

# Northeast Utilities

## A Burning Need for New Infrastructure

### We reiterate our investment thesis on NU following Analyst Day

We remain constructive on shares of NU following their latest Analyst Day on Thursday, emphasizing the investment story for NU is wider than simply its large-scale Northern Pass transmission line in NH. Despite its slightly lower long-term growth rate of 6-8% through 2017 (while maintaining its prior 6-9% EPS growth rate for '12-'15), we believe between the latest capacity auction (where prices hit the highest levels of any market, thus far recorded), recent gas constraints throughout New England, and ambitious energy ambitions (such as adv. meters) we perceive a plethora of growth opportunities for Northeast Utilities in the region as the region reacts to scarcity prices.

### New England Governors drive reinvigorated focus on transmission, pipelines

Among the most constructive updates of late has been new calls from the New England Governors jointly to call for a (competitive) solicitation for new electric transmission of 1.2-3.5gW as well as new gas pipelines of up to 1bcf/d (supporting multiple new projects). While we estimate only single projects are developed under both of these initiatives, we see these as a convenient way to enable the projects to be re-purposed as reliability (rather than merchant), adding to the project's credibility.

### Growth rate intact at low end without NPT as other investments exist

Moreover, while the Street remains closely focused on the success of NU's Northern Pass project, mgmt emphasized the potential to accelerate other potential spending to partially offset the impact of any lost 'opportunity' to invest (likely related to Greater Boston projects, pushed out beyond the 2017 period in its latest update). As such, we believe mgmt was comfortable in stating the growth was still 'meaningfully ahead' of peer regulated utilities (likely near the lower end of its CAGR, at ~6% EPS).

### Valuation: Maintain Buy rating and \$47 price target; Story is gaining strength

Our price target is derived via utility-by-utility SOP, largely ascribing a premium multiple to its transmission business, a peer multiple to the rest, and adding an NPV value, equating to roughly ~\$3/sh to the Northern Pass transmission line. While FERC ROE resolution should provide clarity in 1H14, details on pending transmission RFP will also key.

### Equities

Americas  
Electric Utilities

12-month rating **Buy**

12m price target **US\$47.00**

Price **US\$42.87**

RIC: NU.N BBG: NU US

### Trading data and key metrics

52-wk range	US\$45.33-39.61
Market cap.	US\$13.5bn
Shares o/s	316m (COM)
Free float	89%
Avg. daily volume ('000)	440
Avg. daily value (m)	US\$18.5
Common s/h equity (12/13E)	US\$9.58bn
P/BV (12/13E)	1.4x
Net debt / EBITDA (12/13E)	4.2x

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

	12/13E	
	UBS	Cons.
Q1	0.72	0.72
Q2	0.54	0.54
Q3	0.69	0.66
Q4E	0.59	0.59
12/13E	2.53	2.54
12/14E	2.69	2.72
12/15E	2.92	2.88

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Highlights (US\$m)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Revenues	4,898	4,466	6,274	7,213	7,244	7,360	7,461	7,540
EBIT (UBS)	800	836	1,118	1,565	1,620	1,735	1,789	1,846
Net earnings (UBS)	388	423	631	795	842	914	971	1,026
EPS (UBS, diluted) (US\$)	2.19	2.38	2.27	2.53	2.69	2.92	3.10	3.28
DPS (US\$)	1.03	1.10	1.31	1.45	1.57	1.69	1.81	0.24
Net (debt) / cash	(5,124)	(5,369)	(9,120)	(9,310)	(9,418)	(9,550)	(9,372)	(8,791)
Profitability/valuation	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
EBIT margin %	16.3	18.7	17.8	21.7	22.4	23.6	24.0	24.5
ROIC (EBIT) %	14.8	14.4	12.1	12.2	12.0	12.4	12.4	12.6
EV/EBITDA (core) x	9.2	10.0	10.9	10.4	10.1	7.2	7.0	6.8
P/E (UBS, diluted) x	12.9	14.3	16.5	16.9	15.9	14.7	13.8	13.1
Equity FCF (UBS) yield %	2.2	(2.1)	(3.4)	1.9	2.8	2.9	5.5	5.3
Net dividend yield %	3.6	3.2	3.5	3.4	3.7	3.9	4.2	0.6

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\$42.87 on 06 Feb 2014 19:44 EST

# Investment Thesis

## Northeast Utilities

### Investment case

NU is one of the highest quality large regulated utilities and has positive catalysts on the horizon, such as Northern Pass and Hydro Quebec's potential CT contract. Management has been successful in mitigating customer switching risk in NH and has handled a mixed regulatory environment well. Successful execution on routing and contracting for Northern Pass will be essential in meeting long-term estimates. We expect the stock to outperform on greater confidence into 2014, based on being able to close the gap on project development. Whether Hydro Quebec will be awarded a contract in CT for at least some of the 1.2 HW of the transmission line's output remains a key issue. Our price target is based on a P/E SOP.

### Upside scenario

We believe an upside scenario could include not only a premium multiple but added transmission EPS benefits from potential Boston/plant retirements in the New England area. NU also remains on track for its projected 3% cost-cutting reduction plan, though we flag real credibility to achieving this target for three years, given rising cost concerns elsewhere in the industry. Additionally, transmission rate-base growth could further increase our 2015 estimates. We see upside potential to \$50.

### Downside scenario

Our downside scenario is predicated on a negative outcome at the FERC regarding the pending 206 complaint. We caution a decision on this outcome is still likely at least a year out—and will almost certainly be appealed out to 2015 regardless. The threat of deregulation in NH remains a possibility, but we still believe full deregulation and the associated plant retirements are unlikely. We see downside potential to \$44.

### Upcoming catalysts

1H14	Expected FERC ROE Decision
2H14	Merrimack Scrubber Case Resolution

12-month rating

Buy

12m price target

US\$47.00

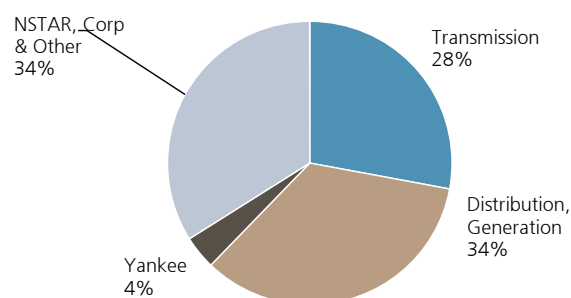
### Business description

Northeast Utilities (NU) operates New England's largest utility system, serving 3.6 million electric and natural gas customers in Connecticut, Massachusetts, and New Hampshire, as well as providing retail and wholesale transmission. NU's biggest wholesale transmission project is a \$1.4 billion HVDC line, known as Northern Pass, from Quebec to New Hampshire, that is currently in late-stage development. Northern Pass is being built with subsidiary NSTAR; NU completed its merger with NSTAR in April 2012, which added 1.1 million electric and 300,000 gas customers to the combined entity.

### Industry outlook

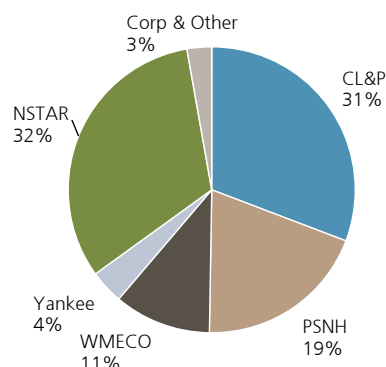
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited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

### EBITDA by Subsidiary (2015E) (%)



Source: UBS estimates

### EPS by Subsidiary (2015E) (%) (Source: UBS estimates)



## Ready to Invest

We perceive both regulators and the investment community have increasingly gravitated towards New England as a focal point on 'deficient' energy policy, with the latest price spikes in both energy and capacity as garnering investors' imaginations over future potential upgrades to the system. Momentum to reform New England's energy policy will likely strengthen in coming weeks and months, all of which should work to assuage and overcome NIMBY concerns in NH on exact routing of its proposed transmission line. Ultimately, we believe investor imaginations are likely to gain increasing comfort on not just NPT, but other incremental investment opportunities afforded to the company out of a growing political focus.

Our over-arching thesis on shares remains its disproportionate growth profile of around ~6% EPS growth *without* NPT (and closer ~7.5% with it under our estimates) as we assume alternate investments are accelerated – and other capital redeployment opportunities exist. With no need for public equity to drive this pace of growth given the more limited rate lag associated with FERC regulated transmission investment, we believe shares remain among the most appealing in the sector. Moreover, with New England having among the most distressed energy outlooks in the country (*seemingly more severe than Texas*), we see a real opportunity for NU to partner with its regulators to enable electric transmission solutions. Beyond even the medium-term 'energy crisis' in New England, the region's ambitious energy goals are likely to keep NU busy spending well into the future; not only because of the need to inter-connect rural renewables, mostly in Northern Maine, but also to execute on other targets such as smarter infrastructure (meters) among other angles.

Trading at 14.2x on '16e EPS vs. Street at ~13.9x, we see attractive value in shares given the negligible premium in shares for a company that appears particularly well positioned to see constructive capex revisions in coming months. With the story likely to diversify beyond just NPT, and with ~5-6% estimated EPS growth without any spend there either, the thesis looks increasingly attractive in a slowing growth environment. Our key thesis for the sector remains broadly to invest in regulated utilities in regions with significant policy ambitions, enabling investment opportunities irrespective of the slowdown in projected utility sales.

Abundance of investment opportunities in constrained New England market should drive performance for NU

## What do earnings look like without Northern Pass?

One of the most important questions we asked at the Analyst Day on Thursday (and a primary topic in our meetings with regulators later in the day) related to Northern Pass and the implications of NU not being able to secure the project approval. Management lowered its long-term EPS CAGR from 6-9% to 6-8% and investors appear concerned that long-term growth prospects are deteriorating, albeit with even a 6% growth rate high than the majority of peers. Management pointed towards other uncertain capex that is outside the plan (ex. cyber and physical security) as well as a robust outlook for gas given continued strong prospects for conversions as well as LNG/CNG opportunities; however, the fate of Northern Pass continues to be a large overhang.

What does EPS CAGR look like ex-Northern Pass? Closer to 6%

**Figure 1: CAGR Calculations**

2012A-2017 EPS CAGR		
CAGR UBSe	CAGR UBSe (ex-NPT)	CAGR Guidance
7.45%	5.75%	6-8%
Replacement EPS		CAGR UBSe (ex-NPT)
\$0.07		6.23%
\$0.13		6.66%
\$0.20		7.12%

Source: Company filings and UBS estimates

Given the apparent concern in this area, we analyzed scenarios under which Northern Pass is excluded and what NU could do with the available funds in a rough hypothetical calculation. Currently we are assuming a 7.45% EPS CAGR from 2012A-2017 including Northern Pass, which is at the high-end of management's guidance range. If we strip out the \$0.27/sh estimated contribution from Northern Pass in 2017 we arrive at a 5.75%, i.e. a 'worst case' where no spending/share repurchases are used to replace the lost Northern Pass earnings (or using a 7% CAGR as the starting point – the midpoint of mgmt's range – we would see EPS without reinvestment of ~5%). Off our estimates we note that NU only has to replace the forgone earnings with ~\$0.04 EPS in 2017 to meet the 6% low end of its range. Management did not quantify its LT growth rate ex-Northern Pass aside from stating that its growth rate would likely remain ahead of utility peers. As we detail in the scenario below, depending on the company's strategy, it could conceivably replace the bulk of the lost Northern Pass earnings via 'Other' capex and share repurchases, which would result in a CAGR in the low 6-7% range. While we view the above as an aggressive scenario, the fundamental logic holds and even with a 50% haircut (\$0.10/sh replacement earnings) we estimate the earnings CAGR is solidly near 6.5%.

**A combination of other capital spending and even share repurchases could soften the earnings hit from Northern Pass cancelation**

**Figure 2: Ex-Northern Pass Scenario Analysis**

SCENARIO ANALYSIS	
\$1Bn Funds Available to Fill NPT \$1.4Bn Capex 'Hole'	
Bucket 1: \$125Mn of Annual Spending for Three Years (2014-2017)	
EPS	Calculation
\$0.07	125Mn x 3 Yrs x 11.62% ROE x 50% Equity Ratio
Bucket 2: \$625Mn of Share Repurchases at \$45/sh (~14Mn S/O reduction)	
EPS	Calculation
\$0.13	~\$900Mn UBSe 2017 NI with ~312Mn S/O (\$2.97 EPS vs \$2.85 EPS)
<b>Total Scenario: ~\$0.20 Incremental EPS under 'Aggressive' NPT</b>	
<b>Replacement Scenario vs \$0.27 EPS for NPT</b>	

Source: Company filings and UBS estimates

### So where does the Northern Pass transmission line stand?

Overall, with investors looking towards this project for a read on mgmt's ability to execute, we expect real action to begin mid-'14 following its DOE approval, as permitting moves to NH's Site Evaluating Committee (Gubernatorial appointee position), the most crucial input. While this board has only denied a single project, we believe any new rules that target the criteria under which the NPT project will be reviewed merit close focus.

Despite recent efforts to block Northern Pass from a legislative perspective, we believe the politics firmly place approval in the hands of the governor, with control over the appointed body controlling approval. That said, with a two-year electoral cycle in the state, we see the need for a real deal to be cut that would provide the governor with regional improvements (additional cell phone service on existing

transmission towers, etc). Any deal could also include a global deal on electric restructuring in our view as well.

Overall, it appears the project still only has a 50/50 likelihood, but reinvigorated support from the latest RFP could help to bolster support – and shift the rhetoric – and criteria of the project from one of a merchant tie, into one with firm delivery commitments, providing the reliability the region so desperately needs; we understand the existing HQ lines into the region were reduced in throughput in recent weeks in order to meet provincial demands (~just 500 MW out of total 2GW). We believe if NU and HQ were to provide minimum throughout put assurances on high demand days, satiating concerns around days with gas scarcity, this would go a long way towards addressing the region's need.

### **New Hampshire: electric restructuring likely a limited headwind**

We believe forced divestment is a likely 2014 development of its remaining regulated NH generation, with both management not keen to continue running assets – and NH eager to avoid subsidizing their continued operation. We believe any sale would yield limited proceeds (although the latest bump in capacity prices – and shift towards a sloped demand curve go a long way towards creating some value), reiterating the need to establish a 'prudent' cost on the Merrimack scrubber. The coal plant is far and away the largest component of generation ratebase at 534MW, out of the 1.1 GW portfolio. We expect more details from the NH PUC's consultant by April 1<sup>st</sup>. We believe the key question remains around recovery on capital (ROE), not return on capital employed (D&A), although there is a separate ongoing process around the prudence of the Merrimack scrubber spend that remains pending, and a slight headwind. In a worst case outcome, we estimate this represents just a \$0.05 EPS impact, without any sale proceeds for the 1.1GW portfolio.

**We expect consultant reports to require forced divestment of remaining generation**

**Worst case Merrimack represents only ~5% EPS impact**

### **Grid modernization – yet another investment opportunity**

Looking beyond transmission, we understand smart meter installations in Massachusetts are a future investment avenue, likely to materialize in 2014. We understand the MA DPU continues to explore both automated meters as well as other 'grid-facing' technology options as part of its 'grid modernization' efforts. We look for an order from the PUC later this year, which could involve a 'tracker' mechanism to enable recovery on such spend outside of the context of a traditional 'rate case' (a seemingly inevitable outcome given the ongoing rate stay out through 2015 following the NU/NST merger). While not meaningfully discussed, we believe this could add to capex revisions in subsequent years (~hundreds of millions depending on ultimate size of the program).

**Smart meters could enjoy recovery under a tracker whereas 'grid-facing' investments would likely remain in traditional rate cases in MA**

### **Ratemaking from a position of strength with 3-4% O&M decline through '17**

We expect NU to continue to largely earn its ROEs across its regulated jurisdictions through the forecast period, minimizing the timing of any future rate cases, particularly in MA (pushing a case out to '16/'17). Overall, with the CT storm case recently concluded – and an already low ROE heading into its rate case mid-this year – we see more limited regulatory risk in the near term.

### **ROE question diminishing in focus as nearing a decision**

Notably the Analyst Day largely lacked much focus on the pending FERC 206 complaint over New England's generic ROE (currently 11.14%). Management

reiterated that it expected the final decision would be 100-120 bp above the 9.7% ROE recommended by a FERC ALJ last year given the movement in treasuries. While still a very modest risk to shares, we believe this angle of the story is gradually waning from focus – a further key to enabling continued outperformance of shares.

**Figure 3: Continued Rise in 30-year Treasuries should help lessen ROE blow**



Source: FactSet

### How about transmission capex? Up ~7% excluding NPT revision

Despite the Street's near obsessive focus on the Northern Pass project thus far, we flag that NU's update yesterday increased transmission spend by a net ~\$250 Mn excluding NPT (including the offsets of lower cost projects and certain delays).

### Gas expansions to enable modest growth complement

While the NU story remains firmly an electric transmission play, management reiterated its growth trajectory for the gas business remained at a ~50% pace over five-years, due primarily to substantial oil-to-gas conversions in Connecticut (Yankee Gas). We estimate this CAGR as translating to ~\$0.02/sh growth annually (in-line with our existing estimates) following an approval from the CT DPU last year. Interestingly, management flagged the potential to pursue further enabling legislation in MA to accelerate the oil-to-gas conversions in the state; while likely a lengthy debate over the mechanics of 'who' and 'how' new customers would qualify, this remains a further lever to accelerate spend (although an immaterial amount to earnings annually). The penetration for residential natural gas heating sits at 48% and 32% for MA and CT, respectively, far lower than that of neighboring New Jersey (72%), highlighting the scale of the opportunity here. Furthermore, half of CT homes rely on heating oil versus only 7% for the national average. More on this to come in months ahead.

**Half of CT homes rely on heating oil versus only 7% nationally on average**

Related to gas expansions, we look for further details in months to come around NU's plan to retrofit its existing LNG storage facilities in MA (~3 bcf). This appears not to be reflected in capex yet either.

### Will the Boston capacity price spike drive new investment?

With the latest print driving up prices in the Boston region yet again, we anticipate a growing push in the region to 'solve' the reliability constraints in the region

created by regional retirements. While many had not expected Boston to be able to clear separately (and higher) than the \$7.025/kW-month administrative price, we perceive nascent signs of frustration over the extent of the high price (likely driving meaningful impacts to consumer overall bills). While there are relatively few constraints that exist on the transmission side (seemingly making it an easier job to 'fix'), we see little latitude to build new gas plants in the region given the pending implementation of a pay-for-performance scheme that would penalize gas plants unable to generate on constrained days. As such, we really see a 'transmission-solution' as the only palatable way forward.

### **The Governors' Approach: solicitations for infrastructure forthcoming**

Among the key pending datapoints for the NU story relates to clarity around the structure of the pending RFP and who those participants will be. While we understand there are variety of public and undisclosed projects on the drawing board that could potentially compete, we see NU's Northern Pass ideally placed to capture the RFP at least for the electric transmission side of the equation (hence the minimum size of the project at ~1.2GW, the same size of the project's throughput). We flag that Governor Maggie Hasan of New Hampshire has stressed that the latest decision to move forward on an RFP does not represent her endorsement of the Northern Pass project; that said, we believe NU and others likely have a multitude of project proposals, as the exact ambitions of the project are clarified. We continue to believe that Northern Pass will be a serious contender in any evaluated RFP given its existing contract with HQ, meaningfully reducing the cost of the line to be born under the competitive solicitation.

### **What exactly is the goal of the forthcoming Governors' RFP?**

Notably within even the Governors' latest RFP is the growing tension between the desire to expand energy options from outside the region and the desire to integrate greater renewables into the grid in order to achieve RPS. We see the latest call to arms by the Governors' as a 'compromise' solution, with CT seeking stable electric transmission resources to achieve its carbon goals, whereas states like NH have signed on as part of their efforts to enable adequate gas pipeline capacity (FERC approved the latest expansion to Algonquin late last Friday, as part of NU Gas LDC's bid to expand their current take from the pipe to feed continued growth of customers).

There appear to be three distinct objectives:

- 1) Resolving gas issues
- 2) Importing renewables
- 3) Addressing carbon footprint

### **Structuring of RFP contract remains key**

Importantly the latest RFP seemingly orders ISO-NE to be the counterparty to the contract, which is a less ideal credit quality given the limited ability for ISO-NE itself as an organization to raise funds (rather, it would be a pass-through recoverable cost in its tariff). We would look for the contract to be restructured to focus on having any future electric transmission and pipeline costs added directly to electric utility bills. It appears NU is quite favorable to the RFP approach, even for natural gas costs to be added to electric bills given the potential to reduce revenues. We see the latest efforts as fomenting real concerns from Dominion and NextEra Energy, who have significant interest in maintaining the gas basis over other regions. We see this as a growing source of execution concern.

### **FERC 1000 – No word yet on competitive projects, but stay tuned**

While talk of competitive projects elsewhere nationally under the guise of FERC 1000 mandated competitive solicitations within RTOs has yet to meaningfully hit New England—with the details still unclear, we see this as a nascent concern of

ours. While many, including NU, would suggest they are a 'well-established' developer of such assets (and 'well positioned' to compete), the exact form and extent of competitive behavior remains to be seen. That said, most lawyers with whom we've discussed the competitive solicitations heavily believe that regional incumbents will still be awarded their respective RTO projects, with only those that are particularly expensive and outsized as being at risk. We look to the Governors' upcoming RFP for a taste of what competitive solicitations could yield in the region; notably, we flag Blackstone's nascent efforts in Vermont are worth bearing in mind in terms of their competing Canadian hydro project (which would be built along the floor of Lake Champlain).

## Valuation: Maintaining \$47 price target and Buy rating

Our valuation is based on a utilities sum-of-the-parts analysis. We continue to apply 14x multiples to the regulated electric/gas businesses, in-line with peers, as well as 16x and 17x to Yankee Gas and NU Transmission, respectively. We continue to attribute ~\$3/sh to the Northern Pass project; we believe investors could more fully ascribe this in their valuations in 2014, as key project hurdles are achieved. As we discussed above, we believe a key for shares will be investors gaining comfort in estimates even without Northern Pass' contribution as there are other levers that management can pull to compensate.

**Figure 4: NU Earnings Estimates – Unchanged**

Annual EPS	2013A	2014E	2015E	2016E	2017E
Transmission	\$0.68	\$0.75	\$0.82	\$0.84	\$0.83
Distribution, Generation	0.95	0.95	1.00	1.01	1.02
Yankee	0.08	0.10	0.11	0.12	0.13
NSTAR, Corp & Other	0.82	0.90	0.99	1.14	1.29
<b>UBSe</b>	<b>\$2.53</b>	<b>\$2.69</b>	<b>\$2.92</b>	<b>\$3.10</b>	<b>\$3.28</b>
<b>Consensus (2/7/14)</b>		<b>\$2.71</b>	<b>\$2.88</b>	<b>\$3.06</b>	
<b>Guidance</b>		<b>\$2.60-\$2.75</b>	<b>6% - 8% EPS Growth</b>		

Source: Company filings, FactSet, and UBS estimates

**Figure 5: NU Sum-of-the-Parts Valuation**

	Valuation	Low Case			Base Case		High Case	
		Valuation	(\$s MM)		Valuation	(\$s MM)	Valuation	(\$s MM)
Business Segment	Metric	2016E	Multiple	Value	Multiple	Value	Multiple	Value
Regulated Business								
NU Franchised Electric	P/E	\$1.01	13.00x	\$4,116	14.0x	\$4,432	15.00x	\$4,749
NU Transmission	P/E	\$0.84	16.00x	\$4,222	17.0x	\$4,486	18.00x	\$4,750
NU Yankee Gas	P/E	\$0.12	15.00x	\$541	16.0x	\$577	17.00x	\$613
NSTAR	P/E	\$0.93	13.00x	\$3,796	14.0x	\$4,088	15.00x	\$4,379
Northern Pass EPS, Discounted 1-Yr	P/E	\$0.23	13.00x	\$953	14.0x	\$1,026	15.00x	\$1,100
NU Equity Value				\$13,627		\$14,609		\$15,591
Fully Diluted Outstanding Shares (2016E)				313		313		313
NU Equity Value per Share				\$43.52		\$46.65		\$49.79

Source: Company filings and UBS estimates

## Northeast Utilities (NU.N)

	12/10	12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
<b>Income statement (US\$m)</b>										
<b>Revenues</b>	<b>4,898</b>	<b>4,466</b>	<b>6,274</b>	<b>7,213</b>	<b>15.0</b>	<b>7,244</b>	<b>0.4</b>	<b>7,360</b>	<b>7,461</b>	<b>7,540</b>
Gross profit	2,913	2,885	4,189	4,779	14.1	4,804	0.5	4,914	5,009	5,081
<b>EBITDA (UBS)</b>	<b>1,110</b>	<b>1,138</b>	<b>1,637</b>	<b>2,200</b>	<b>34.4</b>	<b>2,285</b>	<b>3.9</b>	<b>2,424</b>	<b>2,498</b>	<b>2,572</b>
Depreciation & amortization	(310)	(302)	(519)	(635)	22.4	(665)	4.7	(689)	(709)	(726)
<b>EBIT (UBS)</b>	<b>800</b>	<b>836</b>	<b>1,118</b>	<b>1,565</b>	<b>39.9</b>	<b>1,620</b>	<b>3.6</b>	<b>1,735</b>	<b>1,789</b>	<b>1,846</b>
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	(195)	(223)	(310)	(334)	-7.5	(349)	-4.7	(354)	(355)	(353)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
<b>Profit before tax</b>	<b>605</b>	<b>613</b>	<b>808</b>	<b>1,231</b>	<b>52.4</b>	<b>1,271</b>	<b>3.3</b>	<b>1,381</b>	<b>1,434</b>	<b>1,493</b>
Tax	(210)	(185)	(275)	(428)	-55.8	(422)	1.6	(460)	(455)	(459)
<b>Profit after tax</b>	<b>394</b>	<b>429</b>	<b>533</b>	<b>803</b>	<b>50.6</b>	<b>849</b>	<b>5.8</b>	<b>921</b>	<b>978</b>	<b>1,034</b>
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(6)	(6)	(7)	(7)	0.00	(7)	0.00	(7)	(7)	(7)
Extraordinary items	0	0	0	(8)	-	0	-	0	0	0
<b>Net earnings (local GAAP)</b>	<b>388</b>	<b>423</b>	<b>526</b>	<b>788</b>	<b>49.8</b>	<b>842</b>	<b>6.9</b>	<b>914</b>	<b>971</b>	<b>1,026</b>
<b>Net earnings (UBS)</b>	<b>388</b>	<b>423</b>	<b>631</b>	<b>795</b>	<b>26.2</b>	<b>842</b>	<b>5.9</b>	<b>914</b>	<b>971</b>	<b>1,026</b>
Tax rate (%)	34.8	30.1	34.0	34.8	2.3	33.2	-4.7	33.3	31.8	30.8
<b>Per share (US\$)</b>										
EPS (UBS, diluted)	2.19	2.38	2.27	2.53	11.6	2.69	6.2	2.92	3.10	3.28
EPS (local GAAP, diluted)	2.19	2.38	1.89	2.51	32.5	2.69	7.3	2.92	3.10	3.28
EPS (UBS, basic)	2.20	2.39	2.27	2.53	11.6	2.69	6.2	2.92	3.10	3.28
Net DPS (US\$)	1.03	1.10	1.31	1.45	10.4	1.57	8.3	1.69	1.81	0.24
Cash EPS (UBS, diluted)*	3.94	4.08	4.14	4.55	10.1	4.81	5.7	5.12	5.37	5.60
Book value per share	21.57	22.72	29.45	30.48	3.5	31.70	4.0	32.93	34.22	37.06
Average shares (diluted)	177.10	177.80	277.99	314.16	13.0	313.16	-0.3	313.16	313.16	313.16
<b>Balance sheet (US\$m)</b>										
Cash and equivalents	23	7	46	73	60.6	139	88.7	355	640	1,222
Other current assets	1,294	1,351	2,182	2,499	14.6	2,509	0.4	2,544	2,574	2,597
<b>Total current assets</b>	<b>1,318</b>	<b>1,357</b>	<b>2,227</b>	<b>2,573</b>	<b>15.5</b>	<b>2,648</b>	<b>2.9</b>	<b>2,899</b>	<b>3,214</b>	<b>3,819</b>
Net tangible fixed assets	9,568	10,403	16,605	17,448	5.1	18,398	5.4	19,396	20,110	20,913
Net intangible fixed assets	288	288	3,519	3,519	0.0	3,519	0.0	3,519	3,519	3,519
Investments / other assets	3,349	3,599	5,951	5,853	-1.6	5,792	-1.1	5,762	5,731	5,701
<b>Total assets</b>	<b>14,522</b>	<b>15,647</b>	<b>28,303</b>	<b>29,393</b>	<b>3.9</b>	<b>30,356</b>	<b>3.3</b>	<b>31,576</b>	<b>32,575</b>	<b>33,953</b>
Trade payables & other ST liabilities	905	1,299	1,760	1,837	4.4	1,829	-0.5	1,827	1,830	1,831
Short term debt	333	649	1,884	1,397	-25.82	1,272	-8.95	1,137	1,120	1,120
<b>Total current liabilities</b>	<b>1,238</b>	<b>1,948</b>	<b>3,644</b>	<b>3,235</b>	<b>-11.2</b>	<b>3,101</b>	<b>-4.1</b>	<b>2,965</b>	<b>2,951</b>	<b>2,951</b>
Long term debt	4,814	4,727	7,282	7,987	9.7	8,285	3.7	8,768	8,893	8,893
Other long term liabilities	4,541	4,840	7,984	8,439	5.7	8,887	5.3	9,376	9,859	10,347
Preferred shares	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities (incl pref shares)</b>	<b>10,593</b>	<b>11,515</b>	<b>18,910</b>	<b>19,661</b>	<b>4.0</b>	<b>20,273</b>	<b>3.1</b>	<b>21,108</b>	<b>21,703</b>	<b>22,191</b>
Common s/h equity	3,813	4,016	9,237	9,577	3.7	9,928	3.7	10,312	10,717	11,606
Minority interests	116	116	156	156	0.0	156	0.0	156	156	156
<b>Total liabilities &amp; equity</b>	<b>14,522</b>	<b>15,647</b>	<b>28,303</b>	<b>29,393</b>	<b>3.9</b>	<b>30,356</b>	<b>3.3</b>	<b>31,576</b>	<b>32,575</b>	<b>33,953</b>
<b>Cash flow (US\$m)</b>										
Net income (before pref divs)	388	423	526	788	49.8	842	6.9	914	971	1,026
Depreciation & amortization	310	302	519	635	22.4	665	4.7	689	709	726
Net change in working capital	(122)	88	(111)	(240)	-116.3	(18)	92.4	(36)	(27)	(23)
Other operating	489	136	184	553	200.4	510	-7.8	518	514	518
<b>Operating cash flow</b>	<b>1,065</b>	<b>948</b>	<b>1,118</b>	<b>1,736</b>	<b>55.3</b>	<b>1,999</b>	<b>15.2</b>	<b>2,086</b>	<b>2,167</b>	<b>2,247</b>
Tangible capital expenditure	(954)	(1,077)	(1,472)	(1,478)	-0.4	(1,615)	-9.3	(1,688)	(1,423)	(1,529)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(2)	44	(31)	0	-	0	-	0	0	0
Other investing	(1)	14	36	0	-	0	-	0	0	0
<b>Investing cash flow</b>	<b>(958)</b>	<b>(1,019)</b>	<b>(1,468)</b>	<b>(1,478)</b>	<b>-0.7</b>	<b>(1,615)</b>	<b>-9.3</b>	<b>(1,688)</b>	<b>(1,423)</b>	<b>(1,529)</b>
Equity dividends paid	(181)	(195)	(375)	(456)	-21.5	(492)	-7.9	(529)	(567)	(144)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Other financing	(5)	(13)	0	0	-	0	-	0	0	0
Change in debt & pref shares	47	239	721	218	-69.78	173	-20.64	348	108	0
<b>Financing cash flow</b>	<b>(139)</b>	<b>31</b>	<b>346</b>	<b>(238)</b>	<b>-</b>	<b>(319)</b>	<b>-34.2</b>	<b>(181)</b>	<b>(459)</b>	<b>(144)</b>
<b>Cash flow inc/(dec) in cash</b>	<b>(32)</b>	<b>(39)</b>	<b>(4)</b>	<b>20</b>	<b>-</b>	<b>65</b>	<b>224.8</b>	<b>216</b>	<b>285</b>	<b>574</b>
FX / non cash items	28	22	43	8	-82.4	0	-	0	0	7
<b>Balance sheet inc/(dec) in cash</b>	<b>(4)</b>	<b>(17)</b>	<b>39</b>	<b>28</b>	<b>-29.3</b>	<b>65</b>	<b>135.1</b>	<b>216</b>	<b>285</b>	<b>581</b>

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

## Northeast Utilities (NU.N)

Valuation (x)	12/10	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
P/E (local GAAP, diluted)	12.9	14.3	19.8	17.1	15.9	14.7	13.8	13.1
P/E (UBS, diluted)	12.9	14.3	16.5	16.9	15.9	14.7	13.8	13.1
P/CEPS	7.1	8.3	9.1	9.4	8.9	8.4	8.0	7.7
Equity FCF (UBS) yield %	2.2	(2.1)	(3.4)	1.9	2.8	2.9	5.5	5.3
Net dividend yield (%)	3.6	3.2	3.5	3.4	3.7	3.9	4.2	0.6
P/BV x	1.3	1.5	1.3	1.4	1.4	1.3	1.3	1.2
EV/revenues (core)	2.1	2.5	2.8	3.2	3.2	2.4	2.3	2.3
EV/EBITDA (core)	9.2	10.0	10.9	10.4	10.1	7.2	7.0	6.8
EV/EBIT (core)	12.7	13.6	16.0	14.6	14.2	10.0	9.7	9.5
EV/OpFCF (core)	12.6	13.6	16.0	14.6	14.2	10.0	9.7	9.5
EV/op. invested capital	1.9	2.0	1.9	1.8	1.7	1.2	1.2	1.2
<b>Enterprise value (US\$m)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Market cap.	4,964	6,020	10,448	13,545	13,545	13,545	13,545	13,545
Net debt (cash)	5,100	5,247	7,245	9,215	9,364	9,484	9,461	9,461
Buy out of minorities	116	116	156	156	156	156	156	156
Pension provisions/other	0	0	0	0	0	0	0	0
<b>Total enterprise value</b>	<b>10,180</b>	<b>11,383</b>	<b>17,848</b>	<b>22,916</b>	<b>23,065</b>	<b>23,185</b>	<b>23,162</b>	<b>23,162</b>
Non core assets	0	0	0	0	0	(5,762)	(5,731)	(5,701)
<b>Core enterprise value</b>	<b>10,180</b>	<b>11,383</b>	<b>17,848</b>	<b>22,916</b>	<b>23,065</b>	<b>17,423</b>	<b>17,430</b>	<b>17,460</b>
<b>Growth (%)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Revenue	-10.0	-8.8	40.5	15.0	0.4	1.6	1.4	1.1
EBITDA (UBS)	5.5	2.6	43.8	34.4	3.9	6.1	3.1	2.9
EBIT (UBS)	6.5	4.5	33.7	39.9	3.6	7.1	3.1	3.2
EPS (UBS, diluted)	15.2	8.4	-4.6	11.6	6.2	8.5	6.3	5.7
Net DPS	7.9	7.3	19.4	10.4	8.3	7.6	7.1	-86.9
<b>Margins &amp; Profitability (%)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Gross profit margin	59.5	64.6	66.8	66.3	66.3	66.8	67.1	67.4
EBITDA margin	22.7	25.5	26.1	30.5	31.5	32.9	33.5	34.1
EBIT margin	16.3	18.7	17.8	21.7	22.4	23.6	24.0	24.5
Net earnings (UBS) margin	7.9	9.5	10.1	11.0	11.6	12.4	13.0	13.6
ROIC (EBIT)	14.8	14.4	12.1	12.2	12.0	12.4	12.4	12.6
ROIC post tax	9.6	10.1	9.6	7.9	8.1	8.3	8.5	8.7
ROE (UBS)	10.5	10.8	9.5	8.5	8.6	9.0	9.2	9.2
<b>Capital structure &amp; Coverage (x)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Net debt / EBITDA	4.6	4.7	5.6	4.2	4.1	3.9	3.8	3.4
Net debt / total equity	NM	NM	97.1	95.7	93.4	91.2	86.2	74.7
Net debt / (net debt + total equity)	56.6	56.5	49.3	48.9	48.3	47.7	46.3	42.8
Net debt/EV	50.3	47.2	51.1	40.6	40.8	54.8	53.8	50.3
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	19.5	24.1	23.5	20.5	22.3	22.9	19.1	20.3
EBIT / net interest	4.1	3.8	3.6	4.7	4.6	4.9	5.0	5.2
Dividend cover (UBS)	2.1	2.2	1.7	1.7	1.7	1.7	1.7	13.8
Div. payout ratio (UBS) %	46.6	46.1	57.9	57.3	58.4	57.9	58.4	7.2
<b>Revenues by division (US\$m)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Others	4,898	4,466	6,274	7,213	7,244	7,360	7,461	7,540
<b>Total</b>	<b>4,898</b>	<b>4,466</b>	<b>6,274</b>	<b>7,213</b>	<b>7,244</b>	<b>7,360</b>	<b>7,461</b>	<b>7,540</b>
<b>EBIT (UBS) by division (US\$m)</b>	<b>12/10</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13E</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>
Others	800	836	1,118	1,565	1,620	1,735	1,789	1,846
<b>Total</b>	<b>800</b>	<b>836</b>	<b>1,118</b>	<b>1,565</b>	<b>1,620</b>	<b>1,735</b>	<b>1,789</b>	<b>1,846</b>

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

**Forecast returns**

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Forecast price appreciation	+9.6%
Forecast dividend yield	3.7%
Forecast stock return	+13.3%
Market return assumption	5.3%
Forecast excess return	+8.0%

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UBS 12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	44%	36%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	45%	35%
<b>Sell</b>	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	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%
<b>Sell</b>	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 2013.

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; Paul Zimbardo.

## Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
<b>Northeast Utilities</b> <sup>4, 6, 13, 16</sup>	NU.N	Buy	N/A	US\$42.87	06 Feb 2014

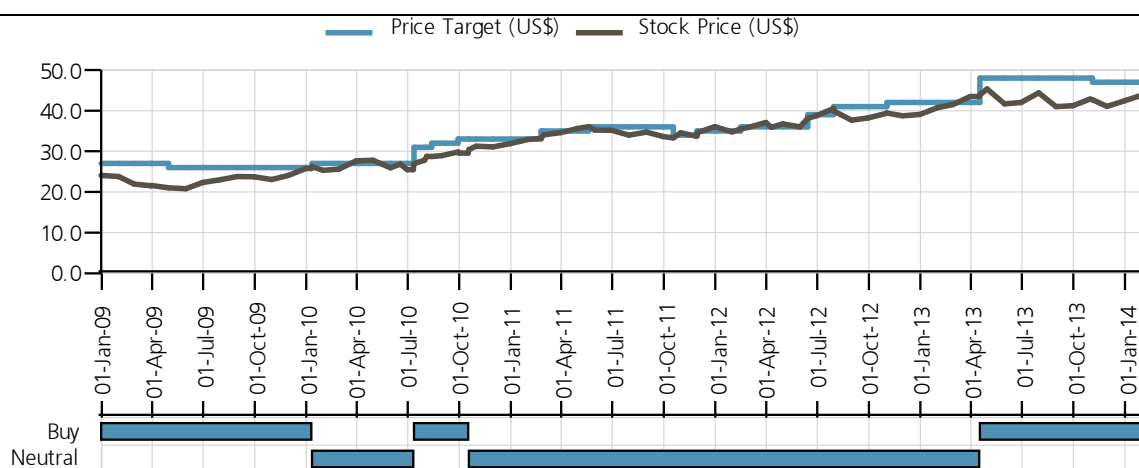
Source: UBS. All prices as of local market close.

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### Northeast Utilities (US\$)



Source: UBS; as of 06 Feb 2014

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