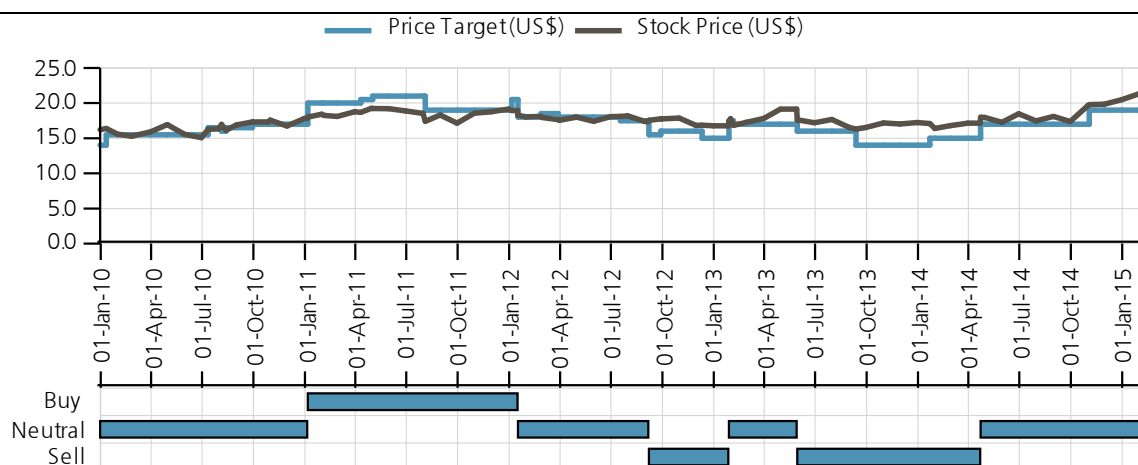
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### TECO Energy Inc. (US\$)



Source: UBS, as of 09 Feb 2015

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