

Eversource Energy

Benefiting from Anomalous Conditions, for Now

Positive initial decision for New England transmission ROE, but there's a risk

On 3/22, the Federal Energy Regulatory Commission (FERC) administrative law judge (ALJ) hearing the remaining two of three transmission ROE complaints in New England issued an Initial Decision (ID) with a potentially favorable impact on ES earnings for 2017 and beyond. As a reminder, the two remaining complaints for the 15-mo periods 1/1/13-3/31/14 and 8/1/14-9/30/15 had been combined into a single proceeding with the pending final decision potentially establishing new precedent for ROE calculation methodology. However, this ID states that "anomalous capital market conditions" continued throughout the complaint periods, justifying continued use of the "upper midpoint" methodology within the peer proxy group "zone of reasonableness" to establish base ROE. The ID proposes a 9.59% base ROE with a cap of 10.42% for the 2nd complaint and a 10.90% base with 12.19% cap for the 3rd complaint. However, with the proxy group expected to exclude ITC from future calculations and bonus depreciation also suppressing growth, we expect lower ROE results in any future case.

Could see positive \$0.05 EPS impact in 2017+

If approved as a final decision (likely not until 1H17), the higher ROEs set for the 3rd complaint would apply prospectively from that point on (i.e., no impact on 2016), raising ES's current rates which are based on the 10.57% base with 11.74% ceiling set in the first complaint back in 2014 (effectively a weighted average of ~11.5% for ES's ratebase including the 50 bps RTO incentive). Based on a 30-40 bps ROE improvement on ~\$5.2B of transmission ratebase at yearend 2015 with ~\$900M of growth through 2018 (~52% equity), this works out to an incremental ~\$0.05 EPS by 2018.

Incremental 1x refund would apply if the ID stands as final; unclear on reserves

While it is unclear at this time if ES is required to adjust reserves (based on 10.57%/11.74% level established in the 1st complaint), the incremental 1x refund in a final order would be about \$25M-\$30M (about \$0.05/sh after tax).

Valuation: Raise PT \$4 to \$59 for higher peer P/Es; another favorable datapoint

Our ests are unchanged for now as we roll forward to a premium SOTP on 2018E average peer P/E. We give 80% credit (~\$5) for the Access Northeast pipeline and 66% for Northern Pass (\$4). Watch for MA legislation in ~June and RFP results soon.

Equities

Americas
Electric Utilities

12-month rating **Neutral**

12m price target **US\$59.00**
Prior: **US\$55.00**

Price **US\$57.48**

RIC: ES.N BBG: ES US

Trading data and key metrics

52-wk range	US\$57.84-45.41
Market cap.	US\$18.2bn
Shares o/s	317m (COM)
Free float	89%
Avg. daily volume ('000)	687
Avg. daily value (m)	US\$37.1
Common s/h equity (12/16E)	US\$10.7bn
P/BV (12/16E)	1.7x
Net debt / EBITDA (12/16E)	4.1x

EPS (UBS, diluted) (US\$)

	12/16E	
	UBS	Cons.
Q1E	0.87	0.89
Q2E	0.60	0.62
Q3E	0.75	0.77
Q4E	0.78	0.72
12/16E	2.99	3.01
12/17E	3.17	3.18
12/18E	3.40	3.39

Julien Dumoulin-Smith

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

Michael Weinstein

Associate Analyst
michael.weinstein@ubs.com
+1-212-713 3182

Paul Zimbardo

Associate Analyst
paul.zimbardo@ubs.com
+1-212-713 1033

Highlights (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenues	7,301	7,742	7,955	7,993	8,144	8,323	8,453	8,525
EBIT (UBS)	1,529	1,633	1,764	1,807	1,867	1,972	2,046	2,071
Net earnings (UBS)	800	874	894	952	1,007	1,081	1,145	1,159
EPS (UBS, diluted) (US\$)	2.53	2.75	2.81	2.99	3.17	3.40	3.60	3.64
DPS (US\$)	1.45	1.57	1.69	1.81	1.93	2.05	2.17	2.29
Net (debt) / cash	(9,360)	(9,770)	(10,171)	(10,126)	(10,318)	(10,170)	(9,480)	(8,764)
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBIT margin %	20.9	21.1	22.2	22.6	22.9	23.7	24.2	24.3
ROIC (EBIT) %	11.3	11.1	11.3	11.1	11.1	11.4	11.8	12.2
EV/EBITDA (core) x	10.6	10.8	8.8	9.8	9.4	9.0	8.7	8.5
P/E (UBS, diluted) x	16.7	16.8	17.8	19.2	18.2	16.9	16.0	15.8
Equity FCF (UBS) yield %	1.5	0.2	(1.7)	3.4	2.3	11.2	11.0	7.9
Net dividend yield %	3.4	3.4	3.4	3.1	3.4	3.6	3.8	4.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$57.48 on 22 Mar 2016 19:36 EDT

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[12/31/15 Picking a Price for the New England Auction](#)

[12/23/15 MISO Transmission Wins Round One](#)

[12/14/15 Going Eye to Eye with the Public on NPT](#)

[12/1/15 Reading the Tea Leaves in DC](#)

[11/5/15 Enhancing the Grid](#)

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[8/3/15 Pipe & Wire Plans Moving Right Along](#)

[7/22/15 A Thumbs Up for Northern Pass](#)

What's the Risk Here? Evolution in the Peer Group

Among the key notable risks in the complaint is the composition of the peer group for the period during Complaint III of November 2014 through April 2015. Since this period, *both* of the top two ROEs in the peer group, ITC and TECO. Both companies have been *included* for the current analysis, but both would be *excluded* in future iterations given pending M&A around both names. The broader consolidation of the mid-cap sector is having the expected compression risk on the ROE we had once feared.

Both ITC and Teco would be *excluded* in future iterations given pending M&A around equities, reducing the ROE result in any future case.

What's the next highest? GXP at 9.7% cap.

Using this peer group, the third highest ROE would be 9.7%, illustrative of the risk for a substantial compression upon future iterations of the MtM embedded in the ROE should a further complaint be filed. The key question is what period would ultimately be employed in a future test period.

What are the Zones of Reasonableness for the Periods?

We include below the peer groups ultimately employed in deriving the proposed decision and complaints for both periods Complaint II and Complaint III. We see the latter as the more relevant dataset.

Eversource refund obligation likely to be immaterial

ES has reserved revenue overcollection to bring down earned ROEs to the 10.57%/11.74% level established in the 1st complaint. If the initial decision stands as the final order, ES is effectively under-reserved by ~100 bps for the 2nd complaint and over-reserved by about 30-40 bps for the 3rd complaint. While it is unclear at this time if ES is required to adjust reserves for the 1Q earnings report next month, the resulting 1x refund in a final order would be about \$25M-\$30M (about \$0.05/sh after tax).

Figure 1: Staff DCF Analysis – EL -13-33 (6-mnth period ending Feb, 2014)

6-mnth avg			Growth Rate				
Company	Ticker	Div Yield	IBES Growth Rate	GDP	Composite	Adj Div Yield	DCF Result
Alliant Energy Corp.	LNT	3.72%	5.40%	4.38%	5.06%	3.81%	8.87%
Ameren Corp.	AEE	4.42%	5.00%	4.38%	4.79%	4.52%	9.31%
American Electric Power, Inc.	AEP	4.29%	4.23%	4.38%	4.28%	4.38%	8.66%
Black Hills Corp.	BKH	2.95%	7.00%	4.38%	6.13%	3.04%	9.17%
CenterPoint Energy Inc.	CNP	3.59%	3.77%	4.38%	3.97%	3.66%	7.64%
Cleco Corp	CNL	3.13%	8.00%	4.38%	6.79%	3.23%	10.03%
CMS Energy Corporation	CMS	3.82%	6.24%	4.38%	5.62%	3.93%	9.55%
Consolidated Edison	ED	4.44%	2.31%	4.38%	3.00%	4.51%	7.51%
Dominion Resources	D	3.56%	6.77%	4.38%	5.97%	3.67%	9.64%
DTE Energy Co.	DTE	3.88%	5.21%	4.38%	4.93%	3.98%	8.91%
Duke Energy	DUK	4.50%	3.92%	4.38%	4.07%	4.59%	8.66%
Edison International	EIX	2.93%	0.95%	4.38%	2.09%	2.96%	5.05%
Empire District Electric Company	EDE	4.51%	3.00%	4.38%	3.46%	4.59%	8.05%
Exelon Corp.	EXC	4.32%	-4.80%	4.38%	-1.74%	4.28%	2.54%
Great Plains Energy	GXP	3.81%	5.17%	4.38%	4.91%	3.90%	8.81%
Hawaiian Electric Industries	HE	4.82%	4.20%	4.38%	4.26%	4.93%	9.19%
Idacorp, Inc.	IDA	3.24%	4.00%	4.38%	4.13%	3.31%	7.43%
NextEra Energy	NEE	3.08%	6.48%	4.38%	5.78%	3.17%	8.95%
Eversource Energy	NU	3.48%	6.28%	4.38%	5.65%	3.58%	9.23%
PG&E Corporation	PCG	4.40%	6.65%	4.38%	5.89%	4.53%	10.42%
Pinnacle West Capital Co.	PNW	4.13%	4.13%	4.38%	4.21%	4.22%	8.43%
Portland General Electric Company	POR	3.75%	6.60%	4.38%	5.86%	3.85%	9.71%
Public Service Enterprise Group	PEG	4.33%	1.90%	4.38%	2.73%	4.39%	7.12%
Sempra Energy	SRE	2.82%	6.28%	4.38%	5.65%	2.90%	8.55%
Southern Company	SO	4.90%	3.55%	4.38%	3.83%	4.99%	8.82%
Vectren Corp	VVC	4.12%	4.50%	4.38%	4.46%	4.21%	8.67%
Westar Energy, Inc.	WR	4.26%	2.80%	4.38%	3.33%	4.34%	7.66%
WEC Energy Group Inc.	WEC	3.70%	4.86%	4.38%	4.70%	3.78%	8.48%
Xcel Energy Inc.	XEL	3.96%	4.62%	4.38%	4.54%	4.05%	8.59%
Median			8.81%				
Midpoint			8.77%				
75th %			9.23%				
Top Quarter			9.59%				
Range			7.12% -10.42%				
Moody's BAA Public Utility Index Yield Avg			5.18%				
Low Outlier Cutoff			1.00%				
			6.18%				

Source: FERC

Figure 2: IBES DCF Complaint III (EL14-86) – Official Copy

Company	Ticker	6-mnths avg			Growth Rate			Cost of Equity
		Div Yield	Adjustment	Adjusted	IBES Growth Rate	GDP	Weighted	
ALLETE	ALE	3.71%	1.0273	3.81%	6.00%	4.36%	5.45%	9.26%
Alliant Energy Corp.	LNT	3.30%	1.0254	3.38%	5.45%	4.36%	5.09%	8.47%
Ameren Corp.	AEE	3.76%	1.0268	3.86%	5.85%	4.36%	5.35%	9.21%
American Electric Power, Inc.	AEP	3.60%	1.0243	3.69%	5.10%	4.36%	4.85%	8.54%
Avista Corp	AVA	3.73%	1.0239	3.82%	5.00%	4.36%	4.79%	8.61%
Black Hills Corp.	BKH	3.07%	1.0306	3.16%	7.00%	4.36%	6.12%	9.28%
CenterPoint Energy Inc.	CNP	4.36%	1.0136	4.42%	1.91%	4.36%	2.73%	7.15%
CMS Energy Corporation	CMS	3.21%	1.0297	3.31%	6.73%	4.36%	5.94%	9.25%
Consolidated Edison	ED	3.99%	1.0155	4.05%	2.48%	4.36%	3.11%	7.16%
Dominion Resources	D	3.33%	1.0269	3.42%	5.89%	4.36%	5.38%	8.80%
DTE Energy Co.	DTE	3.29%	1.0223	3.36%	4.51%	4.36%	4.46%	7.82%
Duke Energy	DUK	3.92%	1.0222	4.01%	4.49%	4.36%	4.45%	8.45%
Edison International	EIX	2.46%	1.0096	2.48%	0.70%	4.36%	1.92%	4.40%
El Paso Electric	EE	2.89%	1.0306	2.98%	7.00%	4.36%	6.12%	9.10%
Empire District Electric Company	EDE	3.81%	1.0239	3.90%	5.00%	4.36%	4.79%	8.69%
Eversource Energy	NU	3.09%	1.0293	3.18%	6.60%	4.36%	5.85%	9.03%
Great Plains Energy	GXP	3.54%	1.0303	3.65%	6.90%	4.36%	6.05%	9.70%
Idacorp, Inc.	IDA	2.95%	1.0206	3.01%	4.00%	4.36%	4.12%	7.13%
ITC Holdings	ITC	1.67%	1.0470	1.75%	11.93%	4.36%	9.41%	11.16%
NextEra Energy	NEE	2.82%	1.0287	2.90%	6.44%	4.36%	5.75%	8.65%
NorthWestern Corp	NWE	3.42%	1.0239	3.50%	5.00%	4.36%	4.79%	8.29%
OGE Energy Corp	OGE	2.94%	1.0206	3.00%	4.00%	4.36%	4.12%	7.12%
Otter Tail Corp	OTTR	3.91%	1.0273	4.02%	6.00%	4.36%	5.45%	9.47%
PG&E Corporation	PCG	3.40%	1.0230	3.48%	4.71%	4.36%	4.59%	8.07%
Pinnacle West Capital Co.	PNW	3.64%	1.0229	3.72%	4.70%	4.36%	4.59%	8.31%
Portland General Electric Company	POR	2.99%	1.0230	3.06%	4.72%	4.36%	4.60%	7.66%
Public Service Enterprise Group	PEG	3.63%	1.0168	3.69%	2.85%	4.36%	3.35%	7.04%
Sempra Energy	SRE	2.42%	1.0337	2.50%	7.93%	4.36%	6.74%	9.24%
Southern Company	SO	4.43%	1.0183	4.51%	3.32%	4.36%	3.67%	8.18%
TECO Energy	TE	4.43%	1.0379	4.60%	9.20%	4.36%	7.59%	12.19%
Vectren Corp	VVC	3.36%	1.0256	3.45%	5.50%	4.36%	5.12%	8.57%
Westar Energy, Inc.	WR	3.56%	1.0186	3.63%	3.40%	4.36%	3.72%	7.35%
Xcel Energy Inc.	XEL	3.57%	1.0225	3.65%	4.58%	4.36%	4.51%	8.16%
Range of Reasonableness								4.40% -12.19%
Adjusted Range of Reasonableness								7.04% -12.19%
Midpoint								9.62%
Middle - Top Half of DCF Zone								10.90%

Source: FERC

Earlier MISO ROE case Initial Decision also more favorable than expected

In December, the FERC ALJ issued an Initial Decision (ID) in the 1st Midwest Independent System Operator (MISO) ROE complaint (EL14-12-002) for a 10.32% base ROE vs the currently authorized 12.38% (12.2% for American Transmission Co). The ID applied the *same* "upper midpoint" methodology used in the New England Coakley I case (Opinion 531) based on the need for a higher outcome vs straight midpoint due to "anomalous" economic conditions. Notably, the zone of reasonableness derived from a July mark-to-market of the "two-step" DCF methodology with 5-yr IBES proxy group growth rates was higher than we expected at 7.23% (PEG) to 11.35% (TE). In comparison, our 11/13 note "Transmission Received", we had calculated a zone of 6.31% (PEG) to 11.07% (PNM) with an upper midpoint of 9.74% based on a Nov mtm. For more details, see our earlier note from [12/23/15 MISO Transmission Wins Round One](#).

What will the FERC do?

We emphasize the Proposed Decision is clearly favorable amidst a backdrop of a more concerning backdrop of rates. The question remains how and whether the FERC will stand by the current methodology employed? We see no reason to diverge now given the latest ROE methodology policy was only recently established in the round of ROE cases. That said, with a 2:2 split on the commission, and only one Republican left, there is room for migration. We remain sober on prospects for a 5th nominee to the commission before the election cycle.

See risk of a shift in methodologies in *future* cases to keep ROEs above states

Beyond the current complaint, the wider question of how to keep ROEs above state levels using the current methodology (given the clear risk for compression) remains front and center. We see the increase in Complaint III as simply a function of whether the formula mechanically drives a ROE, rather than seeing the higher ROE as illustrative of an upward revision cycle. Rather, we see the clear risk for further negative revisions as standing in contrast to the clear indication from some commissions for positive ROE shifts (as recently illustrated in Arkansas). We see the key debate of state vs. federal (FERC) returns as proving all the more pressing in any subsequent cases.

ES PT raised \$4 to \$59 for higher peer P/E multiple; estimates are unchanged

We roll forward to a 2018E peer P/E and value on a SOTP with a premium to the avg peer. Our Eversource valuation is based on a utilities sum-of-the-parts analysis, with these two projects valued by discounting their earnings in 2019E to the valuation year and applying the average peer 2018E P/E (with a 1.5x premium for transmission and a 1.0x premium for gas transportation). We attribute ~\$4/sh to the Northern Pass project at a 66% probability and believe investors could more fully ascribe this in their valuations in 2016-2017 as key project hurdles are achieved. We give an 80% probability weighting to the proposed Access Northeast Pipeline partnership with Spectra and National Grid, worth ~\$5/sh in our valuation. We continue to apply the peer multiple to the regulated electric/gas businesses as well as 1x and 1.5x premiums to Yankee Gas and ES Transmission, respectively.

Figure 3: Unchanged ES Estimates vs Consensus, 2013A-2019E

Annual EPS	2013A	2014A	2015E	2016E	2017E	2018E	2019E
Transmission	\$0.59	\$0.64	\$0.76	\$0.70	\$0.74	\$0.77	\$0.80
Distribution, Generation	0.83	0.81	0.90	0.97	0.97	0.99	1.00
Yankee	0.13	0.15	0.14	0.15	0.17	0.17	0.17
Northern Pass @ 66% probability	0.00	0.01	0.01	0.02	0.09	0.13	0.17
Access Northeast @ 80% probability	0.00	0.00	0.00	0.02	0.05	0.12	0.17
NSTAR, Corp & Other	0.98	1.14	0.99	1.13	1.15	1.21	1.29
UBSe	\$2.53	\$2.75	\$2.81	\$2.99	\$3.17	\$3.40	\$3.60
CL&P Dist ROE	7.9%	8.6%	8.0%	9.3%	9.4%	9.3%	9.3%
PSNH Dist ROE	9.2%	9.3%	9.7%	9.7%	9.4%	9.4%	9.6%
Prior	\$2.53	\$2.75	\$2.81	\$2.99	\$3.17	\$3.40	\$3.60
Consensus			\$2.81	\$3.00	\$3.18	\$3.39	
Guidance				\$2.90-\$3.05			
5%-7% EPS growth from 2016 \$2.90-\$3.05 to 2019				UBSe 2016-19 CAGR		6.6%	
Annual EPS, by subsidiary	2013A	2014A	2015E	2016E	2017E	2018E	2019E
CL&P	\$ 0.88	\$ 0.91	\$ 1.04	\$ 1.05	\$ 1.08	\$ 1.10	\$ 1.13
PSNH	0.35	0.36	0.39	0.47	0.40	0.37	0.38
WMECO	0.19	0.18	0.23	0.24	0.26	0.28	0.29
Yankee	0.13	0.15	0.14	0.15	0.17	0.17	0.17
NSTAR Elec	0.85	0.95	0.93	0.95	0.95	0.98	0.99
NSTAR Gas	0.07	0.08	0.08	0.11	0.12	0.13	0.14
Corp & Other (includes NPT)	0.01	(0.00)	0.01	0.03	0.19	0.37	0.50
Total	\$ 2.49	\$ 2.63	\$ 2.83	\$ 2.99	\$ 3.17	\$ 3.40	\$ 3.60
Consensus			\$ 2.81	\$ 3.00	\$ 3.18	\$ 3.39	

Source: Company Filings, UBS Estimates, FactSet; 2014 and 2013 represent GAAP.

We note another positive data point

We are tweaking up our valuation to reflect our growing confidence on underlying major growth projects. We see ES as benefitting structurally from the among the best underlying infrastructure growth opportunities as the region attempts to execute on an ambitious slew of energy policy aspirations, largely relying on adjacent regions to provide the necessary energy supply 'diversity' given the rapidly dwindling diversity contributions from nuclear and coal.

Figure 4: ES Sum of the Parts Valuation on 2017E P/E

Sum of the Parts 2018E		Valuation		Low Case		Base Case		High Case	
Business Segment	Metric	2018E	Multiple	Valuation (\$s MM)	Multiple	Valuation (\$s MM)	Multiple	Valuation (\$s MM)	Multiple
Regulated Business					Peer Multiple Premium		16.0x		
NU Franchised Electric (CT, NH, MA)	P/E	\$0.99	15.0x	\$4,747	0.0x	16.0x	\$5,063	17.0x	\$5,380
NU Transmission	P/E	\$0.77	15.5x	\$3,798	1.5x	17.5x	\$4,288	18.5x	\$4,533
NU Yankee Gas	P/E	\$0.17	16.0x	\$871	1.0x	17.0x	\$926	18.0x	\$980
NSTAR (MA)	P/E	\$1.27	15.5x	\$6,248	0.5x	16.5x	\$6,652	17.5x	\$7,055
Northern Pass 2019 EPS, Discounted 1-Yr	P/E at 66% prob	\$0.16	16.5x		66%	17.5x	\$872	18.5x	\$922
Access Northeast Pipeline 2019 EPS, Discounted 1-Yr	P/E at 80% prob	\$0.16	16.0x		80%	17.0x	\$848	18.0x	\$898
NU Equity Value				\$15,664			\$18,649		\$19,767
Fully Diluted Outstanding Shares (2018E)				318			318		318
NU Equity Value per Share				\$49.00			\$59.00		\$62.00

Source: Company Filings, UBS Estimates, FactSet

Eversource Energy (ES.N)

	12/13	12/14	12/15	12/16E	% ch	12/17E	% ch	12/18E	12/19E	12/20E
Income statement (US\$m)										
Revenues	7,301	7,742	7,955	7,993	0.5	8,144	1.9	8,323	8,453	8,525
Gross profit	4,818	4,720	4,868	4,908	0.8	5,032	2.5	5,184	5,294	5,344
EBITDA (UBS)	2,140	2,248	2,430	2,450	0.8	2,543	3.8	2,674	2,772	2,821
Depreciation & amortisation	(611)	(615)	(666)	(643)	-3.5	(676)	5.2	(702)	(726)	(750)
EBIT (UBS)	1,529	1,633	1,764	1,807	2.4	1,867	3.3	1,972	2,046	2,071
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(295)	(283)	(338)	(303)	10.3	(305)	-0.7	(325)	(322)	(324)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	1,234	1,350	1,426	1,504	5.5	1,562	3.8	1,647	1,724	1,747
Tax	(427)	(468)	(524)	(544)	-3.9	(547)	-0.5	(558)	(571)	(580)
Profit after tax	807	881	902	959	6.4	1,015	5.8	1,088	1,152	1,167
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(8)	(8)	(8)	(8)	0.0	(8)	0.0	(8)	(8)	(8)
Extraordinary items	(14)	(54)	16	0	-	0	-	0	0	0
Net earnings (local GAAP)	786	820	910	952	4.6	1,007	5.8	1,081	1,145	1,159
Net earnings (UBS)	800	874	894	952	6.4	1,007	5.8	1,081	1,145	1,159
Tax rate (%)	34.6	34.7	36.8	36.2	-1.5	35.0	-3.3	33.9	33.1	33.2
Per share (US\$)										
EPS (UBS, diluted)	2.53	2.75	2.81	2.99	6.4	3.17	5.8	3.40	3.60	3.64
EPS (local GAAP, diluted)	2.49	2.58	2.86	2.99	4.6	3.17	5.8	3.40	3.60	3.64
EPS (UBS, basic)	2.53	2.75	2.81	2.99	6.4	3.17	5.8	3.40	3.60	3.64
Net DPS (US\$)	1.45	1.57	1.69	1.81	7.1	1.93	6.6	2.05	2.17	2.29
Cash EPS (UBS, diluted) ¹	4.46	4.69	4.90	5.01	2.2	5.29	5.6	5.61	5.88	6.00
Book value per share	30.42	31.48	32.64	33.75	3.4	35.01	3.7	36.38	37.83	39.21
Average shares (diluted)	316.21	317.42	318.11	318.11	0.0	318.11	0.0	318.11	318.11	318.11
Balance sheet (US\$m)										
Cash and equivalents	43	39	24	178	NM	110	-38.0	258	948	1,664
Other current assets	2,044	2,654	2,595	2,717	4.7	2,765	1.8	2,820	2,861	2,884
Total current assets	2,087	2,692	2,619	2,895	10.5	2,875	-0.7	3,078	3,809	4,549
Net tangible fixed assets	17,576	18,647	19,892	20,816	4.6	21,959	5.5	22,801	23,153	23,481
Net intangible fixed assets	3,519	3,519	3,519	3,519	0.0	3,519	0.0	3,519	3,519	3,519
Investments / other assets	4,613	4,919	4,550	4,541	-0.2	4,532	-0.2	4,523	4,514	4,506
Total assets	27,796	29,778	30,580	31,771	3.9	32,885	3.5	33,921	34,995	36,054
Trade payables & other ST liabilities	1,649	1,932	1,600	1,721	7.5	1,728	0.4	1,735	1,740	1,744
Short term debt	1,626	1,202	1,390	1,161	-16.47	1,161	0.00	1,161	1,161	1,161
Total current liabilities	3,276	3,134	2,990	2,882	-3.6	2,889	0.3	2,896	2,901	2,905
Long term debt	7,777	8,606	8,806	9,142	3.8	9,267	1.4	9,267	9,267	9,267
Other long term liabilities	6,976	7,905	8,277	8,855	7.0	9,436	6.6	10,029	10,636	11,253
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	18,028	19,646	20,073	20,880	4.0	21,593	3.4	22,193	22,804	23,425
Common s/h equity	9,612	9,977	10,352	10,736	3.7	11,137	3.7	11,573	12,035	12,473
Minority interests	156	156	156	156	0.0	156	0.0	156	156	156
Total liabilities & equity	27,796	29,778	30,580	31,771	3.9	32,885	3.5	33,921	34,995	36,054
Cash flow (US\$m)										
Net income (before pref divs)	786	820	910	952	4.6	1,007	5.8	1,081	1,145	1,159
Depreciation & amortisation	611	615	666	643	-3.5	676	5.2	702	726	750
Net change in working capital	(307)	(326)	(23)	(2)	93.1	(40)	NM	(49)	(36)	(19)
Other operating	566	520	(105)	587	-	590	0.5	1,843	1,241	625
Operating cash flow	1,656	1,628	1,448	2,180	50.5	2,233	2.4	3,577	3,076	2,516
Tangible capital expenditure	(1,457)	(1,604)	(1,724)	(1,566)	9.2	(1,819)	-16.2	(1,544)	(1,078)	(1,078)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(52)	(2)	82	0	-	0	-	0	0	0
Other investing	68	14	(17)	0	-	0	-	0	0	0
Investing cash flow	(1,441)	(1,592)	(1,659)	(1,566)	5.6	(1,819)	-16.2	(1,544)	(1,078)	(1,078)
Equity dividends paid	(463)	(475)	(530)	(576)	-8.7	(614)	-6.6	(652)	(690)	(728)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Other financing	(33)	(7)	(16)	0	-	0	-	0	0	0
Change in debt & pref shares	271	434	766	108	-85.90	125	15.74	0	0	0
Financing cash flow	(225)	(48)	220	(468)	-	(489)	-4.5	(652)	(690)	(728)
Cash flow inc/(dec) in cash	(10)	(12)	9	146	NM	(75)	-	1,381	1,308	709
FX / non cash items	8	8	(24)	8	-	8	0.0	(1,233)	(618)	8
Balance sheet inc/(dec) in cash	(2)	(5)	(15)	154	-	(68)	-	148	690	717

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

Eversource Energy (ES.N)

Valuation (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
P/E (local GAAP, diluted)	17.0	17.9	17.5	19.2	18.2	16.9	16.0	15.8
P/E (UBS, diluted)	16.7	16.8	17.8	19.2	18.2	16.9	16.0	15.8
P/CEPS	9.5	9.8	10.2	11.5	10.9	10.3	9.8	9.6
Equity FCF (UBS) yield %	1.5	0.2	(1.7)	3.4	2.3	11.2	11.0	7.9
Net dividend yield (%)	3.4	3.4	3.4	3.1	3.4	3.6	3.8	4.0
P/BV x	1.4	1.5	1.5	1.7	1.6	1.6	1.5	1.5
EV/revenues (core)	3.1	3.1	2.7	3.0	2.9	2.9	2.8	2.8
EV/EBITDA (core)	10.6	10.8	8.8	9.8	9.4	9.0	8.7	8.5
EV/EBIT (core)	14.8	14.9	12.2	13.3	12.9	12.2	11.7	11.6
EV/OpFCF (core)	14.8	14.9	12.2	13.3	12.9	12.2	11.7	11.6
EV/op. invested capital	1.7	1.6	1.4	1.5	1.4	1.4	1.4	1.4
Enterprise value (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Market cap.	13,273	14,604	15,864	18,233	18,233	18,233	18,233	18,233
Net debt (cash)	9,240	9,565	9,971	10,149	10,149	10,149	10,149	10,149
Buy out of minorities	156	156	156	156	156	156	156	156
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	22,668	24,325	25,990	28,537	28,537	28,537	28,537	28,537
Non core assets	0	0	(4,550)	(4,541)	(4,532)	(4,523)	(4,514)	(4,506)
Core enterprise value	22,668	24,325	21,440	23,996	24,005	24,014	24,023	24,032
Growth (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Revenue	16.4	6.0	2.8	0.5	1.9	2.2	1.6	0.8
EBITDA (UBS)	30.7	5.0	8.1	0.8	3.8	5.2	3.7	1.8
EBIT (UBS)	36.8	6.8	8.0	2.4	3.3	5.6	3.7	1.2
EPS (UBS, diluted)	11.5	8.8	2.1	6.4	5.8	7.3	5.9	1.2
Net DPS	10.4	8.3	7.6	7.1	6.6	6.2	5.9	5.5
Margins & Profitability (%)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Gross profit margin	66.0	61.0	61.2	61.4	61.8	62.3	62.6	62.7
EBITDA margin	29.3	29.0	30.5	30.7	31.2	32.1	32.8	33.1
EBIT margin	20.9	21.1	22.2	22.6	22.9	23.7	24.2	24.3
Net earnings (UBS) margin	11.0	11.3	11.2	11.9	12.4	13.0	13.5	13.6
ROIC (EBIT)	11.3	11.1	11.3	11.1	11.1	11.4	11.8	12.2
ROIC post tax	7.4	7.2	7.2	7.1	7.2	7.6	7.9	8.1
ROE (UBS)	8.5	8.9	8.8	9.0	9.2	9.5	9.7	9.5
Capital structure & Coverage (x)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Net debt / EBITDA	4.4	4.3	4.2	4.1	4.1	3.8	3.4	3.1
Net debt / total equity %	95.8	96.4	96.8	93.0	91.4	86.7	77.8	69.4
Net debt / (net debt + total equity) %	48.9	49.1	49.2	48.2	47.7	46.4	43.7	41.0
Net debt/EV %	41.3	40.2	47.4	42.2	43.0	42.4	39.5	36.5
Capex / depreciation %	NM	NM	NM	NM	NM	NM	148.5	143.8
Capex / revenue %	20.0	20.7	21.7	19.6	22.3	18.6	12.8	12.6
EBIT / net interest	5.2	5.8	5.2	6.0	6.1	6.1	6.3	6.4
Dividend cover (UBS)	1.7	1.8	1.7	1.7	1.6	1.7	1.7	1.6
Div. payout ratio (UBS) %	57.3	57.0	60.1	60.5	60.9	60.3	60.3	62.8
Revenues by division (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	7,301	7,742	7,955	7,993	8,144	8,323	8,453	8,525
Total	7,301	7,742	7,955	7,993	8,144	8,323	8,453	8,525
EBIT (UBS) by division (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Others	1,529	1,633	1,764	1,807	1,867	1,972	2,046	2,071
Total	1,529	1,633	1,764	1,807	1,867	1,972	2,046	2,071

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

Forecast returns

Forecast price appreciation	+2.6%
Forecast dividend yield	3.2%
Forecast stock return	+5.8%
Market return assumption	5.9%
Forecast excess return	-0.1%

Valuation Method and Risk Statement

Investors should be aware of the following risk factors relating to ES shares: the potential impact of mild weather on regulated utility sales; unreasonable or unexpected regulatory / legal decisions; adverse FERC decisions regarding returns on transmission assets; adverse regulatory decisions for its distribution subsidiaries; and unexpected changes to the financial health of the company that could result in debt downgrades and collateral calls from counter parties. Given its aggressive transmission growth, we further highlight capital market access (both debt and equity) as imperative to its ability to execute on its plan.

We value ES on a SOTP with a premium to the avg peer P/E.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	48%	36%
Neutral	FSR is between -6% and 6% of the MRA.	39%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2015.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Eversource Energy ¹⁶	ES.N	Neutral	N/A	US\$57.48	22 Mar 2016

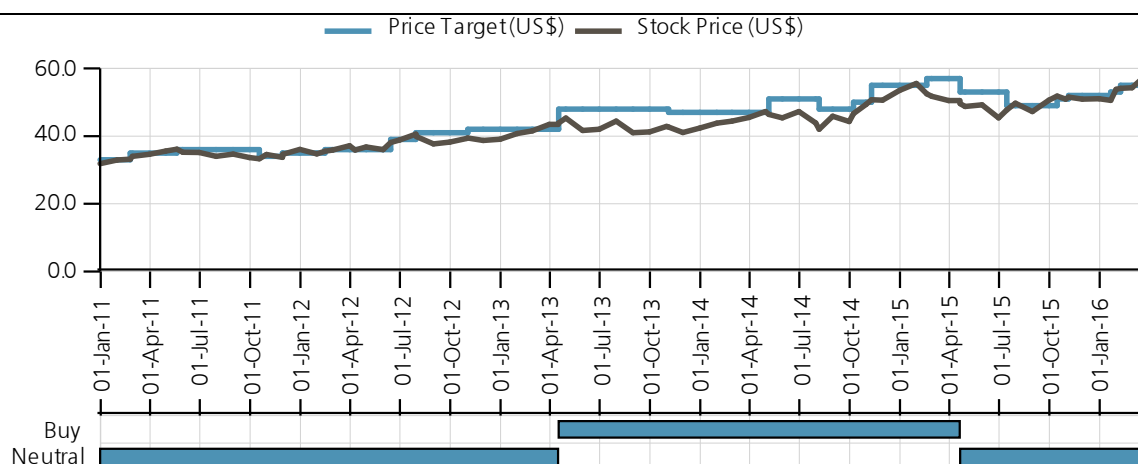
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Eversource Energy (US\$)



Source: UBS; as of 22 Mar 2016

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