Avista Corp
Hunting in the Wild

Equities

Americas
Electric Utilities

12-month rating	**Neutral**
12m price target	**US$33.00**
	Prior: US$30.00
Price	**US$31.50**

RIC: AVA.N **BBG:** AVA US

Trading data and key metrics

52-wk range	US$33.52-25.95
Market cap.	US$1.90bn
Shares o/s	60.2m (COM)
Free float	99%
Avg. daily volume ('000)	98
Avg. daily value (m)	US$3.2
Common s/h equity (12/14E)	US$1.46bn
P/BV (12/14E)	1.3x
Net debt / EBITDA (12/14E)	3.4x

EPS (UBS, diluted) (US$)

	12/14E	
	UBS	Cons.
Q1	0.81	0.81
Q2E	0.37	0.52
Q3E	0.16	0.16
Q4E	0.60	0.60
12/14E	1.93	1.88
12/15E	2.03	1.98
12/16E	2.13	2.03

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With a clean story now in place, management is on the hunt in Alaska

We took AVA on the road this week following its recently completed M&A activity. With the sale of Ecova and purchase of Alaskan utility holding company AERC now complete, management is currently focussed on finding additional attractive acquisition opportunities, particularly in Alaska, where other small muni, coop, and privately owned utilities might be amenable to an accretive transaction of customers and assets. AVA is also in the early stages of evaluating the possibility of building a gas LDC for Juneau that would be supplied via LNG. Mgmt continues to evaluate the possible conversion of mining company diesel generators to LNG or CNG. The possible rollup of small regulated utilities within Alaska could be a solid and safe growth strategy, although synergies remain unlikely given the relative isolation of many communities.

Stock buyback just getting started – but without management discretion

As of July 31, 292k shares of a 4M planned stock repurchase had been completed, with the company still planning completion by year end. Management retains no actual discretion of daily operation over the buyback (other than ability to terminate it). The program is funded from the $133M of net proceeds from sale of Ecova and is intended to offset the issuance of 4.5M shares for the purchase of AERC. In September, 40% holder Bill Corbus donated $48M of his shares to the Juneau Community Foundation, which has stated its desire to sell the shares in order to execute its charitable mission.

Salix LNG business hoping for a win in Hawaii

On the nascent unregulated side, AVA continues to evaluate possible dealflow, projects, and partnerships for its newly formed Salix LNG solutions business, including the possible win of a portion of Hawaiian Electric Industries' eventual shift to bulk LNG shipping. Marine fuel bunkering and rail are also Salix targets.

Valuation: Raising PT $3 for mult expansion; maintain Neutral – fairly valued

Our ests are unchanged and our PT comes up $3 to $33 for peer 2016E P/E multiple expansion. With exceptional ERM benefits of $0.06 offsetting mild weather this year, we appreciate the more regulated story but see shares as fairly valued.

Highlights (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	1,620	1,547	1,625	1,693	1,725	1,760	1,796	1,832
EBIT (UBS)	231	193	251	262	272	285	295	305
Net earnings (UBS)	100	78	111	118	124	130	136	143
EPS (UBS, diluted) (US$)	1.73	1.32	1.85	1.93	2.03	2.13	2.22	2.33
DPS (US$)	1.10	1.16	1.22	1.28	1.34	1.38	1.42	1.46
Net (debt) / cash	(1,243)	(1,260)	(1,361)	(1,318)	(1,458)	(1,489)	(1,508)	(1,546)

Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	14.3	12.5	15.4	15.5	15.8	16.2	16.4	16.6
ROIC (EBIT) %	8.2	6.5	8.3	8.5	8.4	8.4	8.5	8.6
EV/EBITDA (core) x	9.0	10.2	8.6	9.3	9.0	8.8	8.5	8.2
P/E (UBS, diluted) x	14.0	19.4	14.6	16.3	15.5	14.8	14.2	13.5
Equity FCF (UBS) yield %	1.6	2.7	3.4	(5.8)	(4.0)	2.8	3.6	15.6
Net dividend yield %	4.6	4.5	4.5	4.1	4.3	4.4	4.5	4.6

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$31.50 on 18 Sep 2014 19:39 EDT

Investment Thesis

Avista

12-month rating **Neutral**

12m price target **US$33.00**

Investment case

With the nearly concurrent sale of Ecova and acquisition of AERC now complete, the company is now virtually 100% regulated and the focus going forward will be rate attrition at its utilities in Washington, Idaho, Oregon, and now Alaska. AERC is expected to be accretive in 2015 and management's 4%-5% long-term earnings growth target remains unchanged. Also worth watching is the newly formed non-regulated LNG/CNG subsidiary Salix, Inc., as well as any other strategic opportunities taken up. No specific projects have been identified yet, and we await management's strategic goals for it in terms of size, investment, and earnings growth.

Upside scenario

Our upside case is predicated on management continuing to mitigate regulatory lag at the utility while executing the AERC acquisition accretively in 2015, which could drive upside to $37 per share.

Downside scenario

Our downside case assumes the AERC acquisition becomes dilutive into 2015 and beyond. Furthermore, a worsening of regulatory lag could imply downside to $30 per share.

Upcoming catalysts

Sept or 4Q	File ratecase in Alaska
Feb 2015	File ratecase Washington
May 2015	File ratecase in Idaho

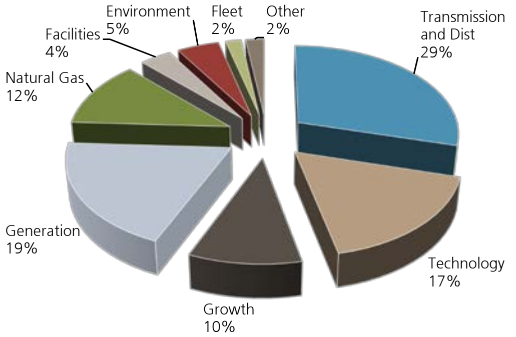
Business description

Avista Corporation is an energy company consisting of regulated electric and natural distribution as well as several unregulated, energy-focused businesses. Its regulated utility operation provides retail electric services to approximately 382,000 customers in eastern Washington, northern Idaho, and Alaska and the natural gas distribution unit provides services to 326,000 customers in Washington, Idaho, Oregon. The company also formed its Salix, Inc. subsidiary to explore opportunities in non-regulated LNG and CNG projects.

Industry outlook

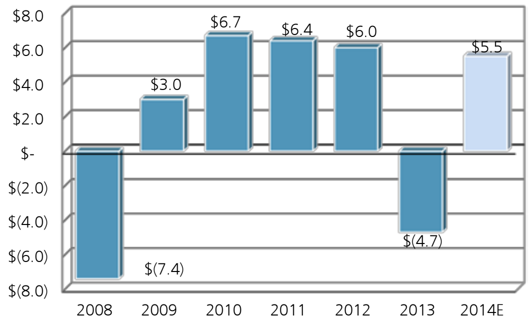
The electric utility industry is projected to experience weak or negative electric demand growth in coming years as a tepid economy and energy efficiency dampen demand. In the unregulated merchant power space, we see limited potential for a meaningful recovery from currently low power prices due to limited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

Avista Capex by Segment, 2014E (%)



Source: Company Filings and UBS Estimates

ERM Earnings Impact, 2008-2014E



Source: Company filings, UBS Estimates

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This document has been updated to reflect corrections to the text for the characterization of Hawaiian LNG shipping business, the 2014E ERM impact, and to emphasize places where statements are the opinion of UBS.

The Power Line on AVA:

After spending time with management on the road this week, we see a clean and positive story, albeit one that is fairly valued based on an average 2016 P/E multiple. With the nearly concurrent sale of Ecova and acquisition of Alaska Energy Resources Corporation (AERC) now complete, the company is now virtually 100% regulated and the focus going forward will be rate attrition at its utilities in Washington, Idaho, Oregon, and now Alaska. AERC is expected to be accretive in 2015 and management's 4%-5% long-term earnings growth target remains unchanged. Also worth watching is the newly formed non-regulated LNG/CNG subsidiary Salix, Inc., as well as any other strategic opportunities taken up. Except for the possible win of business from the Hawaiian Electric Industries LNG shipping, no other specific projects have been identified yet, and we await management's strategic goals for it in terms of size, investment, and earnings growth. We like the story and the management team, but with a 14.9x 2016E P/E vs the peer average 14.8x, the stock seems fairly valued at these levels.

Looking to bag some trophies in Alaska

A growing presence in the state could garner further credibility with regulators there as well.

The successful purchase of 121-year old AERC (and utility AEL&P) from the Corbus family this year is likely to make AVA a trusted potential acquirer across a region where the matchup of compatible corporate cultures is considered especially important. We believe that a rollup strategy of small coops, munis, and privately held utilities in Alaska could make a relatively safe acquisition growth strategy, although the extraction of synergies is unlikely given the long distance and relative isolation of many communities. In our opinion, a growing presence in the state could garner further credibility with regulators there as well.

Other growth opportunities in Alaska include the possible conversion of some mining customers' diesel generators with LNG. The conversion of AEL&P's large backup diesel set to LNG is unlikely to happen though due to its low usage as an emergency provider (e.g., during avalanches when the transmission line from Snettisham hydro is knocked out).

Salix still evaluating the path forward

Avista continues to push further west.

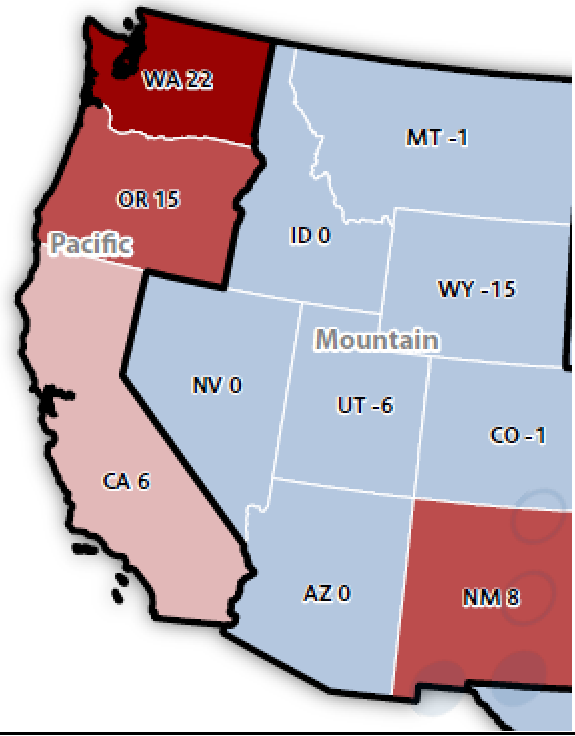
The company's Salix LNG services and solutions business continues to evaluate opportunities which may include winning some business from Hawaiian Electric Industries shipping of LNG to the islands once they begin a long-term shift toward bulk shipping. As an indicator of the size of the opportunity, Salix owns 20% of Plum Energy, which currently does small LNG delivery deals on the order of 10K-100K gals/day. If Hawaii were to convert 100% of its oil units to LNG, the size of the import could be as much as 2M gal/day. However, we caution that the Hawaiian plan has yet to be approved and even under the plan, the full conversion wouldn't be complete until 2022-2024. Other opportunities for Salix could include marine fuel bunkering for ships sailing close to US shorelines (EPA compliance) and possibly railcar engine fuelling as well.

Exceptional hydro conditions boosting earnings this year

The Energy Recovery Mechanism (ERM) increased $3.6M in 2Q and stood at $4.9M as of June 30, with investors continuing to benefit above $4M despite sharing 75% of the excess with customers as good hydro conditions continue. Management now forecasts the ERM to end the year above the $10M threshold where 90% of further gains are refunded back to customers, a benefit of at least $0.06. We flag that the 2H comp for ERM looks especially positive since it turned negative in 2H13 after the Colstrip outage.

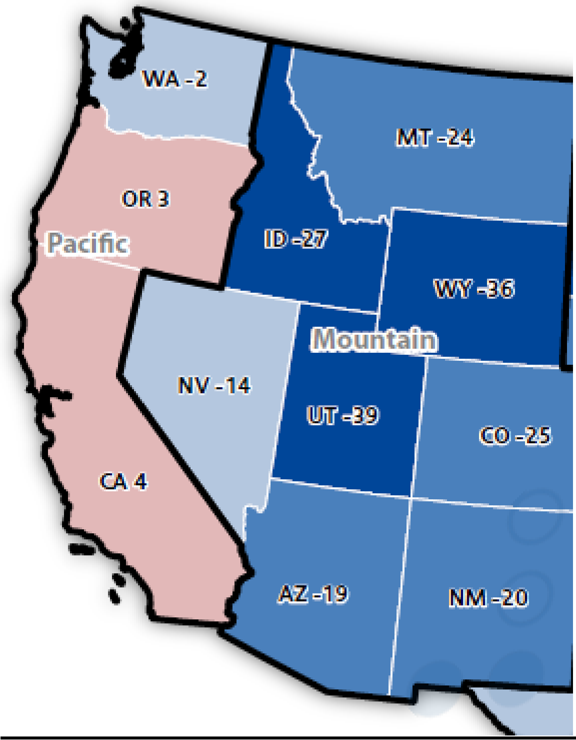
In sharp contrast to the Midwest and Northeast, the Pacific Northwest saw a significant increase in Cooling Degree Days (CDDs) in July with +22% in Washington and +15% in Oregon YoY. In August when the Mountain region weather turned dramatically cooler versus 2013, Washington and Oregon again proved resilient

Figure 1: % Change in CDDs July 2014 vs July 2013



Source: SNL Energy

Figure 2: % Change in CDDs August 2014 vs August 2013



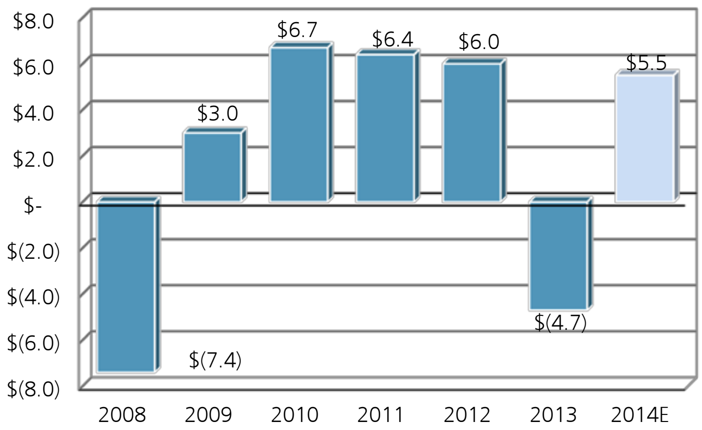
Source: SNL Energy

But mostly only indirect benefits from selling into drought-stricken California

With snow melt done for the year, the ERM can still change (but probably less so) from rain in the fourth quarter. As for benefiting from the California drought, any profits made from wholesale sales off Washington hydro would flow into the ERM, so at this point AVA would only keep only a small portion – perhaps only 10% if they are in fact at the 90/10 sharing band by year-end as predicted (in Idaho, it's simpler as there are no bands - they always keep or pay only 10% of excess power profit/expense). However, in such a case, the other 90% of profits in excess of $10M would go into the ERM coffers for the future benefit of customers, which, in our opinion, could make settling the next Washington rate case in Feb 2015 a smoother process.

It's also important to recognize that the ERM mechanism could shift to a negative position for the company in any particular year. The power cost level is reset in Washington rate cases and the mechanism always starts at zero again on Jan 1, with the company eating/keeping 100% of the first $4M of pain/gain. For example, if AVA is having a rough hydro year and needs to import power from a high-priced California market, the company would incur the first $4M of costs (and possibly more under the asymmetric sharing formulas).

Figure 3: ERM Earnings Impact, 2008-2014E



Source: Company filings, UBS Estimates

For additional background on the California outlook, please review our note from Friday, **'Squeezing the Most of California's Parched Outlook'**.

Decoupling – finally – in Avista's Washington settlement

WA Decoupling mechanism implemented through fixed-fee mechanism

On 8/18, AVA announced a settlement of its Washington general rate case that was in-line with our expectations with a $15.5M rate increase ($7.0M electric and $8.5M gas), roughly half of the original request. Parties in the settlement include regulatory Staff, Public Counsel's office, the Northwest Industrial Gas Users, the Industrial Customers of Northwest Utilities, and The Energy Project. The settlement is subject to Commission approval, with public hearings to be held Aug 26/27. The 11-month statutory "suspension date" is Jan 7, 2015, which is the date that AVA's original request would automatically be implemented in the absence of a decision. Importantly, the settlement finally includes a decoupling mechanism for electric and gas in Washington from 2015-2020 that is somewhat unique in that it would be based on the allowed revenue per customer, rather than the more usual per unit of energy sold. *While we see this constructively, we see this as acknowledging the rate trend towards both a slower pace of sales growth as well as rate design shift necessary to address growing focus on distributed solar growth.*

Actual authorized ROE not disclosed in deal

ROE and capital structure are black box, but AFUDC is based on a 7.32% ROR and our estimates assume that AVA's regulated operation earns a 9.8% ROE in 2014 on 47% equity, which includes 70-90 bps of structural regulatory lag, mostly from unrecoverable costs such as directors' fees and marketing costs. This amount of lag is in-line with the high-end of company guidance for 2014 of $1.78-$1.96 (ongoing & excluding 1x gains), with another 20-30 bps included at the low end of guidance (each 10 bps ≈ $0.02 EPS).

Our 2014 estimate is UBSe $1.93 vs consensus $1.91. Management expects to come in at the high end of the range due to the impact of strong hydro conditions and the energy recovery mechanism (ERM), which (as noted above) stands at $4.9M as of June 30 but is expected to exceed the $10M 90%/10% sharing threshold this year and add at least $0.06 to earnings net of sharing. Furthermore, to mitigate the planned 1.4% electric rate increase, the settlement also provides for the planned rebate of $3.0M of ERM revenues from the regulatory account (cash impact only – no earnings impact). Further bill mitigation is to come from the rebate of $8.6M from the sale of renewable energy credits over an 18 month period beginning Jan 1, 2015, although this is partially offset by the expiration of other rebates at yearend. The settlement also provides for a reset of power cost rates in the ERM effective Nov 1, expected to be $6.3M higher in 2015, which would be offset by additional ERM deferral balances. Project Compass revenue requirements for 2015 (a gas customer information system, not to be confused with the proposed Northeast transmission project) are to be deferred to a future rate case after the project goes in-service.

Remain biased towards upper end of range

Management expects to file its next Washington ratecase as soon as February, with frequent rate filing the norm as a result of the application of historic test years. AVA remains long generating capacity and will not need another CT until 2020 (followed by another in 2023).

Management expects to file its next Washington ratecase as soon as February,

Idaho Settlement reached too

On July 14, AVA announced a one-year settlement in its Idaho general rate case, leaving base rates unchanged through Dec 31, 2015. The agreement as proposed would result in $3.7M of pre-tax margin for 2015, mostly from the delay of amortization of deferred O&M at Colstrip and Coyote Springs 2 from 2015 into 2016 and the deferral of Project Compass (see above) costs as well. Furthermore, the settlement allows the utility to earn between 9.5% and 9.8% ROE, with support from the deferral of any 2014 earnings test up to 9.5%. The next rate filing in Idaho cannot be filed before May 31, 2015 (for Jan 1, 2016 rates after a 7-month process).

On July 14, AVA announced a one-year settlement in its Idaho general ratecase.

Oregon filed; Alaska filing coming soon

AVA filed a rate case in Oregon on Sept 2 for a $9.1M gas increase based on 51% equity and 9.9% ROE. The company currently earns its authorized 9.65% rate of return. The statutory deadline is 10 months to review.

Management expects to file a ratecase in Alaska in either Sept or 4Q.

Pulling the rate cases together

With Avista having historical test years in most jurisdictions, it appears that the company will continue having to file rate cases virtually annually to recover ordinary capital spending. This introduces additional uncertainty into the story but the risk profile is reduced by the fact that Avista historically has settled its rate cases (see Idaho and Washington above).

Valuation: Increase PT $3 to $33 on multiple expansion

Our estimates are unchanged. We are increasing our PT $3 to $33 for an expanded peer 2016E P/E, which is now applied to the whole company.

Figure 4: Sum of the Parts Valuation on 2016 P/E

Avista P/E Valuation (2016E)		**Low Case**		**Base Case**		**High Case**	
		Multiple	**$Mn**	**Multiple**	**$Mn**	**Valuation**	**$Mn**
				Peer	***14.8 x***		
Consolidated Net Income	$136	13.8 x	$1,880	14.8 x	$2,016	15.8 x	$2,152
Fully Diluted Outstanding Shares (2016E)			*60.9*		*60.9*		*60.9*
AVA Equity Value per Share			**$30.85**		**$33.09**		**$35.32**

Source: Company Filings, FactSet, and UBS Estimates

Avista Corp (AVA.N)

Income statement (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Revenues	**1,620**	**1,547**	**1,625**	**1,693**	*4.1*	**1,725**	*1.9*	**1,760**	**1,796**	**1,832**
Gross profit	830	854	936	769	*-17.8*	794	*3.3*	822	850	878
EBITDA (UBS)	**345**	**320**	**384**	**387**	*0.8*	**407**	*5.0*	**425**	**442**	**458**
Depreciation & amortisation	(114)	(126)	(133)	(126)	*-5.7*	(134)	*7.1*	(141)	(147)	(153)
EBIT (UBS)	**231**	**193**	**251**	**262**	*4.2*	**272**	*4.0*	**285**	**295**	**305**
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	(71)	(73)	(76)	(84)	*-10.9*	(88)	*-4.9*	(91)	(91)	(91)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	**160**	**120**	**176**	**178**	*1.4*	**184**	*3.6*	**193**	**204**	**213**
Tax	(57)	(41)	(63)	(60)	*5.0*	(61)	*-1.2*	(64)	(68)	(71)
Profit after tax	**104**	**79**	**112**	**118**	*5.0*	**124**	*4.8*	**130**	**136**	**143**
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(3)	(1)	(1)	0	-	0	-	0	0	0
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**100**	**78**	**111**	**118**	*6.1*	**124**	*4.8*	**130**	**136**	**143**
Net earnings (UBS)	**100**	**78**	**111**	**118**	*6.1*	**124**	*4.8*	**130**	**136**	**143**
Tax rate (%)	35.4	34.4	36.0	33.8	*-6.3*	33.0	*-2.3*	33.0	33.2	33.2

Per share (US$)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
EPS (UBS, diluted)	1.73	1.32	1.85	1.93	*4.2*	2.03	*5.3*	2.13	2.22	2.33
EPS (local GAAP, diluted)	1.73	1.32	1.85	1.93	*4.2*	2.03	*5.3*	2.13	2.22	2.33
EPS (UBS, basic)	1.73	1.32	1.85	1.93	*4.2*	2.03	*5.3*	2.13	2.22	2.33
Net DPS (US$)	1.10	1.16	1.22	1.28	*4.9*	1.34	*4.7*	1.38	1.42	1.46
Cash EPS (UBS, diluted)[1]	3.68	3.45	4.07	3.99	*-2.1*	4.25	*6.5*	4.44	4.63	4.84
Book value per share	20.45	21.56	21.65	23.98	*10.7*	24.88	*3.8*	25.66	26.49	27.45
Average shares (diluted)	58.09	59.21	60.00	61.08	*1.8*	60.78	*-0.5*	60.94	61.09	61.09

Balance sheet (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Cash and equivalents	75	75	83	279	*237.5*	219	*-21.5*	253	239	206
Other current assets	540	430	467	448	*-4.1*	453	*1.2*	459	465	471
Total current assets	**615**	**506**	**550**	**726**	*32.2*	**672**	*-7.5*	**712**	**704**	**677**
Net tangible fixed assets	2,861	3,024	3,202	3,307	*3.3*	3,514	*6.3*	3,628	3,735	3,836
Net intangible fixed assets	119	122	116	116	*0.0*	116	*0.0*	116	116	116
Investments / other assets	620	661	494	504	*2.1*	515	*2.1*	515	515	515
Total assets	**4,215**	**4,313**	**4,362**	**4,653**	*6.7*	**4,817**	*3.5*	**4,970**	**5,069**	**5,143**
Trade payables & other ST liabilities	531	524	454	504	*11.0*	511	*1.4*	518	526	534
Short term debt	96	52	171	171	*0.00*	171	*0.00*	171	171	171
Total current liabilities	**627**	**576**	**625**	**675**	*8.0*	**682**	*1.1*	**689**	**697**	**705**
Long term debt	1,221	1,284	1,272	1,426	*12.1*	1,506	*5.6*	1,571	1,576	1,581
Other long term liabilities	1,128	1,171	1,130	1,052	*-6.9*	1,081	*2.8*	1,111	1,142	1,144
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	**2,977**	**3,031**	**3,028**	**3,153**	*4.1*	**3,269**	*3.7*	**3,371**	**3,415**	**3,431**
Common s/h equity	1,186	1,259	1,298	1,465	*12.8*	1,512	*3.2*	1,563	1,618	1,677
Minority interests	52	23	36	36	*0.0*	36	*0.0*	36	36	36
Total liabilities & equity	**4,215**	**4,313**	**4,362**	**4,654**	*6.7*	**4,817**	*3.5*	**4,970**	**5,069**	**5,143**

Cash flow (US$m)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Net income (before pref divs)	100	78	111	118	*6.1*	124	*4.8*	130	136	143
Depreciation & amortisation	114	126	133	126	*-5.7*	134	*7.1*	141	147	153
Net change in working capital	(15)	64	(57)	70	-	2	*-97.4*	1	2	0
Other operating	67	48	133	(88)	-	20	-	31	32	0
Operating cash flow	**266**	**316**	**321**	**226**	*-29.8*	**279**	*23.9*	**302**	**317**	**296**
Tangible capital expenditure	(243)	(276)	(266)	(335)	*-25.9*	(355)	*-6.0*	(250)	(250)	0
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	(31)	(50)	0	109	-	17	*-84.7*	0	0	0
Other investing	(7)	32	0	0	-	0	-	0	0	0
Investing cash flow	**(282)**	**(295)**	**(266)**	**(226)**	*15.1*	**(338)**	*-49.8*	**(250)**	**(250)**	**0**
Equity dividends paid	(64)	(69)	(73)	(78)	*-6.8*	(81)	*-4.2*	(84)	(87)	0
Share issues / (buybacks)	26	29	56	22	*-60.8*	6	*-74.7*	6	6	0
Other financing	(15)	(59)	(19)	42	-	0	-	0	0	0
Change in debt & pref shares	71	78	50	148	*196.00*	75	*-49.32*	60	0	0
Financing cash flow	**18**	**(21)**	**14**	**134**	*NM*	**(1)**	-	**(19)**	**(81)**	**0**
Cash flow inc/(dec) in cash	**2**	**0**	**69**	**133**	*94.3*	**(60)**	-	**34**	**(14)**	**296**
FX / non cash items	3	1	(62)	63	-	0	-	0	0	(328)
Balance sheet inc/(dec) in cash	**5**	**1**	**7**	**196**	*NM*	**(60)**	-	**34**	**(14)**	**(33)**

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

Avista Corp (AVA.N)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	14.0	19.4	14.6	16.3	15.5	14.8	14.2	13.5
P/E (UBS, diluted)	14.0	19.4	14.6	16.3	15.5	14.8	14.2	13.5
P/CEPS	6.6	7.4	6.6	7.9	7.4	7.1	6.8	6.5
Equity FCF (UBS) yield %	1.6	2.7	3.4	(5.8)	(4.0)	2.8	3.6	15.6
Net dividend yield (%)	4.6	4.5	4.5	4.1	4.3	4.4	4.5	4.6
P/BV x	1.2	1.2	1.2	1.3	1.3	1.2	1.2	1.1
EV/revenues (core)	1.9	2.1	2.0	2.1	2.1	2.1	2.1	2.1
EV/EBITDA (core)	9.0	10.2	8.6	9.3	9.0	8.8	8.5	8.2
EV/EBIT (core)	13.4	16.8	13.1	13.8	13.4	13.2	12.8	12.4
EV/OpFCF (core)	13.4	16.8	13.1	13.8	13.4	13.2	12.8	12.4
EV/op. invested capital	1.1	1.1	1.1	1.2	1.1	1.1	1.1	1.1

Enterprise value (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	1,393	1,491	1,601	1,895	1,895	1,895	1,895	1,895
Net debt (cash)	1,218	1,252	1,311	1,339	1,388	1,473	1,498	1,498
Buy out of minorities	52	23	36	36	36	36	36	36
Pension provisions/other	473	518	365	365	365	365	365	365
Total enterprise value	**3,136**	**3,283**	**3,313**	**3,636**	**3,685**	**3,770**	**3,795**	**3,795**
Non core assets	(30)	(28)	(25)	(25)	(25)	(25)	(25)	(25)
Core enterprise value	**3,106**	**3,255**	**3,288**	**3,611**	**3,659**	**3,745**	**3,770**	**3,770**

Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	3.9	-4.5	5.1	4.1	1.9	2.0	2.0	2.0
EBITDA (UBS)	4.6	-7.3	20.1	0.8	5.0	4.6	3.8	3.7
EBIT (UBS)	4.1	-16.4	29.8	4.2	4.0	4.6	3.5	3.4
EPS (UBS, diluted)	5.6	-23.8	40.8	4.2	5.3	4.7	4.5	4.9
Net DPS	10.0	5.5	5.2	4.9	4.7	3.0	2.9	2.8

Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	51.2	55.2	57.6	45.4	46.0	46.7	47.3	47.9
EBITDA margin	21.3	20.7	23.6	22.9	23.6	24.2	24.6	25.0
EBIT margin	14.3	12.5	15.4	15.5	15.8	16.2	16.4	16.6
Net earnings (UBS) margin	6.2	5.0	6.8	7.0	7.2	7.4	7.6	7.8
ROIC (EBIT)	8.2	6.5	8.3	8.5	8.4	8.4	8.5	8.6
ROIC post tax	5.3	4.3	5.3	5.6	5.6	5.6	5.7	5.7
ROE (UBS)	8.7	6.4	8.7	8.5	8.3	8.4	8.5	8.7

Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	3.6	3.9	3.5	3.4	3.6	3.5	3.4	3.4
Net debt / total equity %	100.4	98.3	102.0	87.8	94.2	93.1	91.2	90.2
Net debt / (net debt + total equity) %	50.1	49.6	50.5	46.8	48.5	48.2	47.7	47.4
Net debt/EV	40.0	38.7	41.4	36.5	39.8	39.8	40.0	41.0
Capex / depreciation %	NM	NM	199.7	NM	NM	177.6	170.1	0.0
Capex / revenue %	15.0	17.8	16.4	19.8	20.6	14.2	13.9	0.0
EBIT / net interest	3.2	2.6	3.3	3.1	3.1	3.1	3.2	3.3
Dividend cover (UBS)	1.6	1.1	1.5	1.5	1.5	1.5	1.6	1.6
Div. payout ratio (UBS) %	63.6	88.2	65.9	66.3	65.9	64.9	63.8	62.6

Revenues by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	1,620	1,547	1,625	1,693	1,725	1,760	1,796	1,832
Total	**1,620**	**1,547**	**1,625**	**1,693**	**1,725**	**1,760**	**1,796**	**1,832**

EBIT (UBS) by division (US$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	231	193	251	262	272	285	295	305
Total	**231**	**193**	**251**	**262**	**272**	**285**	**295**	**305**

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

Forecast returns

Forecast price appreciation	+4.8%
Forecast dividend yield	4.2%
Forecast stock return	+9.0%
Market return assumption	5.6%
Forecast excess return	+3.4%

Statement of Risk

As a regulated utility, AVA is exposed to potentially adverse state and federal regulatory decisions and environmental compliance mandates. Additionally, operations may be impacted by unfavorable weather which could depress retail electric and natural gas sales, increase the cost of power supply (hydro), and in extreme cases damage facilities and property. Macroeconomic risks such as lower than expected GDP growth and rising interest rates can also negatively affect results. Additional risks include: financing risk, counterparty credit risk, commodity prices, and cyber security.

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	48%	33%
Neutral	FSR is between -6% and 6% of the MRA.	41%	30%
Sell	FSR is > 6% below the MRA.	11%	23%
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 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
Avista Corp[1, 2, 4, 5, 6a, 6b, 7, 16]	AVA.N	Neutral	N/A	US$31.52	19 Sep 2014

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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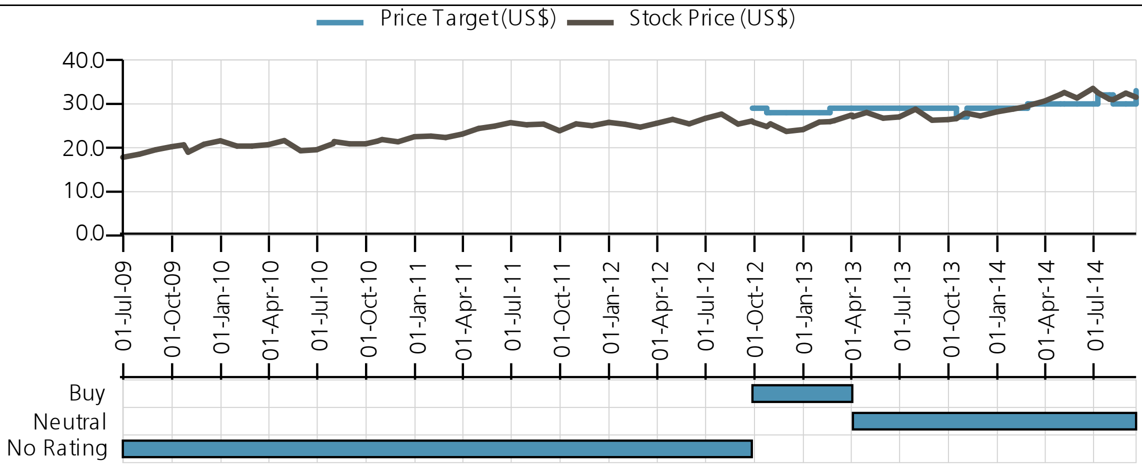
Avista Corp (US$)



Source: UBS; as of 19 Sep 2014

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