

US Alternative Energy & YieldCos

Reviewing The YieldCo Track Record

Equities

North America
Electric Utilities

It's getting busier with every passing year

After 2013 and 2014 it is shaping up to be another busy year for YieldCos. The last couple of years witnessed seven IPOs (four in 2013 and three in 2014) with 2015 already hosting its fair share (HIFR and CAFD). TERP Global another SUNE offshoot is already on course for its IPO in 2H15 with others poised to come later this year.

It's getting bigger as well

Until now, ABY had the biggest gross proceeds of ~\$829M. Except HASI and RNW-CA, the balance of offerings raised more than \$400M. However, at the midpoint of its proposed range, \$20 per share, and listing of ~65M shares, TERP Global is expected to raise ~\$1.3Bn from its upcoming IPO. In contrast to conventional corporate listings, YieldCos are structured to provide meaningful and visible DPS growth, putting pressure to limit the size of any offering in order to provide the greatest prospective growth of the entity.

How did they fair on Day 1?

Except HASI, RNW, and CAFD all appreciated on the 1st day's trading, with the highest being TERP (35%) followed by NEP (28%), ABY (28%), NYLD (24%), HIFR (16%) and PEGI (6%). While HASI and CAFD lost -9% and -2%, respectively, RNW-CA traded flat with the 1st day's trading post-IPO.

And down the dividend lane... growth remains important

Proposed dividends were 10-15% for majority of the YieldCos at the time of IPOs. While IPO yield for US YieldCos were ranging between 3-5.5%, highest being NYLD (the first such vehicle) and lowest being NEP (the highest quality), their foreign counterparts such as PEGI and RNW yielded more than 5.5%. The only visible exception to foreign listings was ABY, which was comparable to its US peers.

Putting the sector in context: the latest is a bump in ongoing maturity.

While initially limited to a narrow asset class of US contracted renewables, its definition has expanded across time to include both contracted thermal, transmission, and both OECD and EM exposure. Rather than seeing the phenomenon tied to solar companies, we see the highest quality stories as diversified infrastructure developers. Despite recent uncertainty off shares – and shifts in strategy to limit issuances by TERP amidst this volatility – the sector is clearly here for the long-term (although the acquisitive driven growth may well slow). Contracted infrastructure as a competitor to utilities is real; rather, the largest diversified utilities in the US do and will dominate the sector (NEE, D, and SRE). Ultimately, the definition of contracted infrastructure clearly links to back to its roots in both Canadian Income equities as well as MLPs – and could well continue to mesh into both sectors as stories blend (NEP best illustrates this dynamic, holding a number of Canadian wind assets in its initial portfolio as well as midstream pipeline drops in its backlog).

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Revisiting YieldCo IPO Pages

Following our 2Q solar preview and ahead of TERP Global's IPO we revisit IPOs of other YieldCos just to get a sense of how did YieldCos perform during their respective IPOs? How much did they raise? Importantly, dividend guidance and the dividend yield compared to the peer group at the time of IPOs for each of these YieldCos under consideration.

Both 2013 and 2014 were busy years for the YieldCos and witnessed seven IPOs altogether, four in 2013 and three in 2014, respectively. While 2015 have already seen couple of IPOs (HIFR and CAFD), TERP Global another SUNE offshoot is already on course for its IPO in 2H15.

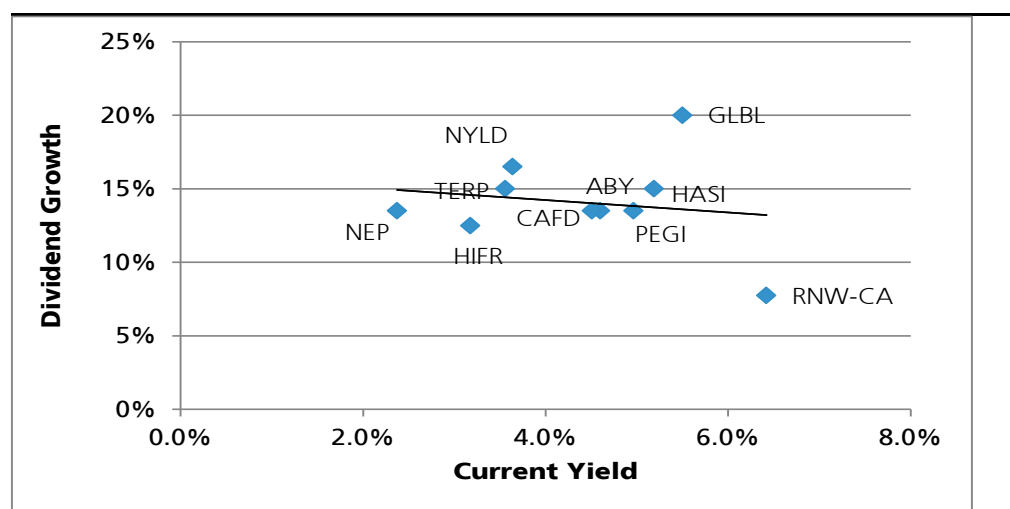
Below we present IPO details of the YieldCos.

Figure 1: IPO details - YieldCos

IPO Analysis	HASI	NYLD	RNW-CA	PEGI	ABY	NEP	TERP	HIFR	CAFD	GLBL
Date	4/18/2013	7/17/2013	8/9/2013	10/2/2013	6/13/2014	6/27/2014	7/17/2014	1/30/2015	6/19/2015	
Annualized IPO Year Dividend \$	\$0.56	\$1.20	\$0.75	\$1.25	\$1.04	\$0.75	\$1.08	\$0.90	\$0.84	\$1.10
IPO Price (T+0) \$	\$12.50	\$22.00	\$10.00	\$22.00	\$29.00	\$25.00	\$25.00	\$23.00	\$21.00	\$20.00
Yield @ IPO %	4.5%	5.5%	7.5%	5.7%	3.6%	3.0%	4.3%	3.9%	4.0%	5.5%
Payout (%)	90%	NA	80-85%	80%	90%	80%	85%	90%	85%	85%
DPS Guidance - IPO	NA	10 - 15% (5Yr)	NA	8-10% through 2017	\$1.36 for 2015	12-15% (5Yr)	Long-term target 15%	10-15% CAGR (3Yr)	12-15% per year	20% per year through 2017
Recent DPS Guidance	NA	15 - 18% (5Yr)	~9% in '15/16; ~6%-7% in '17/18	12-15% per year through 2017	\$1.60 for 2015 and \$2.10-2.15 for 2016; 12-15% from 2016-2020					
IPO Size (\$Mn)	\$177	\$495	\$230	\$405	\$829	\$467	\$577	\$598	\$483.00	\$1,301
IDR Exists	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Post-IPO Price (T+1) \$	11.4	\$27.25	9.98	\$23.23	\$37.00	\$32.00	\$33.65	\$26.60	20.49	
IPO Day One Change %	-9%	24%	0%	6%	28%	28%	35%	16%	-2%	

Source: Company filings, factset and UBSe

Figure 2: Current Yield vs Proposed Dividend Growth @ ~IPO



Source: Company filings, factset and UBSe; GBL uses proposed current yield implied from midpoint of range and stated growth rate in S1.

Who was the first among equals?

Hannon Armstrong (HASI) was the first one to kick off the block, going public in April, 2013 at an IPO price of \$12.5, followed by NRG Yield (NYLD), Transalta Renewables (RNW-CA) and Pattern Energy (PEGI) in 2013 and Abengoa Yield (ABY), NextEra Energy Partners (NEP), and Terraform Power (TERP) in 2014. AES SilverRidge was technically the first formal attempt at a yield vehicle in early 2013; however, pulled the deal following uncertainty on European portfolio and pending construction risk.

How about the First Impression?

Almost all of the IPOs priced between \$20-\$25 range, while ABY being the leader in the pack priced at \$29, HASI and RNW-CA were priced at \$12.5 and \$10.0, respectively. Except HASI, RNW, and CAFD, all of them appreciated after the 1st day's trading, with the highest being TERP (35%) followed by NEP (28%), ABY (28%), NYLD (24%), HIFR (16%) and PEGI (6%). While HASI and CAFD lost 9% and 2%, respectively, RNW-CA traded in a flat tape after 1st day's trading post IPO.

How about the size?

Excluding TERP Global, which could possibly on its way to become the biggest one on size, ABY had the biggest gross proceeds of ~\$829M. Specifically, both HASI and RNW-CA had ticket sizes of less than \$250M. With ~\$20 price and issuance of ~65M share TERP Global is expected to receive ~\$1.3Bn from its upcoming IPO.

Does size matter?

We note apart from CAFD all the IPOs with ticket sizes greater than \$400M gained after 1st days trading. While HASI went down 9%, RNW-CA traded flat on first day of its trading post IPO. Big IPOs attracts broader investor's base that may drive the price on day 1 post IPO, however, we believe fundamentals will ultimately drive the long term price appreciation. While HASI gained 61% and RNW-CA gained 21% since their respective IPOs, ABY fell by 7% and CAFD by 22%, respectively.

Figure 3: Price return performances

IPO Date	4/18/2013	7/17/2013	8/9/2013	10/2/2013	6/13/2014	6/27/2014	7/17/2014	1/30/2015	6/19/2015
	HASI	NYLD.A-US	RNW-CA	PEGI	ABY	NEP	TERP	HIFR	CAFD
YTD Return	41%	-15%	6%	-2%	-1%	3%	0%	23%	-20%
2Q15 Return	10%	-9%	-2%	0%	-7%	-10%	4%	-1%	-9%
1Q15 return	28%	8%	9%	15%	24%	30%	18%	7%	
2014 Return	2%	18%	4%	-19%	-26%	5%	-7%		
Price Appreciation Since IPO	61%	73%	21%	10%	-7%	39%	23%	42%	-22%

Source: Company reports, Fact set and UBS (based on price of 7/24/2015, Spin, Split-off adjusted)

A walk on the path of Dividend and yield

While most of the YieldCos proposed dividend growth rate of 10-15% at the time of their respective IPOs, PEGI being the lowest, provided 8-10% dividend growth guidance through 2017. Specifically, neither HASI nor RNW-CA provided any explicit dividend or dividend growth guidance at the time of their IPOs. While NYLD, PEGI and ABY recently increased their dividend growth guidance RNW-CA provided dividend growth guidance of ~9% for 2015/16 period and ~6-7% for 17/18 timeframe. Notably, TERP Global announced dividend growth of 20% per year through 2017 for its upcoming IPO.

Below we present comparison between YieldCos' IPO yield vis-à-vis existing peer group yields till the time of respective IPO.

Figure 4: YieldCos' IPO yield vs Peer Group Yield

IPO Date	Ticker	Peer Group Yield till	
		Yield at IPO price	the time of Corresponding IPO
4/18/2013	HASI	4.5%	
7/17/2013	NYLD	5.5%	4.8%
8/9/2013	RNW.CA	7.5%	4.5%
10/2/2013	PEGI	5.7%	4.5%
6/13/2014	ABY	3.6%	5.0%
6/27/2014	NEP	3.0%	4.9%
7/17/2014	TERP	4.3%	4.9%
1/30/2015	HIFR	3.9%	4.8%
6/19/2015	CAFD	4.0%	4.6%

Source: Company reports, Factset and UBSe (group included HASI, NYLD, RNW, PEGI, ABY, NEP, TERP, HIFR)

Figure 5: YieldCos' IPO yield vs US Peer Group Yield

IPO Date	Ticker	Peer Group Yield till	
		Yield at IPO price	the time of Corresponding IPO
4/18/2013	HASI	4.5%	
7/17/2013	NYLD	5.5%	4.8%
6/27/2014	NEP	3.0%	4.5%
7/17/2014	TERP	4.3%	4.5%
1/30/2015	HIFR	3.9%	4.4%
6/19/2015	CAFD	4.0%	4.1%

Source: Company reports, Factset and UBSe (group included HASI, NYLD, NEP, TERP, HIFR)

HASI had the lowest yield among the initial set of IPOs in 2013, largely driven by its position in senior debt, lower credit risk due to government counterparties, REIT structure that allowed HASI to invest energy sector without relying on TAX equity structure and leverage to raise equity given its lower equity base. We note HASI's IPO yield of 4.5% calculated on total annualized dividend of \$0.56 for 2013 on its IPO price of \$12.5.

RNW-CA's 7.5% IPO yield was the highest among the peers followed by PEGI at 5.7% and NYLD at 5.5%. While both RNW-CA's predominant Canadian presence and PEGI's Canadian and LatAm assets warranted for risk premium over the US peers to attract US investors, NYLD's higher yield compared to the US peers such as HASI was due to its higher indebtedness and newer assets with limited performance history and short contract tenor.

Interestingly, ABY's IPO yield was 3.6%, in spite of its presence outside of US market, ABY's yield was comparable to NEP (3.0%) and lower than US peers such as TERP (4.3%) and HIFR (3.9%). ABY operated under 90% distribution payout ratio (comparable to REIT such as HASI, peers were in the range of 80-85%) and forecasted dividend growth of 31% in 2015 (from \$1.04 to \$1.36).

Lower IPO yields of NEP, TERP and CAFD compared to the peer group were primarily driven by presence of the credible sponsors. Additionally, both NEP and TERP had asset dropdown, payout and dividend growth visibility.

We observe peer group yield is more or less settling in and around 4.5% range (yield for US peer group ~4.0%). That said TERP Global at \$20 (mid-point of its guidance) IPO price and expected annualized dividend of \$1.10 will expect to yield 5.5%, which is higher than 4.5% range. We note TERP Global's portfolio will have assets operating in OECD countries.

We present YieldCo ratings, price targets and expected yield for the primary YieldCos. Rated companies are UBS estimates; unrated companies are FactSet consensus.

Figure 6: Comp – Primary YieldCo peers

	Rating	Market Cap. (\$ in millions)	Price 7/28/2015	Price Target	% Public Float	Dividend Yield (%)					Dividend Growth Rate				EV / EBITDA Multiple				
						2014E	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E	2015E	2016E	2017E	2018E	
PRIMARY YELDCOs																			
Abengoa Yield PLC	ABY	Not Rated	2,151	26.89	N/A	38.4%	2.06%	6.12%	8.06%	9.22%	10.41%	196%	32%	14%	13%	9.3	5.9	5.1	na
8point3 Energy Partners	CAFD	Neutral	1,186	16.70	21.00	28.1%	na	3.04%	5.60%	6.57%	7.87%	na	84%	17%	20%	25.0	13.0	9.0	na
Hannon Armstrong Sustainable Ini	HASI	Buy	640	19.69	22.00	93.4%	5.38%	5.38%	6.28%	7.41%	8.89%	0%	17%	18%	20%	na	na	na	na
NextEra Energy Partners LP	NEP	Neutral	2,678	35.70	44.00	24.6%	2.10%	3.21%	3.78%	4.44%	5.21%	53%	18%	18%	18%	7.0	5.6	4.9	3.7
NRG Yield	NYLD.A	Neutral	2,875	19.76	27.00	64.3%	7.29%	4.02%	4.76%	5.62%	6.63%	-45%	18%	18%	18%	6.7	6.3	6.4	6.4
Pattern Energy Group A	PEGI	Not Rated	1,848	24.81	N/A	69.2%	5.82%	5.82%	6.74%	7.58%	8.91%	0%	16%	12%	17%	9.7	8.7	9.1	6.2
Terraform Power	TERP	Buy	4,559	31.28	52.00	41.6%	3.32%	3.42%	4.14%	4.97%	4.35%	3%	21%	20%	-13%	20.1	14.6	12.0	na
Tranasta Renewables	RNW-C	Not Rated	2,316	12.14	N/A	27.2%	6.68%	6.68%	6.92%	7.20%	7.41%	0%	4%	4%	3%	9.8	8.4	7.5	na
Average							4.7%	4.7%	5.8%	6.6%	7.5%	29.6%	26.1%	15.2%	12.0%	12.5	8.9	7.7	5.4

Source: Company reports, Fact set and UBSe

We also analyzed current yield of each of the YieldCos.

Figure 7: Current Yield

IPO Date	4/18/2013	7/17/2013	8/9/2013	10/2/2013	6/13/2014	6/27/2014	7/17/2014	1/30/2015	6/19/2015
	HASI	NYLD.A-US	RNW-CA	PEGI	ABY	NEP	TERP	HIFR	CAFD
Current Yield as of 6/30/2015	5.2%	3.6%	6.4%	5.0%	4.6%	2.4%	3.6%	3.2%	4.5%
Annualized Dividend									
2Q15	1.04	0.80	0.79	1.408	1.44	0.94	1.35	0.90	0.84
1Q15	1.04	0.78	0.77	1.368	1.36	0.82	1.30	0.90	NA

Source: Company reports, Fact set and UBSe (based on price of 6/30/2015 and 2Q dividend, either announced or based upon company/UBSe estimates)

Statement of Risk

Demand for solar is still largely dependent on individual country government intervention through tax rebates or tariffs although dramatic reductions in installed costs are changing those dynamics. Any material change in an individual country's position on support for solar energy could have a negative impact on the growth of the solar market. The solar industry is also in a state of flux as demand for solar modules has not kept up with capacity additions in over the last few years while regulatory matters and trade disputes create pricing distortions in certain markets. We expect the solar equipment industry will generally face pressure in the near term as industry supply adjusts to fluctuating supply/demand levels and excess inventory is removed from the solar supply chain. On the other hand, the increased presence of yield vehicles has brought cheaper financing to solar and has thus increased opportunities for solar installations globally, increasing module demand and setting the stage for a potential upcycle and mid-term volatility as the markets find equilibrium.

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Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	13%	20%
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 June 2015.

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Company Disclosures

Company Name	Reuters 12-month rating	Short-term rating	Price	Price date
8Point3 Energy Partners LP ¹⁶	CAFD.O	Neutral	N/AUS\$17.02	28 Jul 2015
Hannon Armstrong Sustainable Infrastruct ^{2, 4, 6, 13, 16}	HASI.N	Buy	N/AUS\$19.84	28 Jul 2015
NextEra Energy Partners LP ^{2, 4, 5, 6, 16}	NEP.N	Neutral	N/AUS\$35.73	28 Jul 2015
NRG Yield ¹⁶	NYLDa.N	Neutral	N/AUS\$19.64	28 Jul 2015
TerraForm Power, Inc. ^{2, 4, 5, 6, 16}	TERP.O	Buy	N/AUS\$31.25	28 Jul 2015

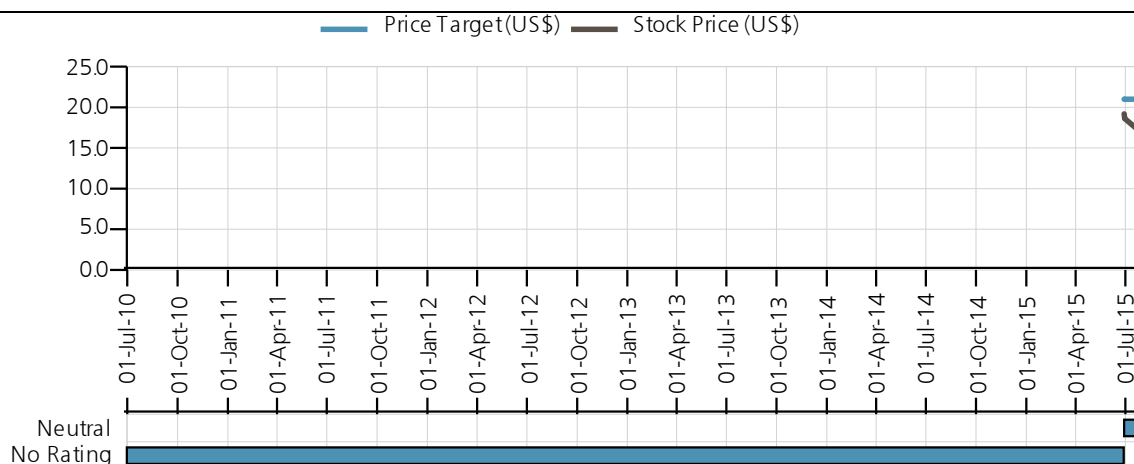
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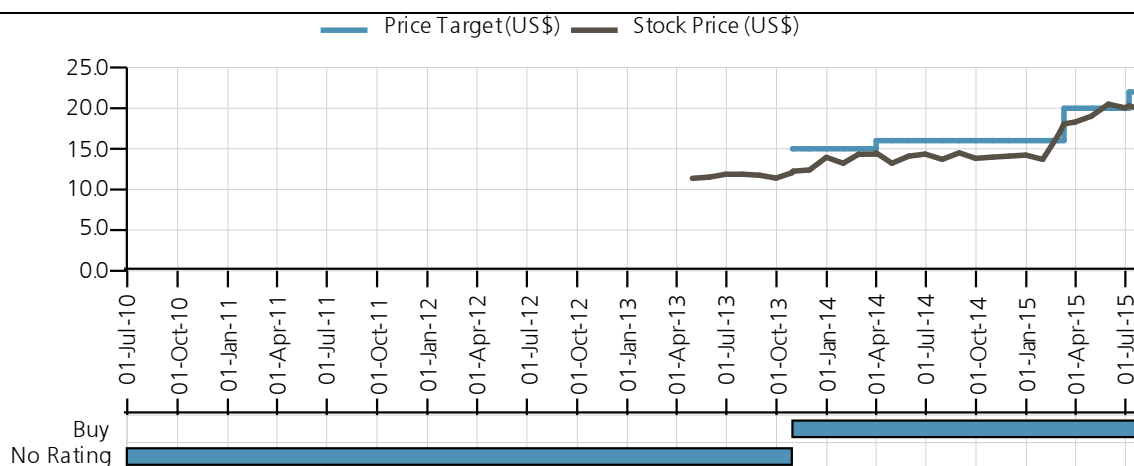
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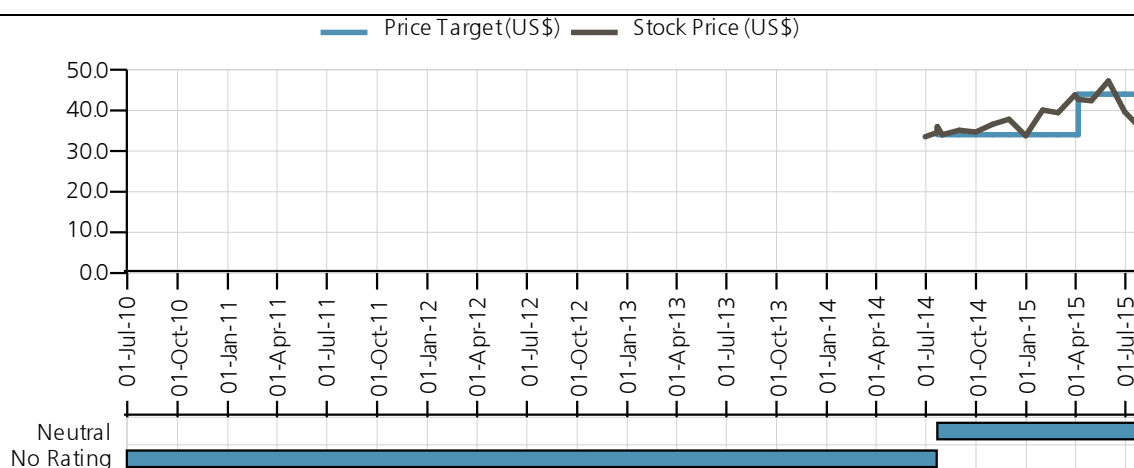
Source: UBS; as of 28 Jul 2015

Hannon Armstrong Sustainable Infrastruct (US\$)



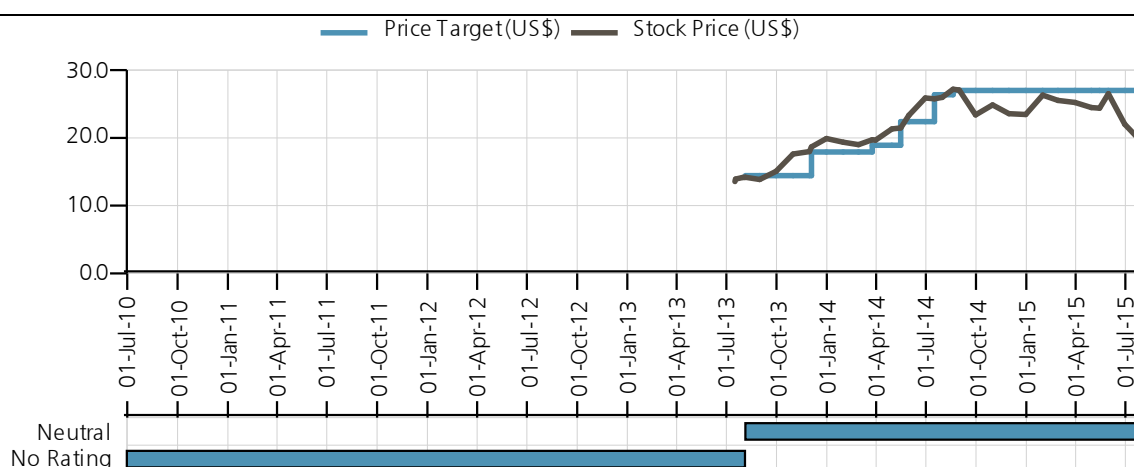
Source: UBS; as of 28 Jul 2015

NextEra Energy Partners LP (US\$)



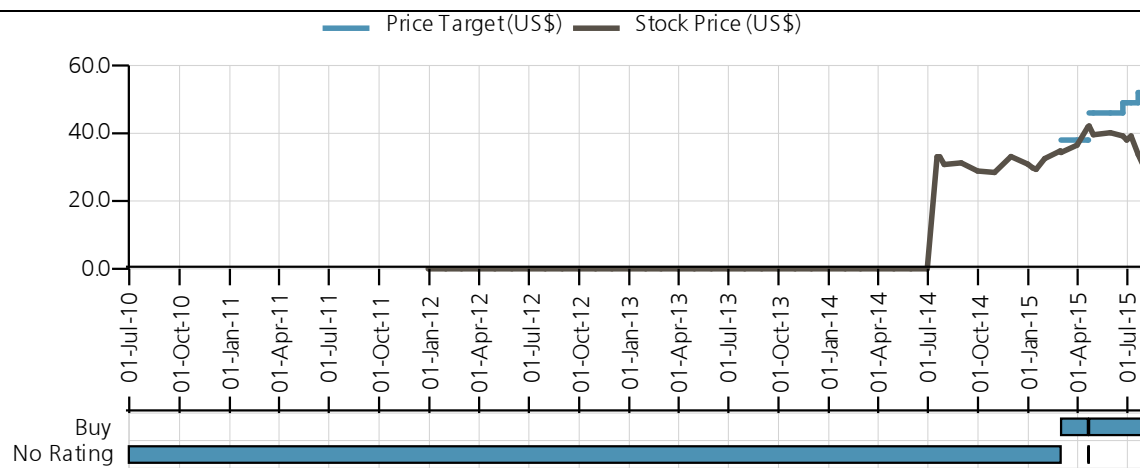
Source: UBS; as of 28 Jul 2015

NRG Yield (US\$)



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TerraForm Power, Inc. (US\$)



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